BANCO Hipotecario

LETTER TO THE SHAREHOLDERS, ANNUAL REPORT, SUSTAINABILITY REPORT AND REPORT ON CORPORATE GOVERNANCE CODE FOR FISCAL YEAR ENDED DECEMBER 31, 2017

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LETTER TO THE SHAREHOLDERS OF BANCO HIPOTECARIO SA

On behalf of the Board of Directors of Banco Hipotecario, I am pleased to submit to your consideration the Annual Report, the Sustainability Report and the Report on the Corporate Governance Code for the fiscal year ended on December 31, 2017.

Let me take this opportunity also to relay to you some aspects of the actions performed during the fiscal year in view of the set of results reported by the various lines of businesses which allowed Banco Hipotecario to post a profit of around ARS 1,593.4 million. In this respect, the shareholders are hereby informed that the project to distribute earnings as submitted to our Shareholders' Meeting is included in the Exhibit entitled "Project to distribute earnings" that accompanies these financial statements.

As concerns the international financial market, during fiscal year 2017 the Argentine economy was still undergoing a transition period, characterized by macroeconomic changes and rearrangements and the return to the international markets, amidst a changing, but still favorable, international environment. In the last months of the year, Argentina managed to consolidate the improvements in the credit conditions available for the country, with reduced risk margins on public and private indebtedness in international markets and share placements by several banks, in the face of the sector's growth expectations. Accordingly, the expected international and local scenario remains favorable for financial intermediation growth in Argentina. Concerning the local economy, in the face of the expansionary phase of the business cycle and the strength of the financial systems, financial stability could only be compromised by extremely pronounced adverse deviations from expectations.

Against this global background, Argentina's domestic market exhibited differing dynamics with a stable rate of unemployment. On the other hand, the Argentine government continued fostering active policies seeking to finance investment and consumption and took certain measures to reinforce the financial aid to lower income households.

In this regard, the Bank, in line with the measures adopted by the Argentine government, based its business strategy on targeting and actively boosting its lending offering to two major sectors: (i) families through consumer loans, and (ii) micro, small and medium enterprises.

You also need to be aware of the fact that our actions have been inspired by our deeply-ingrained sense of commitment to corporate social responsibility as evidenced by our permanent involvement in solidarity-based activities, our actions geared towards fostering non-profit efforts seeking to improve our society's quality of life, which are mainly outlined in our sustainability report.

The accompanying annual report describes in detail the Bank's balance sheet and financial position for fiscal year 2017, along with some of the strategies expected to be pursued in 2018 to continue consolidating the Bank's development. Lastly, I wish to extend my gratefulness to all those who have contributed to our management actions and like us, strive for a vigorous Banco Hipotecario to serve the community.

Autonomous City of Buenos Aires, February 15, 2018

Eduardo S. Elsztain
On behalf of the Board of Directors

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1. MACROECONOMIC CONTEXT.

In the last months of fiscal year 2017, Argentina managed to consolidate the improvements in the credit conditions available for the country, with reduced risk margins on public and private indebtedness in international markets and share placements by several banks, in the face of the sector's growth expectations. Accordingly, the expected international and local scenario remains favorable for financial intermediation growth in Argentina. However, there are several risk factors that might derive in stress events, leading to reduced access to financing through international markets and increased exchange rate volatility. On the other hand, the Argentine economy presents several strengths, including relatively healthy sectoral balance sheets, scarcely concentrated exports in terms of recipients, the Central Bank's international reserve accumulation strategy, and banks with low exposure to the public sector, which would ease the potential effects from an external source of risk. Concerning the local economy, in the face of the expansionary phase of the business cycle and the strength of the financial system, financial stability could only be compromised by extremely pronounced adverse deviations from expectations.

1.1. International Context.

In the face of the global activity development and the terms of financial trade, Argentina could be affected by the international context through the commercial channel, fundamentally contingent upon risk appetite.

During 2017, the global economy has continued to rebound, while Argentina's main trading partners continued consolidating, particularly, with the commencement of Brazil's economic turnaround. The terms of trade did not show substantial changes in the last months, standing close to average levels recorded in 2013 through 2017. Financial markets continued to be marked by broad liquidity and low expected volatility, with certain progress in the major stock indexes and limited interest rates on long-term sovereign debt. This scenario paved the way for continuing positive portfolio flows to emerging economies, with records high in debt placements by these countries in international markets and better prices for bonds and shares.

Against this backdrop and in the face of the favorable macroeconomic outlook and the potential for new enhancements in debt ratings, the compression of risk spreads on Argentine securities was more prominent than that experienced, on average, by the block of the other emerging economies. The risk associated to Argentine sovereign and corporate bonds, as measured in terms of EMBI+ and CEMBI spreads, shrank to around 340-350 basis points in mid-October, an unprecedented level since 2007.

Under these circumstances, new debt was placed in external markets, by the national public sector, the provinces and the corporate sector. These transactions provide access to financing for larger amounts and longer terms than in the local market. Furthermore, with improved stock indexes and the lower cost for new share placements, several major capital raising transactions were carried out in recent months in external markets. So far, these transactions were mostly associated to banks, in the face of the financial sector expected growth. As concerns portfolio flows to Argentina, net revenues associated to non-resident portfolio investments continued on the rise in the FX market.

The expected scenario for the coming months in respect of the financial stability external risk remains positive due to the aforementioned factors, with envisaged sustained growth in the global economy and Argentina's trading partners and relatively favorable credit conditions in external financial markets. The most relevant external source of systemic risk for Argentina stems from the financial channel. In this regard, a sudden change in risk appetite in the financial markets will have a substantial impact on credit supply, with ensuing pressures on the exchange rate, increasing its volatility.

This would work as a materialization of the refinancing and/or currency risk, on the basis of the limited mismatches existing in sectoral balance sheets. The factors that could potentially trigger an abrupt negative change in respect of the baseline scenario include: (i) the potential that a sudden change in the expectations as to the monetary policy of the major developed economies might affect the risk appetite and portfolio flows to emerging countries. The potential impact could be exacerbated by a prolonged period of position taking in risky assets, with record high valuations for certain segments; (ii) unexpected changes in trade and fiscal policies in the major economies; and (iii) geopolitical issues. Emerging economies may trigger a change in the prevailing scenario if there is a change in the perception of the large countries, such as, China or Brazil. The potential inability to access foreign markets for financing might limit the public sector's alternatives in this regard. The corporate sector, despite the recent debt placements, would not seem vulnerable to this source of risk. This sector maintains relatively healthy balance sheets, with low leverage and debt service burden compared to historical and international levels.

1.2. Local Context.

The local economy also continued to rebound in recent months, strengthening the conditions for credit to keep gaining momentum, without compromising financial stability. In the face of the new macroeconomic setting, the economy is expected to manage to remain on the growth path during the coming years. This process is not risk-free. However, given the strengths of the financial system, the stress tests developed by the Argentine Central Bank indicate that the local context should undergone extreme deterioration to trigger a significant adverse impact on banks' solvency.

Economic growth has consolidated on a widespread basis, particularly, at the sector level and in terms of employment generation. The most dynamic sectors include construction, financial intermediation, agriculture, fishing, transportation and communications. Looking forward, given the fact that investments have increasingly gained momentum, the upturn of this cycle is expected to be far-reaching than in the past.

Inflation continued to slow down, though not as fast as expected by the Argentine Central Bank, with certain persistence in its core component. Accordingly, in October-November, the Argentine Central Bank decided to reinforce its monetary policy anti-inflationary bias. In previous months, the Argentine Central Bank had carried out transactions in the LEBAC secondary market, restricting the liquidity conditions that resulted in higher yields and changes in their curve shape. This was also reflected in the cutoff rates for LEBAC auctions. The shift of these effects to prevailing market rates resulted in, for instance, an increase in interest rates on deposits, which, in turn, resulted in expected higher actual yields for investors. In the medium term, inflation is expected to continue falling, though not as fast as desired by the Argentine Central Bank, as revealed by market forecasts and the negative slope of the yield curve of fixed-rate Peso-denominated Treasury bonds.

On the fiscal front, the primary deficit stood at around 4% of GDP, consistently with the primary fiscal deficit phase-out schedule (4.2% and 3.2% of GDP in 2017 and 2018, respectively). Net tax revenues from the Tax Amnesty Law remained steady in real terms in the first eight months of 2017 vis-a-vis the same period the previous year. Primary expenditure grew by 1% in real terms vis-a-vis the same period the previous year, with increased dynamics in social benefits. Looking forward, certain remarkable policy changes are expected in several areas, including tax, labor, social security and institutional areas.

In order to meet the financing needs for 2018, government placements in international markets are expected to regain relevance in the next months. Perceived risks in the debt market remain limited, with certain contraction in the US-dollar denominated bond yield curve at longer-term rates. In the local market, the yield curve of CER-adjusted Peso-denominated instruments moved upwards vis-a-vis the previous period, similarly to the trend shown by the curve for Peso-denominated instruments at fixed rate. The indebtedness level remains low. The Argentine public debt accounted for 51.2% of GDP as of March 31, 2017, with 20.1 percentage points being attributable to private-sector debt. Amidst a favorable economic context, in recent months, private sector financing through the capital market has gained momentum. These developments were in line with the upward trend in the cost of financing that commenced in April, paired with a rise in the monetary policy interest rate. The improvement in the growth pace of equity instruments was driven by financial trust placements. At the current phase of the financial cycle, there is broad potential scope for the capital market to supplement its activities with the block of banks, for instance, providing funding and cooperating with the risk mitigation process associated to lending activities. For the effects of these transactions to be substantial, progress should be made on the deflationary and market deepening process in place.

With an enhanced economic outlook and the potential for shifting actions from the border to the emerging market in 2018, the Merval index experienced a substantial increase in real terms in 2017, having reached records high. This positive behavior was supported by the price of banks' shares. The lower cost of share placements led to the completion of several transactions in the local and international primary market, particularly, from financial institutions. The opening of this capital raising mechanism for the local financial system is crucial in the face of the expected consolidation process of intermediation levels.

1.3. Status of the Financial System.

With a deflationary process underway and economic growth, bank lending grew at relatively high rates and regained relevance in terms of the GDP. Private-sector deposits did not follow this trend, in part, due to the effects of the existing strong liquidity in the financial system. However, bank savings are expected to gain momentum, in the face of the incremental demand for funding driven by credit growth. Given the incremental exposure to risks associated to the intermediation process, the block of institutions maintain high solvency levels, as a consequence of good returns and share placements during the year. The decline in returns that had commenced in late 2015 came to a halt since the second quarter of that year, due to incremental intermediation volumes, stable interest rate margins, and relative expense cuts. The downward pressure on returns is expected to remain on the basis of the ongoing deflationary process and increased competition, while institutions are still faced with the challenge of improving their efficiency and maintaining adequate solvency levels in the current expansionary phase of the financial cycle.

The banks' intermediation activities improved vis-a-vis the previous year. In recent months, there was a strong increase in total funding to the private sector. The total private-sector funding to GDP ratio rose by more than 1 percentage point, to 13.2%. On the other hand, corporate and household deposits to GDP shrank slightly in recent months, to 15.9%. It should be noted that, unlike the last decades, and in the face of the economic policies adopted since late 2015, the business cycle seems to be somehow tuned up to the financial cycle.

The financial system grew throughout 2017, with substantial changes in its mix, in due compliance with applicable prudential regulatory requirements. As of September 2017 (last available information) net assets rose by 42.1% year-on-year, or 14.6% year-on-year, in real terms, accounting for an increase compared to the previous year. Lending to the private sector accounted for 50% of total assets, up by 8 percentage points relative to March 2017. On the other hand, in the last six months of the year, liquid assets and holdings of monetary regulation instruments lost relative weight. Bank loans to the public sector —at the three levels— currently account for 9% of the system's total assets. This level is limited in historical terms due to, in part, the prudential regulatory framework established by the Argentine Central Bank. Such framework has been recently amended in order to include more stringent limits.

Since early 2017 and, particularly, in recent months, loans to the private sector have increased in real terms, on a substantial and uninterrupted basis. As of September 2017, total lending to the private sector rose by 49.4% year-on-year, or a 20.5% year-on-year increase as adjusted for inflation, the highest increase in the last five years. Compared to the previous year, all credit facilities experienced adjusted-for-inflation growth, particularly, mortgage loans within the secured loan segment and export pre-financing arrangements, within the commercial segment, amidst a scenario characterized by decreasing lending interest rates.

The performance of mortgage loans is substantially attributable to the low level of indebtedness among households, coupled with the existing housing needs and the implementation of several policies by the Argentine Central Bank, including UVA-adjusted credits. The average term of these consumer loans increased considerably, from 12 years by the end of 2015 to over 23 years as of the end of the third quarter of 2017. Since the launch of the UVA index in April 2016 until early November 2017, UVA-adjusted loans amounted to over ARS 54,800 million, with 69% of such amount being attributable to mortgage loans, across the entire financial system. Incremental intermediation in family mortgage lending was also reflected in the increase in the number of borrowers within this segment, to almost 192,422 at September 2017. In addition, the number of borrowers of personal and secured loans also climbed during the year.

In the light of the sustained high liquidity levels and with borrowing interest rates in real terms still failing to consolidate at positive levels, year to date, total deposits from the private-sector have grown at a more sluggish pace than loans. The relative behaviors are expected to be maintained in the short run. As of September, deposits from the private sector experienced a nominal increase of 37.2% year-on-year, or a 10.6% year-on-year increase as adjusted for inflation. Such increase was mostly attributable to deposits from individuals, particularly, in foreign currency (up by 84.4% year-on-year). Deposits from the private sector accounted for 59% of total funding as of September, having increased by 2.7 p.p. vis-a-vis March and declined by 2.1 p.p. compared to the previous year. The financial system's lending to the private sector is expected to remain in its expansionary phase during the coming years.

The strengthened economic growth and the ongoing deflationary process, coupled with substantially strong investments, particularly, in the construction sector, paved the way for deepening lending to the productive sector and families (particularly, in the form of mortgage loans). In this regard, at the international level, there is substantial empirical evidence that gives account that sustained deflationary processes are strongly correlated to substantial growth in lending. The expansionary trend of the system's operational infrastructure continued throughout 2017. The number of branches in Argentina rose to 5,385 as of September, accounting for a 1.3% increase vis-a-vis the same month the previous year. On the other hand, the number of ATMs, self-service terminals and other automatic devices rose by 6.1% year-on-year, to 20,652 units. Throughout 2017, the Argentine Central Bank continued pursuing its efforts to deepen the access to financial services nationwide, with actions aimed at streamlining branch opening mechanisms, reducing branch operating costs, and fostering electronic transactions.

BANCO Hipotecario

2. BALANCE SHEET AND INCOME STATEMENT, DISCUSSION AND ANALYSIS OF OPERATIONS.

2.1. Balance Sheet (a).

	For the fiscal year ended (In Thousands of Argentine Peso)	
	12/31/2017	**12/31/2016**
Cash and cash equivalents	3,504,494	7,099,631
Government and private securities	13,171,455	3,675,743
Loans	31,909,005	25,223.09
To the non-financial public sector	69,484	122,899
Financial Sector	424,380	532,143
To the non-financial private sector	32,026,611	25,034,496
Overdraft facilities	1,221,539	290,153
Promissory notes	665,984	557,614
Mortgage loans	3,401,397	2,739,916
Pledge loans	2,757	466,500
Consumer loans	6,262,198	4,307,966
Credit Cards	12,599,898	11,466,334
Other	7,585,569	4,948,348
Interest	293,140	258,831
Loan loss provisions	(611,470)	(466,509)
Other receivables from financial intermediation	4,895,146	7,093,076
Other assets	5,494,670	4,051,930
Total Assets	**58,974,770**	**47,143,409**
Deposits	21,006,336	19,043,948
Other liabilities from financial intermediation	28,519,827	20,652,208
Other liabilities	1,798,936	1,391,025
Total Liabilities	**51,325,099**	**41,087,181**
Shareholders' equity	**7,649,671**	**6,056,228**

Nota (a): The items and amounts as presented in the balance sheet included in this document do not necessarily match those in the Entity's financial statements which are prepared in line with the Argentine Central Bank's rules.

2.2. Lending Products.

2.2.1. Mortgage Loans.

Mortgage loans are the Bank's hallmark product, while they are also an anchor product for they help to build a long-term relationship with customers.

In the course of 2017, the Bank strengthened the origination of UVA-linked mortgage loans out of its own equity. These loans are intended to fund the construction and acquisition of single, permanent residence family homes for the public in general and customers holding payroll accounts. In addition, the Bank continued pursuing the development of the PRO.CRE.AR *Solución Casa Propia* program.

Furthermore, the Bank readjusted several differential benefits, including a 5% increase in the monthly installment-to-income ratio and an extension of the credit term up to 30 years. On the other hand, in order to maintain its historical leading position in the mortgage market, the Bank offered the possibility to acquire a second home through a “bridge loan” effective since December. Through these bridge loans, individuals who wish to move to a more expansive home, but cannot and do not want to concurrently sell their current property, may get a loan for up to 100% of the price of the new property, to the extent they can repay it with the proceeds from the sale of their previous home. This credit facility is oriented to middle-income sectors and is granted at an annual nominal fixed interest rate from 6.9%, which is substantially lower than that of traditional facilities, with less stringent income requirements for applicants.

2.2.2. Consumer Loans.

2.2.2.(a). Personal Loans.

In the year 2017, the origination target was set at ARS 3.307 billion in volume and 54,000 transactions in terms of sales. The Entity managed to exceed the target (123%) by year-end.

An interest rate policy by risk group was established in a manner such as to maintain product profitability. A communicational strategy was deployed which highlighted simplicity and fastness as value added together with the maximum amount granted as well as multiple applications. This positioned the Entity as an agile, affordable and reliable bank.

Pre-approved loan campaigns and, fundamentally, cross-selling over our credit card customers were important pillars and to that end we leveraged on the maturity acquired by the call center and our branches.

2.2.2.(b). Credit Cards.

During 2017, the Bank worked hard on the profitability of this product, cutting the costs associated to inefficiencies in several aspects, including: distribution and delivery, processing, delta between cut-off and expiration dates, exchange rate to convert purchases in US dollars, and card issuance and plastic technologies, customers' campaigns, and discount arrangements. In addition, we made changes to the retention criteria in the profitability/customer value matrix, offering benefits according to the profitability category.

In turn, the Bank has initiated a process in which it will stay focused in the coming years, aimed at inviting customers to migrate to direct debit as their credit card preferred payment method, seeking to foster increasing cash flows into the operational accounts held at the Bank.

The Bank's efforts to commercialize credit cards grew sustainably throughout 2017. As a result, the Bank was amongst the largest issuers of the Visa System, and currently has a credit card portfolio in excess of 1,560,000 operational cards. During the year, the Bank originated 150,000 new credit cards.

The portfolio's total consumption in 2017 amounted to ARS 31,865 million, that is, a 16% increase year-on-year. In turn, the total balance as of December was ARS 12,546 million, up by 9.5% vis-à-vis the previous year.

The Bank continued offering a great variety of benefits with promotions and financing in installments as a result of tight alliances with major supermarket chains, airlines and travel agencies, apparel stores and shopping malls in Argentina.

Several actions were taken to keep working on product profitability.

In turn, there is a migration process in place and customers are being encouraged to carry out all product purchases, inquiries and transactions through digital channels so as to have most operations concentrated on remote channels in the medium-term.

As to the co-branded Hipermercado Libertad card segment, certain campaigns were launched in fiscal year 2017 to communicate benefits, with promotions of payments in installments and cost savings at hypermarkets that were a boost to the business throughout the year.

The Visa Libertad portfolio closed the year 2017 with more than 356,000 operational cards, a year-on-year 2% increase. Besides, the level of total purchases for the whole year was more than ARS 4.7 billion (+ 10% per annum).

In addition, in the Aerolíneas Plus co-branded card segment, the Bank maintains its leading position in terms of number of operational account. The product is targeted to customers who appreciate travelling. The main value proposition is to earn miles for each purchase transaction. All the benefits conceded by the Bank itself are equally added and so are Aerolíneas Argentinas' promotions targeted solely to this customer segment.

The VISA AR Plus portfolio reached the end of 2017 with more than 17,000 new customers and 147,800 operational cards. The level of total purchases for the year exceeded ARS 7,090 million, that is, a 44% increase vis-à-vis the previous year. Average purchases per active account rose by 25% compared to 2016.

We launched the product Signature and Platinum for origination, which will bring along incremental purchases and outstanding balances. This product is available for both BH's and Aerolíneas Plus' portfolios.

2.2.3. Corporate Loans.

During the year 2017, the Bank has remained in the growth path in respect of its corporate loan portfolio, amounting to ARS 8,400 million in lending portfolio, equivalent to an increase of ARS 2,286 million vis-à-vis 2016. The credit offering was mainly targeted to sectors with the largest demand, including the energy, infrastructure, and agricultural, sectors.

Through teams with expertise in each business area, the Bank has managed to maintain its position in the corporate segment, including its share in capital market transactions.

The commercial strategy was focused on maintaining a portfolio with balanced terms, currencies and rates and on improving operational profitability through adequate exposure to credit risk, while allowing for rapid accommodation to potential changes in the prevailing market conditions.

2.2.4. SMEs Loans.

The Bank continued to consolidate the SME segment during the year 2017 by developing new customers, consolidating the relationship with the existing ones, and developing and hiring human capital specialized in SMEs at branches, with a view to have SME officers at all branches in the short term.

The SME segment has 2,800 customers with agreed-upon credit facilities in the amount of ARS 6,400 million. As of year-end, the Bank's credit exposure to SMEs was around ARS 2.3 billion compared to ARS 1.65 billion as of fiscal year 2016.

During the year, we completed a substantial restructuring in the distribution channel, with a hub-like arrangement, which helps to increase market share among existing customers, gain prospects, and deliver the same service with market-wide and sector-wide scope, without distinctions.

On the other hand, we have experienced substantial growth in the reciprocal guarantee company market, a substantial tool for SMEs financing and managed to rank 7th in the Argentine banking market in monetizing guarantees granted by reciprocal guarantee companies, while ranking 15th in 2016. This helped the Bank to gain new customers, work on the value chain of reciprocal guarantee companies, and enhance the portfolio credit quality.

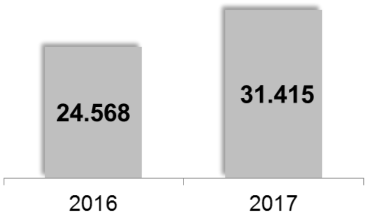
2.3. Our Loan Portfolio: breakdown.

The portfolio of private sector loans rose by 27.9% mainly due to growth in consumer loans (19.4%) and commercial loans (51%).

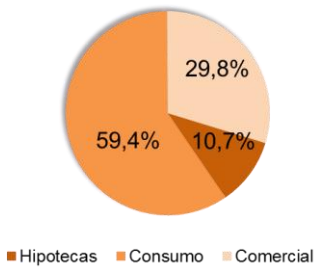
At year-end, the breakdown of the portfolio of private sector loans was as follows: 70.2% in consumer and mortgage loans and 29.8% in commercial loans.

Secured loans, with different types of collateral, stood at 10.7%.

Loans to the Private Sector
(in million Pesos)



Loans to the Private Sector
(percentage)



Where "Hipotecas" stands for Mortgages, "Consumo" stands for Consumer loans and "Corporativo" stands for Corporate loans.

2.4. Borrowing Products.

As of December 31, 2017, the Bank's fundamental sources of funding are deposits and negotiable obligations. During the year 2017, deposits totaled ARS 21,066.3 million, equivalent to a 10.3% increase vis-a-vis AR$ 19,043.9 million in fiscal year 2016. Financial intermediation liabilities totaled AR$ 28,519.8 million, that is, a 38.1% increase relative to AR$ 20,652.2 million in 2016.

2.4.1. Sight Deposits.

Accounts and debit cards: During the year 2017, account captures focused mainly on the segments from cross sales with credit cards, personal and mortgage loans and payroll direct deposit, succeeding in opening 243,000 new accounts denominated in pesos, with 68% active accounts, according to the origination levels existing at the beginning of the year. Forty four per cent (44%) of the new accounts were opened through our electronic channels, particularly, Home Banking (including the *Mejor Hogar* program and HML cross-selling). In turn, credit card payments by direct debit rose by 134%.

The Bank completed a massive opening of 278,000 accounts in US dollars for customers who had an operational account in pesos and encouraged US-dollar trading via homebanking, with a 136% rise in the average balance.

Specific actions were taken to foster customer loyalty and account usage. These actions were focused on incentivizing cross sales with other products at the point of sale, the use of the account as a means of payment and consumption through benefits in different captions, stores, supermarkets and shopping centers.

2.4.2. Term Deposits.

The strategy associated to fixed term deposits was aimed at reaffirming the criteria of sustainability, quality and optimization of portfolio profitability. In so doing, different approaches were used depending on whether the customers were institutions or individuals. Different interest rates were applied to different segments which allowed the bank to optimize its funding costs. In addition, individual customers were offered a differential rate by term and amount, with the ensuing improvement in the profitability of each tranche.

The Bank managed to increase the balances of fixed-term deposits from individuals in the entire branch network by AR$ 1,743 million and with over 41,000 customers, underpinned by far-reaching promotions to attract open market investors and cross sell to existing customers, segmenting customers within the Payroll Direct Deposit segment from the rest of the portfolio, to offer a more suitable portfolio.

As concerns managing institutional customers, leadership at the branches in the Argentine provinces continued to be reinforced. Emphasis was placed on customized service and on a segmented offering of products depending on the type of customer.

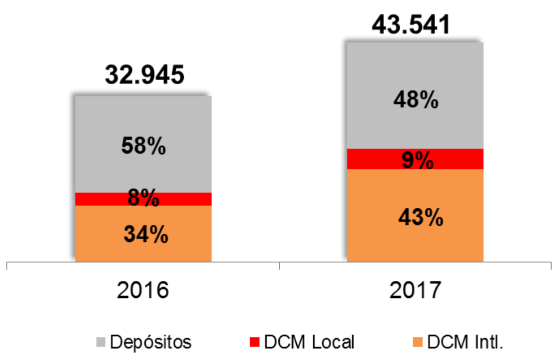
Finally, the Bank continued to deploy the strategy for the promotion of and referral to electronic channels to make term deposits, such as Home-Banking, TAS, IVR and Mobile Banking, thus fostering the use of accounts generating float. This improved cross sell indexes and boosted profitability.

2.4.3. Other Funding Sources.

In 2017, the Bank placed Negotiable Obligations in the local market for an aggregate principal amount of ARS 2,502 million and with an average term of 34.6 months. The Bank also placed Negotiable Obligations in the international capital market for an aggregate principal amount of ARS 6,300 million, maturing in 2022.

The Bank continues pursuing its strategy of diversifying funding sources, based on sight and term deposits and debt capital markets (DCM).

Funding Sources
(in million Pesos)



Where Depósitos stands for Deposits; DCM Local stands for local debt capital markets and DCM Intl. stands for international debt capital markets.

2.5. Structure of Assets and Liabilities.

The Bank maintains a balanced structure of assets and liabilities to help it continue pursuing its growth strategy. In this respect, in recent years the Bank’s strategy has been to increase its share of consumer and corporate loans to match the terms of its assets and liabilities.

Besides, the Bank continued to endeavor to diversify liabilities increasing the share of local negotiable obligations, particularly, in local currency to avoid generating foreign exchange exposures.

In addition, the Bank maintains liquidity reserves for approximately 79.4% of its deposits and the level of solvency (Shareholders’ equity/Assets) is at 13%.

2.6. Results of Operations for the year (b).

Income for the year was ARS 1,593.4 million, compared to AR$ 615.3 million in 2016. The current year’s income is 159% higher than the previous year.

Below is a detail of the main reasons that account for the Bank’s income for the year:

- The increased margin from financial intermediation activities mainly attributable to the lower cost of funding and to the fact that consumer lending rates remained relatively steady.

- Credit card fees experienced a substantial increase, resulting from portfolio profitability management efforts.

- Administrative expenses increased below the inflation rate, as a consequence of certain efforts during the year to streamline expenses.

The following table shows the Bank's profit and loss for the year and additional comments on the Bank's revenues and expenses.

	For the fiscal year ended		Change	
	(in thousand Pesos)			
	12/31/17	**12/31/16**	**$**	**%**
Financial income	**9,575,269**	**7,870,281**	**1,704,988**	**21.7%**
Interest from loans	7,189,089	5,857,383	1,331,706	22.7%
Income/(loss) from government and corporate securities	2,048,696	1,816,211	232,485	12.8%
Hedging transactions and Other	337,484	196,687	140,797	71.6%
Financial expenses	**6,170,366**	**5,799,030**	**371,336**	**6.4%**
Interest on financial liabilities	2,864,648	1,769,085	1,095,563	61.9%
Interest on deposits	2,128,335	3,024,546	(896,211)	(29.6)%
Foreign exchange gains/(losses)	137,104	306,458	(169,354)	(55.3)%
Taxes	543,829	471,648	72,181	15.3%
Other	496,450	227,293	269,157	118.4%
Net financial margin	**3,404,903**	**2,071,251**	**1,333,652**	**64.4%**
Charge for loan losses	(476,704)	(324,308)	(152,396)	47.0%
Net income from services	1,946,828	1,401,012	545,816	39.0%
Administrative expenses	(4,186,761)	(3,514,644)	(672,117)	19.1%
Net miscellaneous earnings	905,173	982,017	(76,844)	(7.8)%
Income before income tax	**1,593,439**	**615,328**	978,111	159.0%
Income tax	-	0	-	N/A
Net income	**1,593,439**	**615,328**	**978,111**	**159.0%**

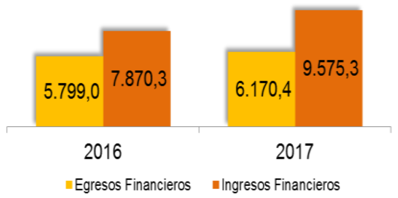
Note (b): The items and amounts as presented in the statement of income included in this document do not necessarily match those in the Entity's financial statements which are presented in line with the Argentine Central Bank's rules.

2.6.1. Financial income and expenses.

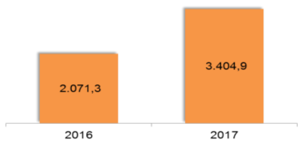
Compared to the previous fiscal year, financial income grew by 21.7%, mainly due to the improvement in interest accrued on loans to the private sector and in income from government and private securities, whilst financial expenses rose by 6.4%, as a result of incremental financial debt costs.

The net financial margin for the fiscal year was ARS 3,404.9 million representative of a 64.4% increase over the ARS 2,071.3 million for the previous fiscal year. The ratio of net financial margin to average assets stands at approximately 6.4%.

Financial income and expenses.
(in million Pesos)



Net financial margin
(in million Pesos)



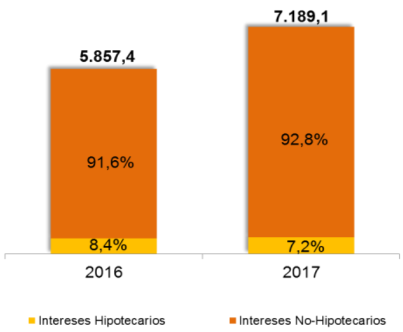
Where Egresos Financieros stands for Financial expenses and Ingresos Financieros stands for Financial Income

Net income for the year amounted to ARS 1,593.4 million; therefore, the average return on assets for the year was 3%, vis-à-vis 1.5% in 2016.

Interest on loans rose by 22.7% in the year, mainly due to a general increase in the Bank's loan portfolio.

Interest on loans
(in million Pesos)

Where Egresos Financieros stands for Financial expenses and Ingresos Financieros stands for Financial Income

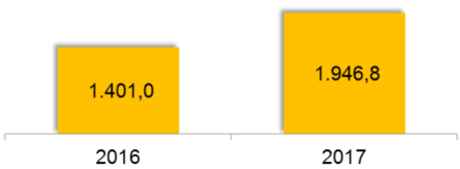


Where Intereses Hipotecarios stands for Mortgage Interest and Intereses No Hipotecarios stands for Non-Mortgage Interest

2.6.2. Income and expenses from services.

Credit card fees contribute the largest share in income from services. Net income from services amounted to AR$ 1,946.8 million in 2017 compared to AR$ 1,401 million in 2016, accounting for a 39% increase.

Net income from services
(in million Pesos)



The insurance business ended the year with a current portfolio of 863,300 policies and 267,000 new policies, driven by retention and customer loyalty efforts. Year-to-date revenues amounted to AR$ 970 million, reflecting a 38% increase compared to the previous year.

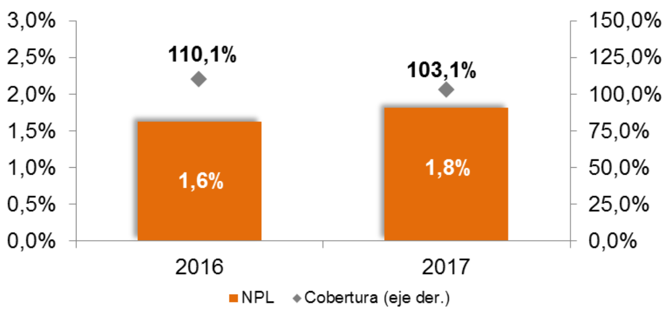
In order to achieve these goals, the Bank focused on the penetration of insurance over the Bank's total customer base, in addition to adjusted coverages and pricing in order to maintain an adequate price and coverage level, both in new business and in the existing portfolio. The Bank also expanded its offering with new products and coverages in order to satisfy the broadest range of customers' needs.

In addition, our indirect subsidiaries -BHN Vida SA and BHN Seguros Generales SA- deliver insurance-related services; therefore, net income from BHN Sociedad de Inversión SA (the insurance subsidiaries' controlling company) is disclosed under miscellaneous earnings in the Bank's financial statements.

2.7. Indicators of the Bank's Portfolio Quality; Efficiency and Coverage.

The Non-performing loans/Total credit extension ratio increased from 1.6% in 2016 to 1.8% in 2017, whilst the coverage ratio was 103.1%.

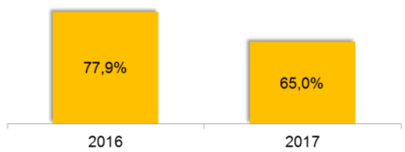
Non-performing loans
(as a percentage of total loans and provisions over Non-performing loans)



Where Cobertura (eje. der.) stands for Coverage (right axis)

Administrative expenses increased by 19.1% during the year, primarily due to pay rises. The efficiency ratio (defined as administrative expenses over the net financial margin plus net income from services, plus the aggregate share of profit in subsidiaries) fell to 65%, whilst the coverage ratio (defined as net income from services over administrative expenses) was 46.5%.

Efficiency
(in %)



Coverage
(in %)

3. OTHER DETAILS ABOUT THE BANK'S MANAGEMENT ACTIVITIES.

3.1. Retail Banking.

During the year, the main axis for action was to deepen the relationship with existing customers and to strengthen market positioning with a strategy focused on an ongoing product offering through the network of branches and the Bank's own indirect channels, the intensive use of Business Intelligence tools for sales and customer management, a reduction in approval times and customer-centric systems and procedures.

Product enhancements, plus expanded productivity in distribution channels, were oriented at opening new accounts, increasing fixed-term deposits, and boosting mortgage and personal loan origination, all of which resulted in substantial growth in the placement volume compared to the previous fiscal year, coupled with an increase in both fixed term and sight deposits.

All these achievements, developments and challenges gave the Bank strong leverage, the ability to rely on economies of scale and growth in retail banking results.

3.1.1. Business Intelligence.

As it concerns advanced business analytics, the Bank developed (machine learning) algorithms to address several issues associated to the retail business, including:

i. In savings account portfolios, clustering techniques were applied involving more than 200 behavioral variables, as a result of which the portfolio was split into 9 groups of customers exhibiting similar behaviors. This empowers us to be more assertive in our selling efforts, approaching each group of customers with a more customized offering.

ii. In the open market, the Bank developed a model capable of predicting whether a prospect has a credit card in the financial system, without incurring in expenses in inquiries to the Credit Bureau. This allows us to increase by 2 million the prospects or potential customer base to offer them credit products in the open market.

iii. The Bank developed the retail portfolio segmentation model (1.2 million customers) which embeds all key business variables: product behavior, social-economic profile, estimated income level and profitability. This model will be the foundation of the retail business and will be relied upon to make decisions in cross-selling processes, customer service at the several channels, product bundling and retention.

Campaigns.

i. Response rates of pre-approved credit campaigns: The Bank attained a 10% increase in in-bound sales vis-a-vis 2016. This increase was directly associated to improvements in three key variables. Firstly, the effective customization of business content in e-mail marketing campaigns. Secondly, the joint planning with the Contact Center team throughout the year, in order to optimize the ratio of incoming calls to available operators. Finally, creative contributions and e-mail subject testing. In this regard, it should be noted that higher opening levels were attained from the campaigns, challenging the rules of the market.

ii. Deployment of Campaigns in CRM: As a project stakeholder, the Bank defined the concepts and elements necessary to deploy the functionality in order for front office sectors to be able to optimize the area's published campaigns.

iii. Branding campaigns in connection with "Créditos Hipotecarios UVA" (UVA-Linked Mortgage Loans): The Bank developed branding campaigns via e-mail for this new financial market product. Despite the fact that e-mail marketing is not a traditional means for generic advertising, there was a substantial increase in branch traffic from people seeking more details about this product. In total, the Bank delivered 5 million submissions in connection with this campaign.

iv. Elimination of postal mail submissions in open market campaigns: This year, the Bank completely eliminated postal mail submissions in open market credit card and personal loan acquisition campaigns, with full migration to a digital contact method that had been initiated in 2016.

3.1.2. The Owners' Corner.

In 2017, this program posted 99,000 redemptions, accounting for a 7% decline compared to fiscal year 2016. As usual with this program, different categories were included and discounts were offered on products with low turnover and less costly for the program.

In addition, the annual expenditure associated to this Program was reduced by 13% vis-a-vis the previous year. Such decline was mostly attributable to the increased use of a redemption process known as "Puntos más Pesos", whereby customers can get products in exchange for points and money. This redemption modality accounted for 14% of total redemptions, delivering tangible benefits to customers as they are able to access products for which they do not have sufficient points and, fundamentally, is beneficial to the program as it helps to cut the annual expenditure.

3.1.3. Customer Service.

During 2017, the Customer Service area endeavored to develop processes leading to generate value for our customers and the organization. The area took advantage of the almost 145,000 average customer contacts it handles per month, reinforced its usual efforts with the placement of products such as savings account in pesos, purchase protection and ATM theft insurance, within the framework of a pilot test. In this regard, the area expects to continue pursuing these efforts in 2018, leveraging retail deposit taking, investments and the product bundling project.

In order to achieve productivity and efficiency gains, the Bank conducted an auction to increase the number of call center suppliers commencing in the 2nd quarter of 2018, which will result in enhanced performance and increased service availability for our customers.

Also during the year, the Bank built upon the relationship with its customers through alternative channels, including social media, with almost 85,000 interactions handled on Facebook and Twitter, in addition to over 125,000 contacts by e-mail .

Concerning customer service, in 2017 the contact center handled 1,800,000 calls, compared to 1,700,000 in 2016.

In 2017, the Bank continued to pursue its IVR system reengineering efforts. In this regard, the Bank developed the cross-selling of savings account products through this channel and the reading of DIC (the Spanish acronym for "smart dialog with the customer") alerts, through which customers may get personal loans.

Customers were also offered the chance of accessing the Telemarketing and Telecollection areas, without the need to talk to a Customer Service representative, as listening to customers and knowing their expectations and satisfaction level matter to the Bank. The Bank conducted a customer satisfaction survey after each call center contact, having achieved the following indicators over more than one million surveys:

- 81% of respondents were satisfied or very satisfied with the Bank's overall customer service.
- 94% of respondents were satisfied or very satisfied with the treatment afforded by the advisor.
- 68% of respondents were satisfied or very satisfied with the waiting time.
- 87% of respondents asserted their concerns had been addressed during the call.

3.1.4. CRM.

As of year-end, the Bank deployed the CRM – Microsoft Dynamics tool. With this customer relationship management solution, the marketing, sales, and service team is able to anticipate to customers' needs with 360° visibility, resulting in improved results in terms of demand generation, sales closing, and customer satisfaction.

At this first stage, the tool was deployed to support customers' Management and Sales for the branch network, HML and Telemarketing.

The Bank pursues the goal of "delivering a surpassing business management solution to offer a more customized, assertive and efficient service across all channels, to achieve a positive impact on our customers' experience, with the ensuing improvements in profitability and efficiency indicators."

The Bank also seeks to reduce service and waiting times, efficiently handle customers' information, improve employees' satisfaction, achieve productivity gains, enhance customers' satisfaction, increase efficiency at each customer contact, and boost sales.

The Bank continued working on an omni-channel strategy aimed at equipping all customer contact channels with the same functionalities, information and response, whether at a branch, HML point of sale, Call Center, or at any of the Bank's self-service digital channels.

Out of the Bank's total portfolio, 87% of the customers are authorized for the use of digital channels, with 43% of them handling their monthly transactions entirely through any of self-service channels (Home Banking, IVR, Mobile Banking, TAS).

3.1.5.(a) Home Banking.

The development of this channel was focused on a product offering with an embedded tool known as DIC (the Spanish acronym for "smart dialog with the customer"). Through this tool, the Bank was able to timely customize messages and offerings on the basis of actual needs (not only sales offerings, but also news and alerts).

One of the highlights of fiscal year 2017 was the Mejor Hogar program, which consists of microcredit facilities that can be fully applied for through self-service channels, allowing applicants to follow-up on the process and disbursement of the proceeds by the personal loan channel. During the year, 1,192 and 76,702 microcredit facilities were granted for gas installation and purchase of materials, respectively. In addition, the Bank developed investment functionalities positioning the channel in the secondary market, having received an average of 51.37% orders, with registered peaks of 62% and 63% in October and November. On the other hand, during the year, Lebacs attained an annual average of 30%, but peaking at 61% in the last months of the year, as a result of ongoing process improvements.

The Bank worked under the SCRUM modality to meet all of the Argentine Central Bank's stringent requirements, immediate debit payments (DEBIN), digital account statement, 7/24 transfers, and new savings accounts, among others.

Compared to fiscal year 2016, the Bank experienced a 45% increase in active customers in the last 90 days, with a 15% rise in customers with monetary transactions.

3.1.5.(b) Mobile Banking.

During the year 2017, efforts were made to stabilize the mobile banking application at the level of the other channels, embedding all missing functionalities for the customer to access the Bank anytime, anywhere. As a result of these efforts, the use of the application sustained 57% operating growth over active customers in the last 90 days.

The most relevant functionalities embedded in 2017 included the opening of savings accounts - 1,040 new accounts were opened in only two months - 7/24 transfers, DEBIN payments, foreign currency trading.

The Bank worked on a new and more intuitive channel interface designed with the customer's experience in mind, with a new look and feel, improved performance and increased prominence of the most frequently used functionalities.

3.1.5.(c) ATMs and TASi (smart self-service terminals).

The Bank continued working on the Lobby 24 project, equipping 17 additional branches with ATMs and self-service terminals. Most of the recently deployed lobbies are able to accept bills on business days, from 7 am to 9 pm.

Terminals (TASi) experienced significant growth in transactions (64%). DIC alerts were embedded into the channel, in addition to sales of savings account in pesos and US dollars.

The use of deposit devices was intensified for Corporate, Public, SMEs and Legal Banking. The number of ATM transactions rose by 19% and work continued to be done to develop an ATM provisioning predictive model.

3.1.5.(d) Corporate Electronic Banking.

In line with its digital channel development strategy, the Bank achieved its goal of deploying the Cash Management project outlined in 2016.

Consequently, the Bank managed to deploy the modules required by the business – Corporate Banking - and embedded a new functionality into Investments: Mutual Funds. In turn, several improvements were made in the platform administration (digital statement, transfer receipts, and executed payment orders).

On the other hand, we executed new periodical meetings or “ceremonies” under the agile methodology, where users are engaged in the development of the portal seeking to attain synergies and improve team work.

Following the official kick-off of the platform in June 2017, the network went through a trial and corporate subscription period, and in November 2017, we had a total of 1,019 active companies and transactions in the amount of 71,172 (monetary transactions and inquiries).

The modules deployed in fiscal year 2017 include:

- Cash Management:
- Collections
- Direct Debit
- Payment to Suppliers
- Transfers
- DEBIN Payments
- Investments - Mutual Funds.

3.1.5.(e) BuhoBank (digital sales channel).

During the last quarter of the year, the Bank implemented on-line sales of credit cards and digital savings account, with contract execution and product delivery at the customer's reported domicile (172 approved applications).

Through term deposit leads, the Bank secured 1,012 new certificates through campaigns conducted with data from this site.

3.1.6. Telemarketing

During fiscal year 2017, telemarketing was the Bank's main credit card origination channel. The strategy was aimed at boosting business profitability by achieving gains in each operator's daily productivity and monitoring the actions taken on an ongoing basis.

Marketing actions were oriented to credit cards and personal loans, leveraging the channel capacity to handle large amounts of prospects and customers.

The Bank built upon the model based on developing “blend and multiskill” agents and continued working on the specialization of call center supervisors and representatives seeking to maximize resources and improve productivity. The Bank focused on boosting cross-selling over its current offering and portfolio.

During fiscal year 2017, the Bank had over 93,000 new credit cards and disbursed ARS 1,115 million in personal loans through this channel.

3.1.7. Branch Network Expansion.

In line with its branch network expansion plan, during fiscal year 2017 the Bank engaged in a rearrangement of its internal structure, with special focus on each branch’s profitability and productivity. At the beginning of the year, we had a total of 64 branches and ended the year with 63 branches nationwide, after the close of a single branch (Caleta Olivia).

The Bank carried out maintenance activities to create a pleasant environment for our customers to feel comfortable at our branches and deliver a customer experience that meets their expectations.

The improvements in the service model also helped to reduce waiting and service times.

Our focus on migrating customers to digital channels was a major challenge for the Bank. Our customers very much appreciated the teaching and support they received through this cultural transition.

The Bank continued working on making adjustments to the network in order to add new self-service terminals and ATMs.

3.2. Wholesale Banking.

Structure. During the year, the Bank continued building the sector’s structure with newly hired officers experienced in the industry, within Corporate, SMEs and Public Banking and Products.

Cash Management. In order to increase sight deposits and commissions, during the second half of the year the Bank deployed several Cash Management products, including: Direct Debit, Collections at Branches, Custody of Post-Dated Checks, Payments to Suppliers, Paying Bank (VISA and Cabal cards) which, coupled with the launch of an Internet portal for companies and the incorporation of a sales team dedicated to these products, will help to manage cash flows from our customers, turning us into their operating bank.

The growth strategy, for the short and medium term, revolves around the following axes:

- Reinforcement of the corporate and SMEs financing business.
- Active involvement in the capital markets together with BACS
- Development of Public Banking (National, Provincial and Municipal)
- Development of products oriented to the real estate business
- Launch and marketing of products that facilitate companies’ transactions to increase sight deposits and commission revenues.

3.3. Corporate Services.

3.3.1. Physical Safety and Logical Security.

3.3.1.(a) Protection of information assets.

During fiscal year 2017, the Bank continued building upon a management model based on best practices under applicable rules and regulations in force, maintaining service levels consistent with the changes in the prevailing context and in the organization.

The Bank supported the development and implementation of the business strategy, based on its engagement in initiatives and projects, minimizing the security risk associated to the processes involved.

On the other hand, the Bank has identified certain required projects and initiatives in terms of security that will support the efficiency of this area, with strategic visibility in 2018/2019.

3.3.1.(b) Preventive Security.

During the year, the Bank set certain goals leading to empower the use of new technologies for the early detection of losses in order to strike a balance between the use of remote monitoring tools and traditional methodologies. The Bank conducted risk assessments in line with the business needs that will ultimately lead to improve the cost-risk ratio.

During the year, there were no violent criminal offenses against individuals or physical assets.

3.3.1.(c) Fraud Prevention and Control.

As concerns external fraud prevention and control, the Bank raised its productivity levels without affecting the service level agreements made with its internal customers. Avoided losses from external fraud amounted to AR$ 85 million, up by 81% compared to 2017, accounting for 0.56% over the total origination of the Bank's products in the period under discussion.

Avoided losses are mainly associated to transactional fraud with credit and debit cards and to forgery, to a lesser extent.

Losses from external fraud amounted to AR$ 2.4 million, accounting for a 25% increase in monetary terms compared to the previous year. Frauds were mainly associated to credit card campaigns and pre-approved personal loans, as well as to transactions conducted through the Homebanking payment platform ("Todo Pago"), to a lesser extent.

It is important to point out that 98% of frauds were identified before the origination of the requested product.

The Bank also introduced changes in the processes to originate its pre-approved credit cards and in the security processes associated to its debit cards and those to validate identity in the telephone banking service and in home banking seeking to reduce losses due to fraud.

The Bank built an interactive risk map by geographical location that allows recognizing risky areas and localizing addresses associated to frauds occurring from 2008 to date.

The Bank continued to be actively involved in assisting the PRO.CRE.AR Program and ancillary projects, both in the start-up, in the sample-based analysis of the applicants' files and in the training of Bank personnel assigned to the distribution and analysis of programs.

The Bank also worked on:

- accommodating, in due time and manner, the area's processes to render them compliant with the Argentine Central Bank's communications, with a new monitoring tool expected to be deployed in 2018;
- redefining transactional fraud monitoring processes by automating alerts and streamlining risk profiles;
- embracing geolocation tools in order to map transactional "attacks";
- preventing internal fraud, by reporting in due time and form identified non-conformances or deviations;
- maintaining the main productivity index above that committed under the service level agreement in place;

- maintaining active involvement in the changes and updates to processes and at each and every project being implemented; and

- developing the external fraud prevention training that was delivered to employees at the Bank's new branches.

3.3.2. Operations.

Throughout 2017, the operations department focused on guaranteeing efficient and sustainable operations in the light of the strong growth experienced by Bank's business at a global level.

The Bank's operations teams were reorganized in order to reinforce the control environment and achieve operational efficiency.

The Bank processed over 145,000 personal loan applications for a total amount of ARS 5,800 million. There were 150,000 new additions of credit cards, and more than 5,500 applications for mortgage loans, considering the Urban Development units, all of which was accomplished without losing sight of the objectives established in terms of portfolio quality.

To build on the Bank's commitment to the environment and to provide customers with increased comfort, 2.5 million digital credit card statements were sent, which was a two-fold increase over those e-mailed the previous year, which also contributed to operational efficiency.

As part of its plan to continue developing the investment business, the Bank processed over 12,000 new subscriptions to mutual funds in the Toronto investment trust, resulting in a 165% increase in subscriptions vis-à-vis 2016 and a portfolio under management in excess of ARS 5,168 million.

In fiscal year 2017, the Bank settled operations involving equity securities for over USD 10,270 million, and initiated several projects aimed at enhancing processes and reinforcing the control environment of the operations that will be deployed in 2018, namely:

- A review of critical operating processes that support the business strategy for the coming years, defining actions to strengthen such processes and improving customers' experience when using their products.

- Cash management, in an attempt at improving cash availability at our ATMs while reducing tied-up cash, and at streamlining bill management at the Central Treasury and Branch Network.

- Improvements to the Bank's core systems supporting fund raising businesses, seeking to increase the number of transactions performed by our customers in their accounts.

- Development of cash management products and supporting processes to deliver a service that meets our customers' expectations.

- Accounting reconciliation management in order to boost the goal of automating routine operating tasks, freeing employees to perform other tasks that add more value, such as analysis and control, as well as to increase the existing control arrangements.

- The Bank worked on implementing the process ongoing improvement methodology which resulted in efficiency gains in terms of process times and in the active involvement of all levels of the organization and in contributed improvements to the processes under their respective responsibilities.

- Digitalization and administration of documents at the several stages of the product and client on-boarding process.

3.3.3 Processes, Systems and Technology.

The area continues supporting the sustained growth of the business by implementing the process, system and technology strategy to leverage such growth and provide agile, fast time-to-market, innovative and sustainable technological solutions with simple business processes.

As concerns customer service, in December, the Bank implemented the CRM project in an attempt at improving customers' experience in their contacts with the Bank, with the roll-out across all branches scheduled to be completed in the first quarter of 2018.

As to new Retail Banking functionalities to support the business growth, the Bank is working on the development of product bundles, scheduled to be deployed in August 2018.

In addition, the plan for 2018 includes the development of digital mortgage loan origination and other functionalities across several channels through Automatic Banking, while seeking ongoing improvements in Core Banking to preserve business sustainability and growth.

As concerns Corporate Banking, the Bank is working on building upon the Office Banking platform, by introducing new functionalities and migration of customers operating in previous platforms.

In order to leverage process ongoing improvements, in 2017, the Bank completed the implementation of the Lean methodology within management's organization and process area, in order for it to work according to best market practices.

The Bank attained an average availability of critical systems of 99.7%.

3.3.4. Recovery Efforts.

During 2017, as regards early arrears in the portfolio, the aim was to continue to increase efficiency in management through technological and operational improvements.

Additionally, in order to accompany portfolio growth, the contact levels previously attained were maintained, the type of management was diversified and strategies were improved.

As regards the controls exerted over call center management and quality, the Bank continued to develop and embed variables into employee assessments. These variables serve to accurately identify those who are at a medium/low negotiation level and have gone past the learning curve. This allowed us to channel efforts towards the more critical employees in order to professionalize management and accompany recovery.

We continued to work on implementing competitive strategies (champion-challenger) seeking the best management results. Thanks to these initiatives, the Bank has managed to make changes that led to an over 25% decline in the number of cases handled by the call center, which were successfully addressed by other more cost-effective management channels.

As to the general strategy, it focused on:

- Maintaining the level of recoveries from customers, encouraging adhesion to refinancing products or more flexible payment alternatives;
- Streamlining the use of alternative contact media: interactive SMSs, e-mails;
- Maintaining the cost/recovery ratios; and
- Intelligence in collections strategy.

As regards long overdue loans and loans in collection proceedings, endeavors continued to collect the unsecured portfolio and the historical portfolio of mortgage loans, including: (i) recovery of loans for which no deeds have been drawn up; (ii) recovery of lawsuits against the bank; (iii) campaigns for the settlement of secured portfolios; and (iv) recovery of balances not covered by auction proceeds.

As regards the legal proceedings for collection, the Bank put in place incentives and controls to improve efficiency, with a focus on: (i) shortening procedural times, (ii) making collection efforts, and (iii) monitoring external suppliers (agents, auctioneers and notary publics). Emphasis was placed on moving forward with arrangements with associations of debtors, governmental agencies, and non-governmental organizations.

During fiscal year 2017, the Bank worked on the development of the Tandem system, the upgraded release of the Emerix core system, with portfolio migration expected to be completed by the third quarter of 2018.

3.3.4.(a) Aspect that affects loan recovery efforts.

During 2017, several provinces continued to enact laws to suspend, in their territorial jurisdictions, mortgage foreclosures in progress and/or the forced sales ordered in such proceedings. Like in previous years, this situation prevents the Bank from adequately managing its collection endeavors vis-à-vis a significant portfolio of loans exhibiting incremental outstanding amounts year after year, without a final resolution, compensation or consideration in exchange for the damages caused by these situations.

3.3.4.(b) Pre-Convertibility Mortgage Loans Restructuring.

According to the provisions of Law No. 26,313, the Regulatory Decree No. 2107/2008 and the Decree 1636/2010, which extended the scope of the recalculation regime implemented by the law, the Bank went ahead with the recalculation in conformity with the guidelines laid down by the Ministry of Economy and under the supervision of the Argentine Central Bank's Office of the Superintendent of Financial and Foreign Exchange Institutions.

The recalculation campaign applicable both to cancellations due to operational concerns and to the reduction of balances pursuant to Law No. 26,313 embraced approximately 16,700 loans with an outstanding balance for reduction representative of a loss of receivables to the Bank in the region of ARS 250 million which, combined with ARS 500 million under other debt relief program known as "Carpas Negras", resulted in a substantial adjustment to the Bank's balance sheet at the time of the privatization.

It must be clarified that in contrast to other refinancing regimes, mandated also by law (Laws 24,143 and 24,855) which also affected the portfolio of pre-convertibility mortgage loans, these actions did not entail any compensation and/or consideration for the negative financial impact on the Bank.

3.4. Risk Management.

The Bank has a comprehensive process to manage risks, that is, to identify, evaluate, monitor, control and mitigate all significant risks. The comprehensive process to manage risks looks to the Board and to Senior Management for them to get involved and oversee how all significant risks are managed, understand the nature and level of risk assumed by the entity and their relationship with capital adequacy.

It is equally in line with risk management good practices, and in particular, with the provisions concerning the guidelines for managing financial institutions' risks laid down by the Argentine Central Bank. To guarantee adequate management of the Bank's significant risks, the Bank relies on a management framework and management devices tailored to the entity's size, complexity, economic importance and risk profile.

In the course of fiscal year 2017, the Bank continued pursuing the following actions in connection with the above-described policy:

- Stress testing: the Bank undertook new comprehensive tests which included the treatment of subsidiaries. The outcomes were submitted for consideration to the Risk Management Committee and Board of Directors. The Bank also undertook individual tests on the major risks.

- Risk Control Dashboard: the Bank incorporated a set of new indicators covering regulatory and economic capital aspects and continued to develop an indicator dashboard to monitor the behavior of the main risk factors to which it is exposed given its role as trustee in the PRO.CRE.AR. trust.

- Risk Adjusted Return on Capital (RAROC): the Bank continued using this measurement tool to analyze several aspects of the business.

- Comprehensive Risk System: The Bank continued developing this tool aimed at giving comprehensive management support, having made progress with the interest rate risk module.

The Bank has policies in place that guide its decisions in order to implement its comprehensive risk management strategy. The following is a detail of the Bank's main policies in this regard:

- Regulatory Hierarchy Policy: this policy defines the Bank's internal regulatory policy and the guidelines that must guide the process to create, issue, manage or update and distribute the rules that make it up. In general terms, it lays down the hierarchy of the various rules, the persons responsible for preparing them and the scheme to approve each. In particular, it deals with, amongst other matters, the launch of new products and/or services in order to make sure that the Board will approve them and that they will be later on managed. As regards the launch of a new product or service, it establishes that it is mandatory to prepare a product program, and, if applicable, a credit program and to obtain the requisite approvals.

  Product programs are documents that must disclose, in a structured and formal manner, all the relevant information concerning the product and/or service –especially considering the aspects related to profitability and the risks inherent to the product or service.

  Credit programs are, in turn, documents that must detail the guidelines laid down to manage credit risk at the various stages of product credit cycles.

- Comprehensive Risk Management Policy: this policy sets forth the main guidelines to adequately manage the main risks the Bank is exposed to. It comprises credit, liquidity, market, interest rate, operational, securitization, concentration, reputational and strategic risks.

  It establishes the general organizational and regulatory framework and all ordinary comprehensive risk management devices associated to the risks the Bank may be exposed to.

  In addition, it seeks to describe the specific management processes for each one of the risks mentioned and, in particular, it thoroughly describes the methodologies to manage market risks and liquidity risks.

  This policy is made up by: (a) the benchmark policy for quoting loans and deposits; (ii) the stress testing policy and (iii) the contingency plan itself.

- Strategic Planning Policy: this policy lays down the overall guidelines to prepare the Bank's business plan, which is annually approved by the Board of Directors. The preparation of the business plan involves a strategic planning process and requires the definition of a set of specific activities that seek to make the vision and mission that the organization has set for itself become a reality.

  The organization's vision is a description of the long-term goals. It comprises an image, defines a guiding idea and at the same time, the manner in which the organization wishes to be externally perceived.

  The organization's mission is a specification of the organization's medium-term objectives. It describes the basic purpose towards which the organization's activities are geared and its central values, aiming at the definition of internal perception.

  The establishment of both the vision and the mission is the responsibility of the Office of the General Manager and the validation is the Board's responsibility. At all times, strategic planning must take into consideration these main aspects.

Specifically, the preparation of a business plan calls for all of the bank's areas and subsidiaries to engage in a strategic planning action, revolving around the following axes: (a) levels of origination and new businesses; (b) funding structure; (c) risk management strategy; (d) distribution channels; (e) productivity and quality and (f) image and relationship with customers.

Organizational Structure: The Bank has units in place which are responsible for managing each material risk covered by this policy. Most of these units are comprised by management-level areas, or take the form of a committee.

Below is a detail of the units responsible for managing each of the risks embraced in this policy:

- Retail Banking Credit Risk:
  This unit is engaged in managing retail asset concentration and securitization risks due to the underlying exposures.

- Corporate Banking Credit Risk:
  This unit is engaged in managing counterpart credit risk and country risk, as well as Corporate Banking asset concentration risk.

- Operational Risk:
  Operating risk
  Reputational risk

- Market Risk:
  It embraces interest rate, price, exchange rate, and securitization risks.

- Planning and Management Control
  Strategic risk

- Finance Committee:
  Liquidity risk, including liability concentration risk management.

- Anti-Money Laundering Unit
  Anti-money laundering and terrorist financing risk

The Anti-Money Laundering Unit reports to the manager of the Legal department which, in turn, reports to the Board of Directors and to the Committee for Controlling and Preventing Money Laundering. The Planning and Management Control unit reports to the General Manager. The other units referred to above report to the manager of the Risk area, which in turn reports to the General Manager.

The Finance Committee is comprised by no less than 3 and no more than 7 regular directors and for the highest ranking officers of finance, financial operations and market risk, who may attend meetings and voice their opinions, but will not have voting rights.

The Credit Committee and the SMEs Lending Committee, which reports to the former, are also involved in managing credit risk.

The Credit Committee is comprised by no less than 3 and no more than 7 regular directors, and by the highest ranking credit risk officers, both in the retail and in the corporate banking segments, who may attend the Committee's meetings and voice their opinions, but will not have voting rights.

The SMEs Lending Committee is comprised by the General Manager, the manager of the Corporate Banking area, the manager of the Retail Distribution area, the manager of SMEs Banking, the manager of the Risk area, and the manager of the Corporate Banking Credit Risk area.

In addition, the Bank set up a Risk Management Committee, comprised by no less than 3 and no more than 5 regular directors and for the highest ranking risk management officers, who may attend meetings and voice their opinions, but without voting rights. This Committee's main goal is monitoring senior management's activities related to risk management and giving advice to the Board on the risks the Entity is exposed to.

The structure and responsibilities of the Board of Directors' and management's committees are outlined in the Corporate Governance Code.

Management Devices: The Bank has viable, stable, efficient and effective processes in place to manage each of the significant risks addressed by this policy, which are specific to each subject. However, the Bank also has devices that support a comprehensive approach to risk management.

The Bank has the following common devices in place for managing the major risks it is exposed to:

a) Risk strategy: a document prepared every year at the time when the Business Plan is dovetailed and that states the Bank's general approach to risk management. The objective of the risk strategy consists in defining for each one of the Bank's main risks, the level of tolerance and the risk management strategy. The tolerance limit is based on one or several indicators to determine how much risk (credit, interest rate, etc.) the Bank would be willing to accept in pursuing its strategic goals (profitability, growth, value, etc.), within the context defined in the business plan.

b) Stress Testing Program: stress tests are a series of analytical simulation exercises that are undertaken to find out the Bank's capacity to deal with extreme adverse economic situations in the field of liquidity, profitability and solvency. To this end, the analysis has to: (a) identify business aspects that appear to be significantly vulnerable in the face of sizable events that are either external and/or internal; (b) measure the impact on the Bank of the occurrence of highly adverse events that are unlikely but possible and (c) infer the capitalization levels required vis-à-vis the scenarios posed. A stress test is deemed comprehensive when it addresses the main risks an entity is exposed to and the interactions amongst them.

c) Contingency Plan: The Bank set up a menu of possible actions and measures to deal with the occurrence of, or increase in, the likelihood of stress situations in the economic and/or financial juncture that are, a priori, seen as highly adverse to the Bank's solvency, liquidity and profitability.

d) Economic Capital: The Bank has adopted the methodology that determines economic capital on the basis of the Value at Risk (VaR) quantitative approach. From this standpoint, the economic capital is the sum of the "values at risk" (likely loss in a given horizon and faced with an associated probability) of each one of the individual risks. Economic capital is that required by the Bank to cover both the unexpected losses stemming from exposure to material risks as well as those that arise from other risks to which it may be exposed. In contrast to "unexpected loss" which must be supported by economic capital, "expected loss" is implied in the price of the product (interest rates, commissions, etc.), which must be fixed based on risk and therefore, it is covered by the ordinary operating income. If this is not the case, it must also be supported by capital.

e) Internal Capital Adequacy Assessment Process (ICAAP): The set of processes and procedures implemented by the Bank in order to ensure that it has –both at the individual and at the consolidated levels– enough capital to cover all the material risks and that it also has a strategy to maintain capital with the passage of time. This figure is also subject to stress tests to evaluate capital adequacy.

f) General Information Systems: With these systems in place, the Bank can get to know and monitor the composition and characteristics of exposures in a timely and adequate manner so that the risk profile and the Bank's capital needs can be quickly and accurately evaluated. In this respect, the Bank has a comprehensive report that is submitted to Senior Management every month, to the Risk Management Committee every two months and to the Board every three months.

g) Subsidiary's Risk Management: The Corporate Governance Code defines the applicable corporate oversight and coordination structure in connection with its subsidiaries. Through this structure, each subsidiary's Board of Directors is able to: (a) periodically revise the Bank's risk management policies and strategies and the manner in which tolerance levels are defined, and (b) verify that managers take the necessary steps to identify, assess, monitor, control and mitigate the risks assumed. In turn, this structure makes it easier for each subsidiary's senior management: (a) to implement the policies and strategies approved by their respective Boards of Directors, (b) develop risk management processes through which to identify, assess, monitor, control and mitigate the risks assumed by the Bank, and (c) implement appropriate internal control systems and monitor their effectiveness, periodically reporting to the Board on the achievement of the defined goals. According to this structure, the goals, risk management strategies and, in general terms, the business plans and budgets of each subsidiary are approved by the Board of Directors, accepted by the Bank's Board of Directors and communicated by the boards to the several organizational levels of each subsidiary. In order to periodically review the fulfillment of goals, strategies and general business plans, and control managers' risk management actions, several oversight and coordination mechanisms are defined through this structure. On the one hand, the internal oversight and coordination mechanisms of each subsidiary and, on the other hand, the Bank's oversight and coordination mechanisms of its subsidiaries. Through the latter, the Bank's Board of Directors is informed by the Bank's senior management which, in turn, receives information from the senior management of each subsidiary. In this regard, the Bank uses a Risk Balanced Scorecard to oversee compliance with the limits established in each subsidiary's risk management strategies. The scorecard is periodically submitted by the Bank's senior management to the Risk Management Committee and the Board of Directors

3.5. Organizational Development and Quality Assurance.

As concerns organizational development and its quality assurance standards, the Bank's work was based on the commitment to and mission of contributing to the business sustained growth, consolidating human capital development. The Bank committed to instilling a culture oriented to the high performance of our employees, encouraging efficiency, productivity and excellence in results. In the course of 2017, the Bank's "human capital role model" was consolidated. This methodology allowed the Bank to efficiently support employee development and the Bank's business. This model is characterized by increased presence and knowledge into the areas and their teams.

As of December 31, 2017, the Bank's headcount was 2,005 people distributed as follows: (1,265) at the head office and (740) at the branches. The average number of years of service is 11.

A. From the standpoint of customers:

In fiscal year 2017, the Customer's Experience sector continued capturing and understanding the needs, preferences and experiences of our internal and external customers, applying several survey techniques based on design thinking:

The sector conducted 47 surveys, including satisfaction, opinion and new product/service development polls. A significant portion of these surveys (23%) were targeted at the Bank's employees in order to identify opportunities for specific improvements in internal processes and to learn about the service levels within certain support areas.

With user experience techniques, in February, the Bank conducted a qualitative study of Mobile Banking to identify strengths and weaknesses in the current design and spot functionalities valuable to, or not frequently used by, users.

In March, the Bank launched a monthly and periodical survey targeted at BH's customers to learn about their experiences in five focal points. Below is a detail of the annual outcomes for each attribute:

- Service Quality: 53.8%
- Waiting Time: 30.7%

- Understanding of Needs and Expectations: 44.3%
- Purchase Intent: 31.6%
- NPS: 17%

Working jointly with the Products and Segments, and Advertising areas, the Bank identified the main aspects with high impact on customers' satisfaction, insights which will feed an engagement strategy for 2018.

At the same time, during the second half of the year, the Bank worked jointly with the Products and Segments area on the Customer Segmentation and Experience project, seeking to understand the business from the customer's standpoint to design a better experience and build profitability in the long run. The project embraced qualitative surveys among employees and customers (17 interviews with employees, 17 interviews with key profiles, 5 workshops and focus groups with 132 customers), along with quantitative surveys gathering more than 7,600 responses from customers.

The outcomes of the survey will be used to design a better engagement strategy for 2018 with the Bank's four target segments: Payroll Accounts, Small-Taxpayers (*Monotributistas*), Individuals, and PRO.CRE.AR. Concerning quality standards, the Bank's strategy to achieve certification in local and international standards (ISO9001, ISO27001, IRAM Quality Standard No. 13, etc.) was oriented to support the Bank's strategic guidelines and business positioning. In this line, the Bank renewed its commitment to the ongoing improvement in its role as trustee in the PRO.CRE.AR. trust, migrating to ISO 9001:2015 across all technical areas, extending its scope to the following processes: Preventive Maintenance and Marketing and the entire areas of Unit Delivery, Cross-Disciplinary Relations and Information Management. This certification contributes transparency to the services delivered by the Bank in respect of construction project management. In addition, the Bank achieved ISO 9001:2015 recertification in respect of all processes related to the Corporate Audit area and the quality management system of Collections and Payroll Direct Deposits processes through an electronic platform (ISO 9001:2015 version). Finally, this year the Bank undertook the challenge of having its Information Asset Protection area certified under ISO 27001. The Bank successfully completed the first stage of the audit, with the certification stage being scheduled for January 2018.

As concerns the promotion of the achievements in quality certifications, IRAM invited the Bank to participate in its August's monthly newsletter to give an account of our experience in adopting the new ISO version.

During the first half of the year, the Bank launched the #Quality in Action campaign to communicate its Quality Policy. In 5 monthly publications of Mundo Búho Express, several BH's teams shared their experiences in applying the principles of the Bank's Quality Policy in their daily activities. The Bank's Quality Policy is available for all customers at the branches and central areas, on-line and at the Bank's Intranet and website.

B. From inside the Bank:

The Human Capital area (Training, Development, Recruitment, Change Management, Communication and Culture) worked on instilling a culture of inclusion to foster personnel development and individual contribution to attain the goals stated in the Bank's management plan for the year.

As concerns training, in 2017, the Bank delivered almost 17,000 hours of training (e-learning and classroom learning, combined). The training plan was based on the assumptions that the business and industry demands require immediate response. The Bank pursued innovation in the training design and offering by focusing on different needs and learning styles. In addition, the Bank worked on strengthening the required leadership skills among its leaders and a comprehensive training program targeted at the entire branch network and focused on continuing education, professionalization, and growth of our employees in the commercial and operating platform. The program is aligned with the Bank's strategic goals.

Moreover, the Bank managed 70 external courses through alliances with different educational institutions and entities to have updated internal knowledge in place and launched a new version of its on-line course platform. New courses were incorporated into the Virtual Training Center, making available specific tools for the development of our employees. The Bank has embraced new virtual training modalities, including but not limited to gamming, tutorials, and on-line classes, seeking more innovative and effective manners of reaching employees.

In the Development area, during the year 2017, 89 employees were transferred among the Bank's several areas, with 62 internal promotions and 27 sponsorships. The Bank deployed a new performance management model (Management by Objectives) in order to embed employees' development into the organization's goal, by aligning strategic goals with individual and group goals. Accordingly, the Bank developed a set of organizational competencies in order to measure the extent to which individual behaviors are associated to the organizational goal model and to leverage individual development practices, such as training, promotions, turnover, etc. These competencies are scheduled to be introduced and deployed in 2018. Finally, through the Leadership Program, the Bank continued working on executive coaching to encourage personal and professional transformation processes aimed at nurturing performance and the competencies required to incorporate new skills.

As concerns recruitment, during 2017, the Bank managed to fill 135 job openings through recruitment and hiring processes, within the expected timeline and quality, on the basis of the entity's capacities and meeting the business needs. The Bank hired 14 employees in Retail Banking, with 76 new hires in the subsidiaries engaged in the insurance business, particularly, in the commercial area. The Bank also deployed the first collaborative recruitment tool (HiringRoom) that put together all recruitment processes in a single site, in order to monitor the consulting firms' performance during the recruitment process and consolidate all recruitment reports.

In the culture and change management area, the Bank helped to implement the following projects, with the four first of them having strategic impact:

- CRM - "New Customer Service Tool"
- Budget as a "Management Tool"
- Product Bundling
- Moving Project
- Collaborative Community
- Visual Management at the Branch (indicator management and monitoring tool)

The "customer-centric" business model is optimized within the framework of the CRM project, by embedding customer service processes into a single tool to provide full financial solutions in a fast and efficient manner. Under these premises, the Bank defined the change management strategy with impact on over 800 employees.

The strategy was developed by empowering Branch Managers, HML Supervisors and Branch Network specialists with face-to-face training that was then replicated among their respective work teams. The methodology was leveraged on the Learning Network, with 4 online modules, 4 face-to-face modules and certification subject to successful completion of 70% of the course to commence the tool deployment stage within each team.

The Bank attained a 92 % satisfaction level across all face-to-face courses, with an average score of 84 in 17 branches which have deployed Dynamo (CRM).

In the Budget as a "Management Tool" project, the Bank worked on the basis of stated goals aligned with the business processes and the mission of achieving improved results and profitability, cutting costs and achieving efficiency gains.

This project seeks to reshape the manner in which the Bank designs and manages its budget on a daily basis, from planning through execution.

In order to underpin these goals, the Bank developed a specific training plan for the Budget Leaders designated within each area (face-to-face workshop and e-learning training), communications that fostered adherence to the new management model, 3 e-mails, 7 publications in MBE (monthly newsletter), etc., with 13 videos featuring employees' testimonials to encourage engagement and commitment to an efficient budget culture.

Product Bundling: In order to market product bundles among Retail Banking customers, reinforce account funding, increase transactions and profitability for customers and provide a competitive product and service offering to gain and retain good customers, the Change Management area deployed a work methodology in a "single space" that encourages team work and streamlines management.

We conducted a survey in connection with the first 3 months of the project to understand the satisfaction level with the following assertions:

- I am aware of the project purpose and its potential impact on the business: 97%
- I understand the contribution of my work to achieve the project purpose: 100%
- The work methodology in a single space is appreciated by 90% of the employees

Moving Project: The Bank worked on the first stage of the project that will encourage new collaborative work modalities and will achieve synergies among areas - a new working paradigm for the sake of efficiency and productivity.

At this first stage, the Bank moved 135 employees to the buffer spaces that allowed for the commencement of the project. The change management plan enabled engagement and provided visibility to the project goals.

Collaborative Community: The Bank developed the Collaborative Community project in order to put in place new working modalities to achieve productivity, collaboration and efficiency gains.

The project was developed in two phases and was entirely led by the Organizational Development area. Phase I: Pilot testing of collaborative tools (business Skype, One Drive and VPN for remote collaborators) conducted in March-May 2017. Phase II: Roll out among all BH's employees commencing in June and teleworking pilot testing since August through December 2017.

Below is a detail of the outcomes of these two phases:

- Satisfaction with the teleworking experience: 98%
- The experience in the project revealed the following changes in habits and productivity gains:
    - 87% of the respondents asserted that teleworking had helped them to optimize working times.
    - 81% asserted that teleworking improved the focus on the task at hand.
    - 78% asserted that the interaction with other areas has remained unaltered.

Visual Management: The Bank deployed lean tools, such as "Visual Management" in 64 branches, consolidating the use thereof as a management tool.

The Change Management area addressed efforts to anticipate to the changes these projects will generate in people and how they work, helping them to be ready for change and fostering alignment with the desired culture.

During fiscal year 2017, the organizational culture area helped to promote the stated focal points to foster business development. The Bank consolidated the sessions called “Dialogs at Banco Hipotecario” and relaunched that space in alignment with the business goals. Twenty eight sessions were held with the participation of more than 320 employees, with full satisfaction level.

In order to consolidate and drive organization goals and knowledge about its products, services and operations, the Bank continued holding sessions with the organization’s main leaders under the motto “Getting to Know our Business.” Eight sessions were held during the year, with the participation of more than 500 employees and full satisfaction level in all of them. In 2017, the Bank managed to surpass the outcomes achieved in the two previous cycles; in turn, all Bank’s employees were able to access the sessions through videos posted on the Bank’s Intranet and online via Skype.

The monthly newsletter Mundo Búho Express (MBE) celebrated its 3rd anniversary and consolidated as the publication that gathers the news from the Bank's several sectors. The topics discussed in each edition are aligned with the business focal points. The Bank has already delivered more than 52 editions of MBE and, in turn, has recently launched “Business News”, a newsletter exclusively addressed to managers, which reports on the progress made and outcomes achieved in the several business focal points in order for managers to gain knowledge and have information to share with their work teams. The first edition had full satisfaction among managers and its contents were highly appreciated. Intranet helped to promote business goals, projects, organizational news, benefits and all such topics of interest for and impact on the Bank's employees. The Bank managed to increase participation by 14% vis-a-vis 2016, with 9,300 interactions over the year. In addition, 60% of the Bank's employees preferred this channel to keep abreast of the news.

Within the BH Community, the benefit program was promoted on the basis of its four core pillars: #Welfare; #Family; #Development, and #Celebrations. We conducted a survey to get to know the most valued benefits, with 29% participation (594 respondents), mainly, vacation time based on working days, corporate health plan and study leaves.

We shared several posts on LinkedIn to build our employer branding for the internal and external public. This year, the Bank surpassed its goal of having 25,000 followers and ended the year with 25,480 followers, with a monthly publication that summarized the actions developed at the Bank.

4. ADDITIONAL INFORMATION (LAW NO. 26,831, SECTION 60).

4.1. Aspects Related to the Organization of the Decision-Making Process and to the Entity’s Internal Control System.

Pursuant to Law No. 24,855, the former Banco Hipotecario Nacional (BHN) was converted into Banco Hipotecario S.A. and subject to privatization under Law No. 23,696. The by-laws of Banco Hipotecario were approved and its first Board of Directors appointed pursuant to Decree 924/97.

The entity’s capital stock is made by four classes of shares: Class “A” shares are held by the Argentine government, they grant special rights as well as those corresponding to the *Fideicomiso del Fondo de Infraestructura Regional* (FFIR) subject to privatization through public offering; Class “B” shares are to be held by the Entity’s employees eligible for the Employee Stock Ownership Plan once implemented by the Argentine government. Up and until implementation of the ESOP, these shares are being managed by the Argentine government through the ESOP Trust; Class "C" shares are reserved for primary sale in public offering to companies engaged in housing construction or in the real estate business, currently also held by the Argentine government through the *Fideicomiso del Fondo de Infraestructura Regional*; and Class “D” shares, held by the private sector. Any Class “A” shares sold by the FFIR, as well as the shares that will be subsequently sold by the future purchasers of Class “B” and Class “C” shares shall be converted into Class “D” shares.

The term to exercise the warrants for the acquisition of ADRs granted in the IPO expired in 2004. Since then, a balance of approximately 6% of the capital stock remains in the Trust of Warrants and attend Special Shareholders' Meetings for that class pari passu with Class "D" shares, in accordance with the instructions delivered by the Argentine government until the sale of this percentage.

On December 4, 2008, the legislative bill that suppressed the pension and retirement fund capitalization system set forth in Law No. 24,241 was signed into law under No. 26,425 which meant that as of that date the funds existing in the system managed by pension fund managers were nationalized and taken over by the State-run pay-as-you-go system. Therefore, the Bank’s Class “D” shares held by these pension fund managers and any rights arising therefrom have been absorbed by the Argentine integrated social-security scheme run by the Argentine Social Security authorities (ANSES).

On November 13, 2012, the Executive Order 2,127 implemented the Employee Stock Ownership Program which sets forth that as soon as it is definitively implemented, a portion of Class B shares will be converted into Class A shares for allocation to the employees that had left the Bank as of the date of issuance of this Executive Order. Once these shares are allocated, they shall start to be denominated Class D shares, with Class B shares being representative of the ESOP and assigned to the Bank’s current employees.

As long as the Argentine government holds in its own name or through the FFIR more than 42% of the capital stock, Class “D” shares have a treble vote as is presently the case.

Following the initial public offering (IPO), the Entity's first Board of Directors called for an extraordinary shareholders' meeting held on March 15, 1999, which resolved to create an Executive Committee.

Banco Hipotecario’s management is in charge of a Board of Directors made up by 13 members: two directors designated by Class "A" shares; one director designated by Class “B” shares; one director designated by Class “C” shares and nine directors designated by Class “D” shares. The directors designated by Classes “A”, “B” and “C” are presently named by the Argentine government, the directors designated by Class “D” shares are appointed by private sector shareholders at Special Shareholders’ Meeting held by the specific Class of shares. The Entity’s Chairman and Vice-chairman are designated from among the directors appointed by the latter class.

The Entity’s ordinary businesses are managed by an Executive Committee made up by Class “D” directors. As provided for in section 19 of the Entity’s by-laws, and irrespective of other powers granted by shareholders' meetings, the powers and duties of this Executive Committee consist of leading the day-to-day management of the Entity’s business and all the issues delegated by the Board of Directors; developing the Entity’s business, lending and financial policies, subject to the objectives approved by the Board of Directors; creating, maintaining, suppressing, restructuring or transferring areas and sectors in the Entity’s administrative and functional structure, creating Special Committees; approving certain functional structures or levels, which includes determining the scope of such functions; approving the composition of the Entity's headcount; designating the General Manager, the Deputy General Managers, Executive Vice-Chairmen and other Division and Area Managers, which includes the establishment of their level of compensation, terms and conditions of the position and any other personnel-related measure, which includes promotions; proposing to the Board of Directors the creation, opening and relocation or closure of branches, agencies or representative offices within or outside the country; supervising the performance of subsidiaries and investees; proposing to the Board of Directors the formation, acquisition, total or partial sale of equity interests; submitting to the Board of Directors the Entity’s proposed procurement guidelines, annual budget, estimates of expenditures and investments, necessary indebtedness levels and the action plans to be implemented, as well as approving reductions, waiting periods, refinancing arrangements, novations, debt condonations and/or waivers of rights, when the ordinary conduct of business so requires or when advisable. The sessions held by the Executive Committee are attended also by the members of the Supervisory Committee.

There are also special committees comprised by Directors and committees comprised by line managers to deal with the decision-making process in specific areas with the involvement of areas responsible for similar issues, including: (i) the Audit Committee; (ii) the Committee for Controlling and Preventing Money Laundering and Terrorism Financing, (iii) the Information Technology Committee, (iv) the Credit Committee; (v) the Personnel Incentives Committee; (vi) the Risk Management Committee; (vii) the Corporate Governance Committee; (viii) the Board of Directors’ Ethics Committee; (ix) the Finance Committee; (x) the Committee of Social and Institutional Affairs; (xi) the Employees’ Ethics Committee, (xii) the Assets and Liabilities Committee –ALCO-, (xiii) the Retail Banking Pricing and Rates Committee, (xiv) the Committee for the Protection of Financial Service Users, (xv) the Investment Committee, (xvi) the SMEs Lending Committee, and (xvii) the Real Estate Committee.

Control over compliance with the Banco Hipotecario's by-laws is the responsibility of a Supervisory Committee made up by 5 members: one for Class "A" shares; one for Class "B" shares and three for Class "C" and "D" shares designated at the special shareholders' meeting held by each special class.

4.2. Dividend Policy as proposed or recommended by the Board of Directors.

The Bank's Board of Directors upholds the policy to pay dividends to shareholders when the volume of earnings so permits and when the conditions and requirements imposed to that effect by the Argentine Central Bank's regulations are satisfied.

In this regard, the Argentine Central Bank has provided that the payment of dividends – other than ordinary stock dividends - the purchase of treasury shares, payments over Tier 1 Capital instruments and/or payments of financial incentives under labor laws and regulations governing the relationship with financial institutions' personnel, are contingent upon the restrictions established in its rules and regulations.

The Central Bank imposed certain conditions for financial institutions to be permitted to distribute dividends, namely: (1) they must rely on an express authorization from the Superintendent of Financial and Foreign Exchange Institutions concerning the amount intended for distribution, (2) the earnings intended for distribution must be determined through an off-balance sheet adjustment to net income arising from the difference between book value and market value of unlisted Government securities and/or Argentine Central Bank monetary regulation instruments and (3) the amount intended for distribution must not compromise the Bank's liquidity and solvency; to this effect, the Central Bank will not admit earnings distribution when the Bank: (3.a) is subject to the provisions of Section 34 "Normalization and Turnaround" and Section 35 bis "Restructuring an entity to safeguard credit and bank deposits" of the Financial Institutions Law; (3.b) there are records of financial aid lent by the Argentine Central Bank on grounds of illiquidity in the framework of Section 17 of the Argentine Central Bank's Charter; (3.c) incurs in delays or fails to comply with the reporting requirements set forth by this Institution; and (3.d) fails to pay the minimum capital or cash requirements, on an individual or a consolidated basis.

Entities which do not fall within the above-described assumptions may distribute profits for up to the positive amount resulting from an off-balance-sheet calculation that consists of adding the balances as of year-end charged to retained earnings and the balance of the optional reserve for future distribution of profits, minus the balance of the legal reserve and other required statutory reserves, net of the following items: (1) the entire debit balance of items accounted for under "Other accumulated comprehensive income," (2) the gain (loss) from the revaluation of property, plant and equipment, intangible assets and investment properties; (3) the net positive difference between the measurement at amortized cost and the fair market value recorded by the entity in respect of public debt instruments and/or monetary regulation instruments issued by the Argentine Central Bank for instruments carried at amortized cost; (4) asset valuation adjustments notified by the Office of the Superintendent of Financial and Foreign Exchange Institutions –whether or not accepted by the entity- pending registration and/or such adjustments indicated by the external auditors which have not been recorded in the accounting records; (5) individual deductible amounts –from asset valuation- granted by the Office of the Superintendent of Financial and Foreign Exchange Institutions, including adjustments resulting from failure to consider the agreed-upon conformance plans.

In addition, entities may not distribute dividends out of profits derived from the first-time application of the International Financial Reporting Standards (IFRS), and are required to set up a special reserve to be released for capitalization purposes only or to offset potential negative balances under "Retained Earnings."

The distributable amount may not compromise the entity's liquidity and solvency either. This requirement will be deemed to have been met if no deficiency is found in the payment of the minimum capital position - on an individual and on a consolidated basis - for the fiscal year the retained earnings at issue are attributable to, or otherwise in the last closed position available as of the date the Argentine Central Bank's authorization has been applied for, whichever shows less excess in the payment of the requirement, considering the following effects on the basis of the data available as of each of such dates: (a) the effects of deducting from assets the items detailed in sections (1) through (5) in the preceding paragraph; (b) the effects of failing to consider the deductible amounts granted by the Office of the Superintendent of Financial and Foreign Exchange Institutions affecting minimum capital requirements, payments or position; (c) the effects of deducting the following items from retained earnings: (i) the distributable amount and, where applicable, the amount set aside for the reserve for interest payable on debt instruments, which might become part of the entity's regulatory capital (*responsabilidad patrimonial computable*), as per the proposal submitted to the Office of the Superintendent of Financial and Foreign Exchange Institutions; (ii) credit balances resulting from the application of tax on minimum presumptive income, net of the allowance for impairment, which have not been deducted from Tier 1 capital, pursuant to the guidelines on "Minimum capital requirements for financial institutions"; and (iii) the adjustments made by the entity as per the preceding sections (1) through (5).

On the other hand, the rules establish a capital conservation buffer additional to the minimum capital requirement in order for entities' to accumulate equity to face potential losses, thus mitigating the risk of default on this requirement. This conservation buffer shall be equal to 2.5% of the entity's Risk-Weighted Assets ("RWA"), in addition to the minimum capital requirement. Such conservation buffer rises to 3.5% of RWA for financial institutions qualified as "of systemic importance."

Therefore, when the Board of Directors corroborates that the Bank is not within any of the above situations, the Board may determine the amount to be proposed for distribution as cash dividends and the date for effecting such payment to the shareholders' meeting. In so doing, the Board shall be mindful that such distribution should not result in a decrease in the Bank's economic capital such that it may hinder its growth requirements, whether or not through new businesses or the adequacy of such capital to face the risks that could reasonably ensue from unfavorable scenarios in the systemic environment, such as the country's macroeconomic conditions.

In line with the above, the Board's proposal must provide for: (i) applying to the Office of the Superintendent of Financial and Foreign Exchange Institutions for authorization at least 30 business days prior to the date of the shareholders' meeting, making sure that on the date the shareholders' meeting is held, such authorization is available and (ii) at the time when the shareholders' meeting approves the dividends, payment thereof should not adversely affect the entity's liquidity and solvency as per the rules of the Argentine Central Bank.

Accordingly, when there are retained earnings at the end of the fiscal year and the requirements imposed by the Argentine Central Bank are satisfied, the Board will be able to approve and submit to consideration by the shareholders' meeting a project to distribute earnings in the form of cash dividends together with the Entity's financial statements.

4.3. Compensation Modalities: Directors' fees and compensation policy applicable to the Bank's Management.

The Entity's by-laws provide for the compensation to be paid to the Board of Directors and delegate to the Executive Committee the decisions regarding the compensation of the Entity's management. Furthermore, in compliance with the provisions under the Central Bank's Communiqués "A" 5201 and 5203, the Bank created a Personnel Incentives Committee to take care of this issue.

The Personnel Incentives Committee has been entrusted with a primary mission consisting in overseeing the incentives system. To that end, the Committee shall be responsible for laying down policies and practices to provide economic incentives to personnel involved in risk management, be it credit, liquidity, market, interest rate and/or operational risk, adjusting decisions to the exposure to these risks assumed by the Company according to the liquidity and capital requirements at stake both on potential and current risks and on future risks and/or risks to the entity's reputation and whereby the economic incentives to the members of the organization should be tied to the contribution by each individual and by each business unit to the Company's performance, as established by the Argentine Central Bank's Communiqué "A" 5599 or any other regulation that may replace or supplement it in the future.

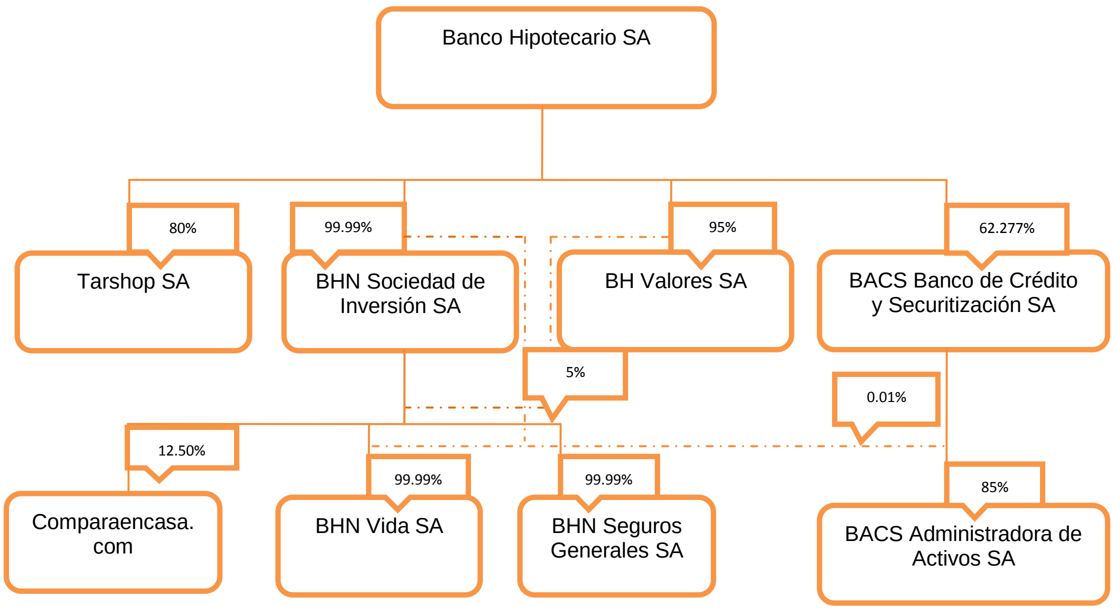
As regards the Board of Directors' fees, section 14 of the by-laws sets forth as follows: (a) Non-executive members: the duties of the non-executive members of the Board of Directors shall be paid on the basis of a global amount annually established by the Ordinary Shareholders' Meeting which amount shall be equally distributed amongst these members and among their alternate members pro rata of the time during which they were effectively substituting for regular members. The Ordinary Shareholders Meeting shall authorize any amounts that may be paid on account of such fees during the current fiscal year, subject to the approval of the shareholders' meeting called to approve said fiscal year; (b) Executive members: the Chairman and remaining Entity Directors who perform managerial, technical and administrative duties or who are members of special committees shall be paid for such functions or involvement in committees in line with the fees currently paid in the market for similar tasks in an amount to be fixed by the Board of Directors with the abstention of the parties mentioned and shall be subject to the approval of the Shareholders' Meeting; (c) Executive Committee members: the Directors who make up the Executive Committee and carry out the tasks provided for in section 19 of the by-laws shall be paid a bonus component equivalent to the amount resulting from deducting the fees of non-executive directors and the compensation payable to the Chairman and Directors in charge of specific functions as approved by the Ordinary Shareholders' Meeting for that same fiscal year from the maximum amount provided for in (d) below. The amount of this bonus component shall be distributed amongst the members of the Executive Committee following instructions imparted by the Executive Committee itself; (d) Maximum amount: the total amount of the compensation payable to the Directors, as paid or approved by application of the provisions in preceding paragraphs (a), (b) and (c) shall be limited to 5% of earnings net of tax for any given fiscal year in which no cash dividends are being distributed for any reason whatsoever, which amount shall be increased pro rata of the existence of dividends in cash up to a maximum percentage of 15% of computable income, as established in the Entity's by-laws; (e) insufficient earnings: in the event no income were generated in a given fiscal year or in the event income had been reduced to afford payment of the compensation provided for in preceding paragraphs (a), (b) and (c) which calls for an extension of the limits fixed in the preceding paragraph (d) and/or those established in section 261 of Law No. 19,550, may only be paid if expressly approved by the Ordinary Shareholders' Meeting.

On the other hand, in December 2017, the Bank announced the implementation of a benefit plan consisting of payments based on the Bank's shares of stock aimed at all active employees included in the payroll as of November 30, 2017. The plan seeks to align the organization's goals with the beneficiaries' goals, turning them into key players and makers of the organization's results. In order to be eligible for the transfer of title to the shares, beneficiaries shall meet certain conditions, including: (i) resignation, early retirement, retirement, voluntary retirement, dismissal without cause, or death, (ii) in the case of resignation, beneficiaries shall have no less than 5 years of service as of such date, and (iii) in all cases, beneficiaries shall have received an average rating equal to or higher than 90 in the last 5 performance reviews before their termination, or its equivalent, should there be a change in the organization's rating scheme.

5. SUBSIDIARIES.

5.1. The Company and its Subsidiaries: Structure.

The Bank has direct and/or indirect control over companies that make up the group of subsidiaries and they are, thus, subject to consolidation. The subsidiaries are: (i) BHN Sociedad de Inversión SA, a company engaged in investments and in managing ownership interests in the capital stock of other companies; BHN Vida SA, a life insurance company; BHN Seguros Generales SA, an insurance company that carries insurance against fire and damage to real property, and Comparaencasa.com; (ii) BACS Banco de Crédito y Securitización SA (BACS), a commercial bank which in turn owns a shareholding in BACS Administradora de Activos SA (BACSAA); (iii) BH Valores SA, a company engaged in stock brokerage and (iv) Tarshop SA, an issuer of credit cards. Therefore, the structure of the Bank and its subsidiaries is as illustrated below:



BH, the parent company, is at the center of the main financial intermediation activities and it defers to other economic units the banking supplementary businesses and services, as well as insurance, stock brokerage and the issuance of credit cards and mutual fund management companies, although the Bank always maintains and encourages potential synergies amongst their different customers.

5.2. Subsidiaries.

5.2.1. BHN Sociedad de Inversión SA.

This company is the holder of a 99% interest in the capital stock of the insurance companies “BHN Vida SA” and “BHN Seguros Generales SA”. These companies are under the supervision of the Argentine Office of the Superintendent of Insurance.

BHN Sociedad de Inversión conducts substantial commercial and financial activities with related companies, particularly, Banco Hipotecario, as it offers, through its subsidiaries, coverage for its financial product portfolio, while also selling insurance policies among its customer base under agency agreements.

The insurance companies’ business is based on offering solutions for large customers engaged in the financial sector, while also offering insurance solutions covering family protection needs of policyholders’ customers.

BHN Seguros Generales’ current product offering is targeted at protecting the assets of policyholders and their customers, who are offered simple and genuine alternatives to protect their property.

BHN Vida’s products are variants of term life, personal accident and health insurance with different options of insured capital, adequate to protect outstanding balances and also household consumption upon the policyholder's death.

As its concerns the regulatory framework, the Argentine Office of the Superintendent of Insurance has approved coverage in the several lines of business these subsidiaries are engaged in.

Regarding commercial development, these subsidiaries continued to expand the business into two dimensions: customers and products. In this sense, the Bank is assessing the launch of new products to complete a comprehensive offering, including new lines of business and policies, and adjusting the insured amounts of the existing ones to the customers’ needs and realities.

In addition to its equity interests in the insurance companies, BHN Sociedad de Inversión also owns a 12.5% interest in Comparaencasa Ltd. Such interest also includes the issuance of warrants by Comparaencasa Ltd. which entitle (but do not compel) BHN Sociedad de Inversión to subscribe shares in future investment rounds, at a 35% discount on the subscription price. ComparaencasaLtd is a company based in England and the parent company of the Argentine subsidiary Comparaencasa SA and the Brazilian subsidiary Comparaen Casa Servicos de Informacao Ltda de Brasil, both of them doing business as “comparaencasa.com”. The Argentine subsidiary Comparaencasa SA is authorized to act as insurance broker by the Argentine Office of the Superintendent of Insurance and currently does business online, at www.comparaencasa.com. Comparaencasa's strategic goal is positioning as the leading online insurance broker in Argentina and then expanding the business at a regional level. The Bank’s interest in Comparaencasa is strategic and allows it to tap into the insurance business online.

According to the valuation criteria laid down by the Argentine Office of the Superintendent of Insurance, BHN Sociedad de Inversión SA’s financial highlights are disclosed in Exhibit E to the Bank’s financial statements.

On December 2, 2015, the Bank was served notice of an observation raised the Argentine Central Bank’s Office of the Superintendent of Financial and Foreign Exchange Institutions in connection with the fact that BHN Vida and BHN Seguros Generales were wholly-owned subsidiaries of the Bank, either directly or indirectly, on grounds of the applicability of the credit cap regulations that set forth a 12.5% limit to the holding of equity interests and voting rights in other companies. The Bank has applied for the review of such observation arguing that it is an entity authorized by the Privatization Law No. 24,855 and its implementing regulations, particularly, Decree No. 1394/98. Even though the Bank believes it has strong arguments against the Argentine Central Bank's objection, there are still administrative and judicial remedies available to settle this specific situation. As of year-end, the Bank and banking associations have exchanged notices with the Argentine Central Bank in connection with the insurance activities developed or to be developed by financial institutions. The Argentine Central Bank has not yet rendered a decision on the requests for regulatory review.

5.2.2. BH Valores SA.

During 2017, following the enactment of the new Capital Markets Law, BH Valores S.A. ceased to act as promoter for the Bank at year-end, for this capacity was eliminated by the new law. Given this situation, the Bank is considering how to proceed with this company.

According to the valuation criteria established in the generally accepted accounting principles of the professional accounting standards, BH Valores SA's financial highlights are disclosed in Exhibit E to Banco Hipotecario's financial statements.

5.2.3. Tarshop SA.

The Bank has an 80% equity interest in Tarshop through which it is engaged in the consumer lending business.

During the previous years, due to certain changes in its business framework, Tarshop initiated a reshaping process of its operations, with the inclusion of "Tarjeta Shopping Visa" to its portfolio of financial products since May 2015.

Tarshop was authorized by the Argentine Central Bank to extend consumer loans on a temporary basis in June 2016, and on a final basis in early January 2017.

As of December 31, 2017, Tarshop had more than 480,000 active accounts with outstanding balances and an average debt of ARS 13,600 per account. The total portfolio, that is, performing and non-performing, amounted to ARS 6,045 million, with 49.6% being the portfolio securitized through the "Tarshop" Financial Trust Program and through private trust funds.

The portfolio of performing receivables, net of write-offs at the end of the fiscal year 2017, including securitized coupons, totaled ARS 5,997.2 million, 21.1% higher than the ARS 4,953 million portfolio as of December 31, 2016.

As of December 31, 2017, Tarshop had a commercial network made up by 24 outlets for sales and management. At that date, merchants accepting "Tarjeta Shopping VISA" were more than 450,000, generating more than 9.4 million transactions as of the fiscal year then ended.

Regulatory Framework and its Effects on Tarshop: Due to the impact of the regulatory changes introduced in 2013 and 2014 in connection with controls over charges, commissions and interest rates, Tarshop initiated a reshaping process of its operations, with the inclusion of "Tarjeta Shopping Visa" to its portfolio of financial products. Following the agreement entered into with Prisma Medios de Pago SA (former Visa Argentina) on September 5, 2014 in connection with the launch of "Tarjeta Shopping VISA", significant progress was made in the migration of Tarshop's credit card portfolio into this new product, along with marketing efforts to sell the product across all origination channels. The portfolio migration process was initiated on May 5, 2015 and initially involved 145,000 clients. A second migration phase was completed in October 2015 involving 85,000 accounts. Finally, on May 4, 2016, the last migration phase was completed involving 209,000 accounts, with the credit card portfolio having been fully and successfully migrated to the new product "Tarjeta Shopping VISA" within a year.

On September 17, 2015, November 4, 2015 and June 24, 2016, Tarshop's shareholders effected irrevocable capital contributions in the amount of ARS 52,500,000, ARS 52,500,000 and ARS 250,000,000, respectively, in proportion to their respective shareholdings to increase cash and cash equivalent balances to fund the project pipeline and develop Tarshop's Business Plan. In the face of the observations raised by the Argentine Central Bank in this regard and due to the temporary inability to capitalize the aforementioned irrevocable contributions, Tarshop applied with the CNV for the interruption of the statutory terms set forth in the applicable laws and regulations in force. Consequently, the CNV, under File No. 3416/2015, granted the requested interruption of the six-month term set forth in Article 3, Chapter III, Title III of the CNV's regulations (NT 2013 as amended). Then, once the observations raised by the Argentine Central Bank had been duly addressed, Tarshop applied with the CNV for the elimination of the aforementioned stay of statutory terms, petition which was granted on May 3, 2017.

On July 27, 2017, Tarshop's shareholders, gathered at the company's unanimous ordinary shareholders' meeting, decided to capitalize the entire balance of Irrevocable Contributions in an aggregate amount of AR$ 355 million, with no additional paid-in capital and in proportion to their shareholdings and, hence, to increase the capital stock from AR$ 243 million to AR$ 599 million. Such capital increase was registered with the Argentine Office of Corporations (*Inspección General de Justicia*) on August 14, 2017.

During the year ended December 31, 2015, the Argentine Central Bank issued Communiqué "A" 5700 (financing supplementary services and permitted activities) whereby Tarshop was allowed to extend credit out of the scope of the Credit Card Law to users of financial services, to the extent such activity does not surpass the 25% of total lending by the end of each month, and to the extent Tarshop complies with the rules governing interest rates applicable to credit operations. Consequently, Tarshop's shareholders decided to change the corporate purpose and include the above mentioned business. Such change was registered with the Argentine Office of Corporations on January 8, 2016.

On June 3, 2016, the Argentine Central Bank notified Tarshop of the Provisional Authorization Code for the Registry of Other Non-financial Credit Providers that had been granted to it, upon which Tarshop was permitted to extend consumer loans. Finally, on January 7, 2017, Tarshop was registered on a permanent basis by the Argentine Central Bank under Code No. 70106.

On July 14, 2017, the Argentine Central Bank issued Communiqué "A" 6277 eliminating the 25% limit to personal loan origination set forth in Communiqué "A" 5700, among other things. Accordingly, companies such as Tarshop may freely build their product portfolio, without the aforementioned restrictions.

Commercial Development & Marketing: As mentioned above, during 2016, Tarshop completed its most significant milestone in terms of product development with the full migration of the customer portfolio of "Tarjeta Shopping Pura" to "Tarjeta Shopping VISA", enabling the geographic expansion of credit card coverage, which increased from 47,000 outlets in its traditional version to over 450,000 establishments nationwide. Tarshop also incorporated the entire portfolio of services offered by VISA in Argentina, including Plan V.

Since January 2017 to date, Tarshop originated over 75,800 new accounts, 53% in Branches, 14% through Telemarketing and Digital Media, and the remaining 33% through the Indirect Channel.

In 2017, Digital Media was incorporated as a new Card Origination Channel, where leads may self-apply for a card through a Landing Web.

As concerns Personal Loans, during the last quarter of 2017, Tarshop expanded its placement segments adding Loans for Non-Customers as part of the actions taken with portfolio customers. In this way, Tarshop has continued pursuing its strategy focused on the placement of loans to improve its performance. As to the origination volume, Tarshop placed AR$ 1,334 million in cash at Branches, accounting for a 27.2% increase vis-a-vis 2016. As concerns origination in Indirect Channels, during the year Tarshop worked on enhancing origination quality and discontinued operations in establishments with substantially above-average indexes. At the same time, this action impaired, to some extent, the origination volume, which Tarshop expects to restore through new alliances. As to the Indirect Channel, during 2017 the origination volume amounted to AR$ 588 million.

By end of fiscal year 2016, Tarshop launched 2 products resulting in improvements in terms of customer-oriented services and differentiated commercial offering: Tarjeta Shopping Mobile and Tarshop Más. Tarjeta Shopping Mobile is a mobile application through which customers may check their limits, available balance on-line, cut-off and maturity dates, and last account summary and search for promotions and other services from their devices. Tarshop Más is an exclusive benefit program and last-minute offers targeted at customers enrolled in the program in exchange for a minor monthly subscription fee. During 2017, the Mobile application was downloaded by over 500,000 users, with more than 50,000 customers subscribed to the Tarshop Más service.

In order to improve the credit card product profitability in the face of the rules on transparent prices and reduced fees, Tarshop's strategy consisted of monetizing card balances by granting Plans V to its customer portfolio. During fiscal year 2017, Tarshop recorded AR$ 973 million in Plans V generated by its own sales channels (face-to-face and call center).

In 2017, Tarshop also managed to generate more electronic than paper-based account statements, as a result of ongoing e-statement enrollment campaigns across origination and portfolio customers. At present, e-statements account for more than 52% of the total.

Loan Origination Process: The loan origination process is a mechanism for the review of new customers from the several sales channels. The process is intended to minimize losses on customer’s default, defining suitable customer profiles and applying individual credit limits accordingly. The process is based on the application of a set of credit policies and scores using a series of management tools outlined in credit policy releases and manuals, defined by Risk Management and approved by Tarshop’s General Manager and Risk Committee.

The origination process starts on a decentralized basis through any of the marketing channels. Applications are loaded through any of the tools available for the process and, depending on the selected tool, the assessment may be:

- Automatic: the application is handled by a set of rules embedded into the tool
- Semi-automatic: the process begins automatically but is completed by a credit analyst.

In the course of 2017, all the marketing channels (direct and indirect) relied on decision tools, automatic or semi-automatic, which resulted in the level of manual evaluations shrinking to zero. This feature enabled to reduce discretion in credit decisions, during the assessment application process.

Besides, within the process of origination of direct channels, Tarshop maintained the Blaze Advisor tool it had introduced in the past to manage credit policy rules, algorithms and limit allocation models, maintaining the automation and improvement in evaluation times, along with the flexibility required in time and scope to generate changes in an accurate and timely manner.

The main axes in risk management in 2017 consisted in abstaining from exceeding the level of the portfolio’s projected losses, strongly accompanying business growth either with credit policies in line with growth needs and with the development of special tools and processes aimed at streamlining the origination process for all products. The impact on portfolio risk resulting from such growth was low and was periodically monitored.

In 2017, Tarshop introduced certain changes in credit policies seeking to maintain arrears under control, eliminating risky origination profiles (non-verifiable income) and discontinuing quarterly increases in credit card limits. In the indirect channel, Tarshop established more stringent policies for merchants with higher levels of arrears and more flexible policies for merchants with better performance.

As concerns cash loan origination among portfolio customers, Tarshop eliminated the riskiest segments and raised the amounts lent to the best profiles. All these actions resulted in an increase in the monthly cash origination volume (at higher rates), maintaining arrears levels under control.

The origination procedure incorporates a “quality control” to analyze a sample of proceedings completed by all credit analysts to determine the different deviations from current policies. These controls trigger actions that aim at reducing error margins in the allocation of credit lines and therefore the impact on loan losses.

As concerns the evaluation stages, Tarshop’s Fraud Department interacts in the validation of data enforcing prevention policies through automatic identity validation tools.

Portfolio Analysis and Maintenance: Credit portfolio monitoring is a critical element for risk control, for it helps to avoid and/or reduce future losses where there is evidence of impairment in the customer’s credit profile.

At this stage, risk management involves a follow-up on the composition, concentration and quality of the several credit portfolios in an attempt at identifying patterns or features warranting corrective measures, due to a change in product parameters, the implementation of preventive actions in a group identified as “high risk”, and/or the introduction of changes in credit policies.

As it concerns account maintenance in particular, credit policies governs access to certain product attributes, including actions in respect of the portfolio, whether massive or individual, by applying automatic rules.

Concerning massive actions, in 2017, the Bank completed two massive limit increases with a dual purpose: on the one hand, in order to update previously granted limits and, on the other hand, to maintain the overall card purchasing power. These massive actions were also intended to encourage consumption by and retain low risk customers (as a way to improve the ratio of low risk customers’ average indebtedness to high risk customers’ average indebtedness). The limit increase process embraces a set of exclusion filters which are specified in credit policies; then, a probability of default is estimated in respect of the entire selected universe. The increase percentage is calculated with these two elements at hand, and is then adjusted and massively communicated to customers. In addition, the Bank completed a maintenance process and introduced changes to its limit structure, following the migration of Tarshop’s card processing to Tarshop VISA.

As it concerns the “cash” product, on a monthly basis, Tarshop selects a “suitable” portfolio by way of a risk matrix that the combines Veraz’s “behavioral” score and the internal behavioral score, allocating a maximum threshold according to the likelihood of default of each range.

Information Systems: Tarshop’s Risk Management develops a set of monthly reports in order to monitor, in a timely and adequate manner, the performance of the various credit portfolio segments and risk-management related decisions. Such reports are monthly submitted to senior management to agree upon the necessary actions to maintain high standards in risk management.

These reports allow for instant monitoring through automated dashboards (MIS) of portfolio origination, activation, usage, arrears and overall performance, providing information that helps to introduce improvements in the policy and in the lending process.

Collection Procedure: In 2017, collections were managed based on two differentiated handling tranches: Early Arrears and Long Overdues and Judicial Collection.

Early arrears management is handled through two specialized and renowned external suppliers to support Tarshop’s portfolio growth and do the benchmarking of recovery indicators. The tools employed to develop the strategy embrace a score to predict the likelihood of arrears, which is used for preventive actions and segmentation by risk level, before proceeding to contact debtors. Under this strategy, efforts are oriented to contact debtors to recover the amounts in arrears, or to offer alternatives to pay off the amounts overdue, if debtors are undergoing financial constraints.

Long overdues are handled through collection agencies and legal firms specialized in the segment. These firms conducted their assignments for the terms set forth in collections policy in order to regularize the balances allocated through the use of different recovery tools: payments subject to reduction in the amounts due, plans of payments in installments and re-financing arrangements. Within the Long-overdue arrears sector, Tarshop exerts an operational control over external agencies with the main aim being to audit and undertake the quality control actions over the collections agencies and law firms that render services as Tarshop suppliers.

As regards loan loss provisions, the policies enforced by Tarshop are similar to those established by the Argentine Central Bank. The loan loss provision was raised on the basis of the credit classification performed as per the guidelines concerning the degree of timely debt obligation payment and according to this classification, Tarshop applied the minimum loan loss provisioning guidelines arising from Communiqué “A” 2729 as subsequently amended by the Argentine Central Bank.

Funding: Tarshop continually seeks to strengthen its financial position and liquidity through access to capital markets and adequate funding mix.

Starting in 2010, Tarshop has been implementing a strategy for diversifying its funding sources strongly reducing its exposure in financial trusts and raising its lines of bank loans and structured financing.

In line with this policy, in 2017 Tarshop issued six classes of Notes (Negotiable Obligations) in an aggregate principal amount of ARS 1,379 million under its 2016 Global Program of Negotiable Obligations for up to a maximum authorized amount of USD 200 million.

This way Tarshop maintained an exposure in the local capitals market through this type of instruments for ARS 1,941 million.

As concerns the issuance of financial trusts, Tarshop issued 7 series in 2017 totaling ARS 1,447 million, under its Global Trust Securities Program, for up to an aggregate outstanding amount of ARS 2 billion.

During the same period, Tarshop developed new sources of structured financing with debt arrangements totaling ARS 2,394 million. In addition, Tarshop completed the sale of the performing portfolio.

Technology: In 2017, Tarshop developed and diversified origination channels creating online origination tools for customers' self-service so as to have more dynamic and efficient processes.

The business processes that are supported range from credit initiation, scoring and addition of new accounts, generating interfaces in Prisma for credit cards or additions in Tarshop's internal system for origination of consumer loans, with alternative disbursement options other than cash, including the transfer of the loan proceeds to the customer's account (CBU).

Plastic embossing is currently performed under two modalities. The traditional modality, i.e., centralized embossing, is done by Prisma and sent to the customer by official agents. Embossing at the point of sale is done across all branches, where the customer receives its embossed plastic on the spot, which is good through six months. Following this term, the customer receives a new plastic under the standard effective terms.

The entire processing of the credit card portfolio was transferred to Prisma, which also authorizes the validation of purchase transactions at stores and cash advances from ATMs. In turn, account statement generation, settlement and payment to affiliated merchants for credit card purchase are entirely handled by Prisma.

Some of the most critical processes, such as consumer loan management, customer management, collection management of performing accounts and accounts in arrears, and financial trust administration, are still fully handled through Tarshop's applications.

During the year, Tarshop developed and deployed a world-class tool to manage, administer and follow up on customers' claims. In this way, Tarshop managed to achieve efficiency gains in such process as a result of its automation and integration.

The business core applications are maintained internally. Tarshop's systems department continues upgrading and developing applications to better deliver on the Bank's strategy. Some of the most significant developments include the reengineering of the operating and accounting monthly processes, achieving a high level of efficiency and resource streamlining in the monthly processing.

Tarshop measures all indicators of the business and of the supporting technological platforms, which makes it possible to guide the development of improvements in which the business needs them the most managing the initiatives and attaining an annual availability average of 99.9% for the main processes.

As to the BCP contingency plan, during the year, Tarshop completed a contingency test, with Tarshop running the stated mission-critical processes on the alternative contingency site. This was possible due to the robustness gained and the arrangement pursued during the year, as result of the changes and improvements in technology architecture.

As concerns the branch model, Tarshop started to deploy service referral solutions to offer customers an enhanced experience and also to provide commercial management indicators for analysis and increased exploitation.

According to the valuation criteria established in the generally accepted accounting principles of the professional accounting standards, Tarshop's financial highlights are disclosed in Exhibit E to Banco Hipotecario's financial statements.

5.2.4. BACS Banco de Crédito y Securitización SA

BACS's strategy seeks to grow assets increasing the Bank's financial and operational leverage, reinforcing its positioning as one of the leaders in the local capital market and tapping into new business opportunities to consolidate BACS business model, expanding the credit base and generating synergies with current activities such as origination, distribution and trading. On August 7, 2017, BACS was authorized by the Argentine Central Bank to operate as a first-tier bank. Additionally, in 2017 BACS has continued consolidating its own origination of pledge loans delivering services as manager and boosting its investment banking services. On the other hand, BACS is engaged in the mutual fund management business through Toronto Trust, with AR$ 7,345 million under management as of December 31, 2017.

Also in 2017, BACS took part in investment banking transactions for ARS 75,784 million, including negotiable obligations, financial trusts, provincial and municipal bills and bonds, syndicated loans and short-term securities in a total of 50 transactions, and being the lead agent in 22. In this regard, in 2017, BACS ranked second in the ranking of corporate debt primary issuances and has participated in 28 issuances which, combined, totaled ARS 45,520 million. BACS participated as placement agent in one in every four corporate debt issuances in the local market.

In the secondary market for publicly traded corporate debt, BACS has continued occupying the second position of Mercado Abierto Electrónico's accumulated ranking with a 11.14% market share (in 2016 BACS ranked first with a 14% market share).

During 2017, BACS acquired portfolios of receivables for ARS 380.6 million, originated pledges for ARS 77.3 million, granted advances to financial trusts for ARS 618,128 million and took part in corporate loans for ARS 18,745 million in 19 transactions.

Besides, BACS issued a total of 14 series of negotiable obligations for a total of ARS 2,213 million and continued to enhance its financials which resulted in assets by the end of the year that stood at ARS 2,511 million, which points to a 31% rise compared to the December 31, 2016.

In addition, the trust portfolios under BACS' management amounted to ARS 665 million attributable to its services as general manager.

As of December 31, 2017, BACS recorded a net loss of AR$ 47 million and its shareholders' equity amounted to AR$ 378 million.

Finally, on February 21, 2017, following the Argentine Central Bank's approval, BACS completed the conversion of its convertible negotiable obligations into shares, issuing 25,313,251 new shares. As a result of such conversion, Banco Hipotecario owns 62.28% of the total outstanding shares.

5.2.5. BACS Administradora de Activos SA SGFCI

BACSAA is the management agent for the Toronto Trust mutual funds. BACS acquired a 85% interest in BACSAA in May 2012, when the firm changed its name from its previous "FCMI Financial Corporation SASGFCI" designation to current "BACSAA". This company manages a family of mutual funds that cover a broad range of investment profiles and horizons both from institutional and individual investors. The funds are primarily offered through Banco Hipotecario in its role as Mutual Fund Placement and Distribution Agent.

According to the valuation criteria established in the generally accepted accounting principles of the professional accounting standards, BACSAA's financial highlights are disclosed in Exhibit E to Banco Hipotecario's financial statements.

6. PRO.CRE.AR Bicentennial.

Since its inception, the purpose of the PRO.CRE.AR program has been increasingly guaranteeing the right to have access to a home and with such right, to make the dream of many Argentines of owning their own houses come true and to foster a virtuous circle in the economy. In 2017, the Bank celebrated its fifth anniversary as trustee of the PRO.CRE.AR program, an initiative driven by the Argentine government to address the housing needs of the citizens countrywide.

As of year-end, the program will have provided over 190,000 housing solutions through individual loans for home construction, enhancement, completion, repair and acquisition.

The main focal points of this program include:

- Individual home financing arrangements and urban home development on properties owned by the National, Provincial or Municipal Governments, providing families the possibility to have access to their first home through the acquisition of brand-new housing units at any of the 70 urban developments distributed nationwide.

- A home improvement credit program known as *Línea Mejor Hogar* led by the Secretariat of Housing through which families may access to credit facilities destined for utility connection or home improvements or enhancements, in order to have increasingly safe and quality homes. Banco Hipotecario is the exclusive originator of these facilities.

- A credit facility program known as *Línea Ahorro Joven* aimed at young people from 18 to 35 years old earning both registered and unregistered income in order for them to be able to buy their first home through a mortgage loan. Enrollment in the program was open from October 2 and November 15, 2017. Selected applicants may appear at the Bank since January 15, 2018 in order to initiate a savings process for no less than 12 months to qualify for the loan.

6.1. Individual home financing arrangements.

The individual lines of credit are aimed at the construction, enhancement, completion and refurbishment of homes. Besides, based on the needs of each beneficiary, the program launched new lines of credit targeted at families who wished to construct but could not afford the land and an additional line of credit targeted at beneficiaries who were in the construction process whose loan, as originally granted, was for several reasons, insufficient to complete the works.

The following table shows the number, amount and purpose of the loans granted in 2017:

Line	Number of loans	Amount lent	Proceeds from BHSA's own capital	Proceeds from PRO.CRE.AR.
Home construction	246	AR$ 238 million	X	
Home acquisition	222	AR$ 253 million	X	
Casa Propia program – Acquisition	590	AR$ 292 million	X	
Casa Propia program – Construction	5	AR$ 3 million	X	
Mejor Hogar program – Gas installation	1,192	AR$ 20 million		X
Mejor Hogar program – Materials	76,702	AR$ 1,497 million		X

6.2. Urban Developments.

The Urban Developments line is the second large axis of the PRO.CRE.AR program. It is a line of credit for the acquisition of new homes built under the Program on public land located in urban areas, particularly, in such areas with more pressing housing issues.

The development of urban projects driven by the Program is linked to the policy the Federal Government has been pursuing to strengthen and consolidate social integration processes and to encourage economic growth through home building. This strategy to approach the housing issue brings along the added value of controlling and using urban land for social purposes, helping to limit speculation in real estate transactions.

In this regard, the urban projects are conceived to streamline the use of land and give priority to housing location, foster the development of supplementary activities to residential home building, including commercial and/or productive facilities, and introduce productive systems and materials used locally. In addition, a significant portion of these developments includes the construction of social equipment and green and recreational areas. The needs of new and old residents of the area are hence satisfied, generating room for social integration.

From the architectural standpoint, the urban development projects seek to combine different types of housing in order to generate certain diversity in terms of social composition, scale and aesthetics, while also generating varying appropriations by the community. These types may also be extended according to the needs of each family. Each type of home has a quality design in both its functional (comfort and sufficient room space) as well as in its aesthetic aspects, and is built abiding by high quality standards for materials and finishing. In addition, these homes are built considering the needs of people with disabilities, who will account for a significant number of the future beneficiaries of these developments.

In summary, the smart use of public land streamlines the use of land and helps to recover its social value. The development of urban projects, with their respective supplementary infrastructure, reveals the intent of conceiving the housing right from a comprehensive point of view, oriented to the quality of life of broad social sectors.

With presence across all Argentine provinces, except for Catamarca, below is a detail of Urban Developments' highlights as of December 31, 2017:

- To date, 70 lots of land have been awarded and are underway, accounting for 68% of total lots auctioned under the program.

- Housing units under construction: 23,500. Total area of projects under construction: 2,197,650 square meters.

- Investment in Works: As of December 2017, investment in civil works amounted to ARS 33,000 million (including lots with utilities), while investment in infrastructure amounted to approximately ARS 2,500 million. In addition, the program invested in infrastructure links outside the lots (over ARS 1,000 million invested), resulting in a great development for communities and improving their residents' quality of life. These investments are tied to productivity, competitiveness, economic growth, public investment, poverty reduction and equal opportunities. Infrastructure development strategies have always been characterized for their boosting effects on public and private investment, as well as on social mobility.

- Raffles and Deliveries: As of December 2017, 35 lots were raffled, accounting for a total of 6,198 homes. Delivery to the winning beneficiaries commenced during the second half of 2017. As of December 31, 2017, 5,244 housing units had been delivered under the program.

- Lots with Utilities: At present, there are approximately 8,461 lots under construction. As of December 31, 2017, 5,390 lots were raffled, with 918 of them having been delivered to beneficiaries.

6.3. Public-Private Partnerships.

The Public-Private Partnership model was implemented within the framework of the strategies driven by the Under-Secretariat of Urban Development under the purview of the Ministry of the Interior and Public Works. Under this type of partnership, the government provides the land and private real estate developers provide the capital and labor required for the project.

Under this program, real estate developers and intermediate institutions are called for to participate in a public bidding pursuant to which land suitable for construction of housing units is bartered for finished units.

The government sets aside the units received as trade-ins for beneficiary families under the PRO.CRE.AR program, while the other units are freely available for the developer.

To date, three public biddings were conducted in Rosario, Santa Fe and Bariloche. The public bidding held in Rosario has already been awarded, while the public biddings held in Santa Fe and Bariloche are still pending. A call for “expressions of interest” has been recently released, involving 21 new lots, indicating the existing high expectations in this line.

7. Strategies for 2018.

In 2017, BH initiated a transformational process aimed at gradually balancing the Bank's goals, whilst reaching efficiency, profitability and liquidity ratios similar to the industry's benchmarks, preserving its shareholders' equity in real terms over the time.

In this framework and giving priority to the Bank's solvency and liquidity, the following focal points will be consolidated during 2018:

- Subordinating asset growth to the growth of the Bank's core liabilities, whilst balancing consumer and commercial portfolios both in terms of their several components and in relative terms amongst them.
- Increasing core liabilities, namely, individuals' sight accounts and fixed term deposits, through commercial campaigns, focused on digital origination and cross-sell actions.
- Boosting Retail Banking, particularly, cash management services, paying agent services, payroll account agreements, interest-bearing accounts and tax payments (AFIP).
- Developing Digital Banking, with special emphasis on borrowing products and an enhanced customer's experience.
- Maintaining the Bank's leading position in the primary and secondary mortgage market, leveraged on new credit facilities, securitization of previously granted UVA-linked mortgage loans, and digital origination of mortgage loans.
- Maximizing profitability per customer through incremental cross-selling efforts, underpinned by the deployment of retail and wholesale product bundles.
- Executing the budget on the basis of a new expenditure management model, involving and engaging each area and sector in the project.
- Arranging policies and processes embracing a more efficient working methodology leading to mitigate operating risks and allowing for adequate project planning in line with the long-term strategy.
- Empowering people development, identifying talents and rewarding the effort and commitment, through career paths and growth opportunities.

This is how BH aspires to deploy its strategic plan in 2018, while permanently monitoring macroeconomic variables and accommodating the strategy to potential changes in the prevailing scenario.

Autonomous City of Buenos Aires, February 15, 2018

THE BOARD OF DIRECTORS.

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5. COMMUNITY ACTIONS
6. STRATEGY FOR 2018

*In addition, the Bank will publish Sustainable Management indicators to report on economic, social and environmental impact, according to the international standards of the Global Reporting Initiative (GRI). The Bank will continue using the G4 version and the Supplement for Financial Services. In such publication, the Bank will also include quantitative data referred to NGOs proposed by employees with whom the Bank has built a sustained relationship over the time.

SUSTAINABILITY REPORT.

1. LETTER FROM THE CHAIRMAN

Being part of an organization entails a real commitment to the community. Since more than 130 years now, Banco Hipotecario has committed to social development, helping thousands of Argentine citizens to make their dream of having their own home come true.

This report compiles the Bank's financial highlights for fiscal year 2017, along with the social impact of its business during that period. The information on which this document is based is the result of the efforts of all of the Bank's employees, who display a sustained and comprehensive sense of belonging.

In a dynamic country such as Argentina, we should all watch out for looming changes. As a socially responsible institution, we will continue cooperating actively in the promotion of collaborative and inclusive spaces. The present demands answers from us and we are challenged to keep honoring our mission to strengthen Argentina's social foundations.

I invite all of you to learn about our Bank's sustainable management actions in 2017. I invite you to be part of it.

Autonomous City of Buenos Aires, February 15, 2018

Eduardo S. Elsztain
On behalf of the Board of Directors

2. RELATIONSHIP CULTURE

In the face of the needs of our society and amidst an open dialog with several NGOs countrywide, Banco Hipotecario fosters programs that address several topics. This is how the Bank builds a relationship with its value chain, encouraging plural meetings where all voices are heard. Employees, customers, shareholders, suppliers, the government, private-sector peers, and the media are all core pillars to build solid bonds that may go beyond time.

The annual budget for donations is approved by the Committee of Social and Institutional Affairs. The Bank sets aside 5% of its net income to social projects and programs, aligning social investment to the business strategy. This comprehensive idea about the Bank’s social mission and its business strategy was materialized through the inclusion of our Social Report in the Bank's Annual Report and Financial Statements and through the development of the Corporate Social Responsibility Policy endorsed by the Board of Directors.

The Committee of Social and Institutional Affairs is one of the Board of Directors’ eleven decision-making committees. Specifically, in addition to approving the annual budget for donations, it designs the social investment guidelines that guide the relationship with the civil society organizations.

Community Building.

Over its 130 years of history, the Bank, jointly with several members of its value chain, held a meeting in which participants built a mockup comprised by 130 homes. This collective creation represented the organization's spirit and its approach to “community building,” a concept that embraces the Bank's social commitment and business strategy.

In organizing this event, the Bank called for Vivienda Digna, a natural strategic partner given its mission of fostering human development through access to decent housing and a suitable environment. Both entities have built a close and long-standing relationship, through several joint projects in the community.

Vivienda Digna gathered recycled materials (wood, metal, mosaic tiles) that were part of its social yard in Boulogne to build each home.

Before the event, each of the 130 participants received at their workplace a kit with instructions and all required materials to build a home of their own design. Participants had to attend the event with their homes already assembled to jointly create a large mockup of a city.

The event was attended by the members of the Board of Directors and employees from several areas, customers, suppliers, private-sector peers and media representatives specialized in Corporate Social Responsibility. During the event, Eduardo S. Elsztain, the Bank's Chairman, asserted that: “Since its inception, social responsibility was present in the Bank's DNA making the dream of thousands of Argentine families of having their own home come true.”

With a strong commitment to building sustainable relationships with the communities where the Bank has a footprint in all Argentine provinces, the meeting added value and meaning to the motto of "getting things done in community." The covers of the 2016 Sustainability Report were unique, each of them depicting a snapshot of the mockup created during the event.

Aerial snapshot of the mockup assembled by all attendants during the event

Community Building.

Institutional Meeting at Fundación SI.

In November 2017, the Institutional Relationships and Corporate Banking areas of the Bank visited Fundación Si, to strengthen its intrinsic spirit of solidarity culture.

During the meeting, the Bank's employees learned about the foundation's social programs and the strategic role of social investment to drive community development.

Mr. Manuel Lozano, Chairman of Fundación SI, focused on two specific focal points supported by the Bank since the beginning: education and homeless people. The foundation has 5 university campuses located in the provinces attended by 120 students and plans to open 3 additional campuses in 2018. At present, there are 26 cities where volunteers carry out the traditional night tours, visiting over 1,500 people per year.

The Bank's Social Affairs area delivered an institutional presentation to raise awareness among the employees of the Corporate Banking area about Social Investment Guidelines, the programs sponsored and the diverse range of projects supported by the Bank.

As proof of enthusiasm for having been part of this event, Ignacio Uranga, manager of the Corporate Banking area, asserted that: "These experiences are unique as they strengthen the group and nourish institutional identity. I am extremely grateful for having been part of it with the entire team".

3. SUSTAINABLE MANAGEMENT.

It is the Bank's policy to manage resources with responsibility, striking a balance between quality assets and liabilities, whilst preserving its financial strength and liquidity and ensuring the transparency and sustainability of its operations.

Accordingly, during fiscal year 2017 the Bank led a number of sustainable actions that yielded outstanding results, namely:

Financial Impact
- Net income for the year of AR$ 1,593.4 million.
- Origination of personal loans in the amount of AR$ 3,307 million.

- Through the individual credit facilities granted under the PRO.CRE.AR. program, the Bank extended 78,857 credits nationwide, for the following purposes: home building, land acquisition and construction, home enhancement and refurbishment, under the Mejor Hogar program.
- The Bank managed to build a loyal portfolio of over 1,560,000 operational cards.

Social Impact

- Interaction with 578 NGOs.
- 223,094 people supported by our programs.
- AR$ 37 million invested in the community.
- 58 organizations sponsored by volunteers participated in the program to strengthen solidarity initiatives.
- 312 volunteers.

Every year, the Bank publishes its major sustainable management milestones in its Comprehensive Annual Report and in its Sustainability Report.

On November 28, 2017, the Social Ecumenical Forum rewarded the Bank for having the best Corporate Social Responsibility report, within the framework of the 8th Edition of the Award to the Best Social Report among Argentine Companies. “In line with our transparency policy, for 11 years now, we have been reporting on the financial, social and environmental impact of our business to all our stakeholders.”

Paula Solsona received the Award to the Best Social Report among Argentine Companies in 2017, on behalf of the Bank.

In this way, Banco Hipotecario consolidates it role as a Corporate Social Responsibility benchmark, strengthening its social work in the community, acknowledging that all its current operations have a positive impact looking forward.

4. SOCIAL INVESTMENT GUIDELINES.

In 2017, the Committee of Social Affairs redefined the Bank’s social investment guidelines, with special focus on strategic pillars, such as education, leadership training, voluntarism, social inclusion and direct assistance.

In this regard, the matrix described below is aligned with the Bank's identity and vision, through which it interacts with civil society organizations, building medium and long-term strategic alliances.

By applying this matrix, the Bank can get a clear picture of the manner in which it wants to relate to exert a positive impact on the communities in which it has a presence. The structure of this tool has 4 axis and their related categories:

4. A. EDUCATION.

Access to education is key to the development of every human being and for their future growth opportunities. The Bank encourages educational programs that empower the deployment of each individual's potential.

Training: Training delivered to people with an active role in the educational system based on methodologies that foster engagement and thought about teaching practices.

Infrastructure: Infrastructure improvements in Argentine rural schools through local development.

4. B. CITIZENSHIP.

Active citizenship fosters the development of a community committed to common welfare. The Bank encourages projects and spaces that recognize other people's views and foster dialog and leadership to build upon knowledge and growth for all of its members.

Dialog: Building communities that foster values such as pluralism, diversity, ownership and coordinated and comprehensive team work, underpinned by ongoing interreligious, cross-cultural, social and political dialog.

Leadership Development: It fosters the development of forward-looking business, political and social leaders that foster the development of community players as change agents and drive people's empowerment in their action areas.

Voluntarism: It entails the solidarity work of several people who disinterestedly contribute their own resources, skills and time to cooperate with NGOs. Voluntarism may take several forms, including organizations whose mission is only brought to life through voluntarism, voluntary actions of the Bank's employees at soup kitchens, shelters and schools associated to their self-referential world, and/or solidarity campaigns or specific voluntarism actions sponsored by the Bank.

4. C. INCLUSION.

Human welfare embraces people and environmental safety, access to material things to have a decent life, good health, and strong social relationships. The Bank supports projects that foster opportunities and resources for people to live a plenty life.

Job Placement: Access to the job market by people from vulnerable communities through the development of skills, tools and trades to deploy their potential and be part of the society.

Addictions: Drug use and abuse prevention and care, along with research and training delivered to multipliers.

Violence: Elimination of any form of violence, abuse and discrimination against women, adolescents and kids through assistance, prevention, training and research activities.

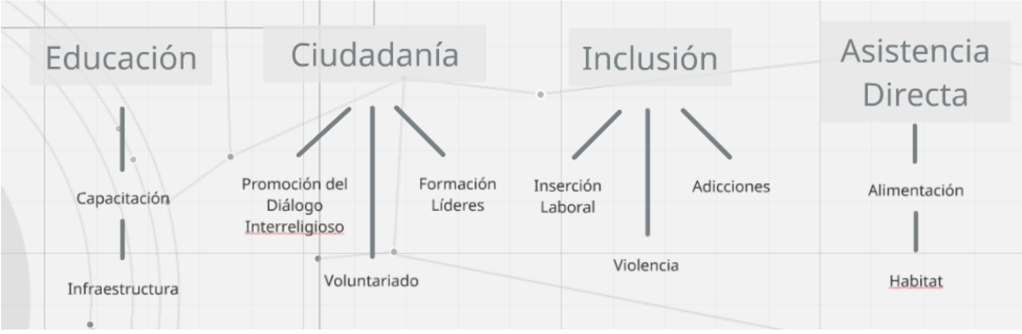
4. D. DIRECT AID FOR EMERGENCIES.

The Bank makes direct and immediate contributions in the form of financial and material resources to address core social issues that endanger human dignity.

Environment: Support to organizations that strive to guarantee a decent environment in the several communities of our country.

Food: Support to organizations that work to provide food to several vulnerable sectors.

This new way of developing strategies in connection with social investment actions in the community was deeply analyzed by direct reference to space and time variables, in order to weigh the scope of our social programs and bring the management tool into life.



4. E WEIGHING VARIABLES.

1. Geographical Scope: It embraces the impact of NGOs and their projects on the territory (at the regional, national or local level).

   Regional: An organization with impact on a region where the Bank exerts significant influence, actively connecting the branches to community activities.
   National: An organization whose programs have an impact nationwide.
   Local: An organization whose programs have an impact on its community district.

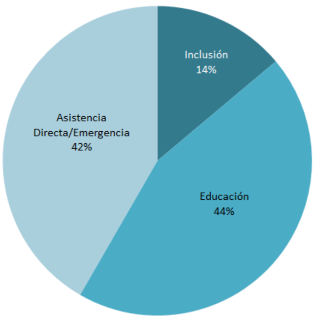
2. Time: Refers to the support and sponsorship to organizations and projects over the years. This variable embraces the short-, medium-, and long-terms.

   Long-term: Over 7 years
   Medium-term: From 3 to 7 years
   Short-term: From 1 to 3 years

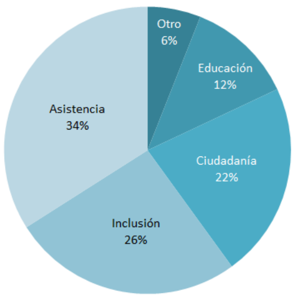
Each category and variable has a score built upon a total of 100 points. Through this weighing, the Bank is able to analyze each project according to the matrix built and assess how correlated they are to the Bank's new guidelines.

In 2017, out of the Bank's total private social investment (PSI), 27% was allocated to solidarity initiatives brought forward by our employees, while 66% was allocated to strategic social programs in partnership with NGOs. The remaining 7% was set aside to establish a fund available for future community actions.

PSI Distribution in 2017, as per applicable guidelines
Employees' solidarity initiatives



PSI Distribution in 2017, as per applicable guidelines
Social programs in partnership with NGOs



5. COMMUNITY ACTIONS

Program for Customers' Adherence to Automatic Debit in their Credit Cards.

In order to strengthen its role as a social agent, the Bank offers customers the possibility of contributing to several NGOs by way of monthly or one-off direct debit donations.

The Bank initiated the Program for Customers’ Adherence to Automatic Debit in their Credit Cards by mid-2013 in association with an NGO called TECHO; and then with Cáritas one year later. Since January 2017, Manos en Acción has also joined this initiative. Paula Solsona, Manager of Social Affairs, asserted that “The most interesting thing about this action is the ability to offer our core asset, that is, our customer portfolio, for the sustainability of these NGOs. Moreover, it has been proved around the world that the individual donor is actually the engine that drives change and transformation.”

Specifically, the Bank acts as promoter of this sustainable management tool, contributing its broad business expertise and making available employees from several strategic areas to work on the program. The Telemarketing area, as direct liaison with the NGOs, delivers training to a group of representatives, in charge of calling the Bank’s customers to invite them to make monthly or one-off donations to one of the three NGOs participating in the program. It should also be noted that this program poses a unique opportunity to create employment and disseminate Argentina’s most urgent social needs.

Each representative has, on average, 1,000 pieces of data per month. Banco Hipotecario’s Business Intelligence area compiles the databases, and the data subjects are contacted for the purposes of this solidarity action only. According to Paola Vaccaro, CEO of Manos en Acción, “Banco Hipotecario gives us the opportunity to reach its customer base to tell them who we are and what we do. NGOs find it difficult to access databases and calling potential donors from inside the bank reinforces trust among them. Therefore, efficiency levels are very high and the outcomes are superior”.

Since the launch of the program, the participating NGOs have raised over ARS 30 million contributed by more than 26,000 customers of the Bank. Josefina Van Thienen, Country Director of Fundraising at TECHO, asserted that: “It is unbelievable how hard it still is to break traditional paradigms and convince organizations they have to invest to reach more donors and that companies have more impact potential acting as a bridge to new donors than merely making donations out of their CSR budgets.” Moreover, María Lagos, Coordinator of Cáritas’ Resource Development area, asserted that “as it concerns the base size, 51% of the donors are customers of the Bank. They account for 42% of monthly revenues.”

CONCEPTO	TECHO **	CÁRITAS	MANOS EN ACCIÓN ***
Inicio	Julio 2013	Marzo 2014	Diciembre 2016
Operadores	8	4	4
Inversión inicial BH	$3MM	$4.8MM	No aplica
Tiempo refinanciación	4.5 meses	9 meses	6.23 meses
# prom adhesiones mensuales	386	533	119
Stock donantes activos	11.265	13.693	1.389
$ promedio mensual	$174.91	$95.22	$147.01
Resultado acumulado	**$15.2MM**	**$17.1MM**	**$204.2M**

** Fuente de información: TECHO, Cáritas, Manos en Acción y Gcia. de TMKT.*
*** TECHO inició la campaña con 4 operadores. A partir de mayo de 2016 han duplicado la #.*
*** Manos en Acción inició la campaña con 2 operadores. A partir de abril de 2017 han duplicado la #.*

These outcomes were reported by media representatives specialized in CSR in early November, consolidating one of the core pillars of the Bank’s sustainability strategy.

Institutional Campaigns.

Historically, the Bank has urged its employees to participate in several institutional campaigns, aimed at supporting people in need, through baseline NGOs nationwide. Every year, the Bank undertakes a new challenge with the potential to surpass the previous year's outcomes. Creativity is at the core of the development of each new campaign, making smart and responsible use of resources, with the engagement of all employees. Campaigns pose a unique opportunity to empower volunteers and raise awareness among the branch network about the specific features of each local district.

In 2017, the Bank held its 5 institutional campaigns: “School Supplies”, “Easter”, “Winter”, “Kid’s Day”, and “Christmas”. Particularly, within the framework of the Kid's Day campaign, the Bank collected books, music CDs and kid’s movies in DVDs to give away to the outpatient department of the kid's hospital Ricardo Gutiérrez.

INSTITUTIONAL CAMPAIGNS	SCHOOL SUPPLIES	EASTER	WINTER	CHRISTMAS
Participating branches	61	52	46	54
Beneficiary organizations	147	154	114	157
Recipients	7339	52960	24000	98880

School Supplies campaign - Madre Micarelli shelter - Formosa

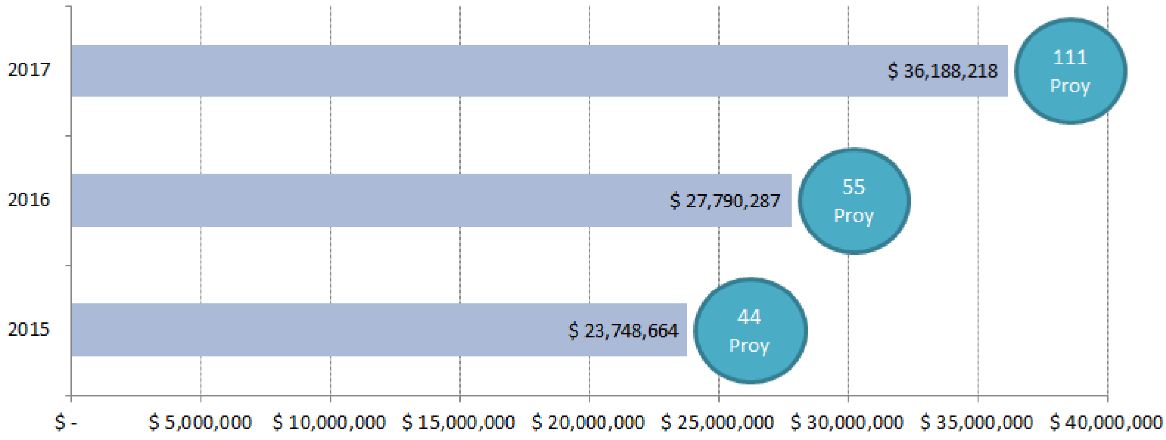
Easter campaign - Los Costeritos kitchen soup - Rosario

Christmas Campaign – CILSA – Buenos Aires

Patronage Law.

Since 2011, the Bank has been actively championing for the “Law for the Cultural Promotion of the City of Buenos Aires”, also known as the Patronage Law, which fosters culture from a comprehensive standpoint. In 2012, the Bank strengthened its sponsorship to this initiative by including its affiliates.

The Patronage Law fosters the approach to new civil society organizations and artists with outstanding performance in different disciplines. The law also endorses the cultural interest of the projects. The Bank



supports several initiatives, with special emphasis on those submitted by new generations of artists, offering them opportunities to deploy their potential talent, as well as cultural heritage preservation and enhancement projects.

In 2017, the Bank truly reinforced its role as philanthropist as it was recognized by the Argentine Ministry of Culture as one of the top ten patronage companies in the City of Buenos Aires. In addition, the Bank doubled the number of sponsored projects vis-a-vis 2016 and, in seven years, gave away over AR$ 90.5 million. In this way, not only does the Bank expand the network of NGOs it supports, but it also gives employees the opportunity to participate in cultural shows and guided visits or to receive printed art publications.

Visit of the Bank's employees to Luis Felipe Noé's exhibition displayed at the National Museum of Arts – July 2017

Donation to Mariano Moreno National Library.

In order to support local culture and fosters its preservation, in August, the Bank made one of the most significant contributions to Argentina's cultural heritage by donating 17,000 pieces of the personal library of Adolfo Bioy Casares and Silvina Ocampo to the Mariano Moreno National Library.

Since 2012, the National Library and the Jorge Luis Borges International Center has engaged private entities, individuals and the Argentine government to achieve this major cultural milestone. It is one of the last "signature" libraries that still remains in the country; its literature and briefs will be extremely valuable for many researchers to be able to rebuild a portion of the Argentine history.

In addition to the Bank, some other major donors include the Bunge y Born Foundation, Banco Galicia, the Páremai Fractal Foundation and several individuals. Thanks to their commitment, this treasure of the Argentine cultural heritage will be available for the general public.

Individuals, corporate donors and representatives of the National Library on the donation day. On the front, from left to right: Marina Gancia, Claudia Paluszkiewicz (Marval, O´Farrell & Mairal), Alix Born (Bunge y Born Foundation), Silvia Rivello (Páremai Fractal Foundation), Sandra Sakai, Ricardo Torre, Anna Gancia. On the back, from left to right: Eduardo Elsztain, Eduardo Escasany, Alejandro de La Tour (Bunge y Born Foundation), Marcela Zinn, Cecilia Bullrich, Elsa Barber (National Library's Assistant Director), Alberto Manguel (National Library's Director), Victoria Copes Scarano (Authorizing Notary Public).

The Museums' Night

On November 4, 2017, Banco Hipotecario's headquarters opened up its doors for the second consecutive year, from 8 pm to 3 am, during the traditional "Museums' Night", organized by the government of the city of Buenos Aires, having received 3,420 visitors.

The Bank's Media department was in charge of the overall organization of the event, with the engagement of several other areas, including technical support, maintenance, advertising, procurement, opinions and contracts, architecture and design, infrastructure and asset management, organizational development, and security.

The exhibition consisted of two tours: a commemoration of the Bank's 130th anniversary featuring photographs, historical objects and audiovisual content, and a tour around the Bank's headquarters building, declared "National Historical Monument" in 1999. During the night, visitors could see an audiovisual with information about the technical features of the building and have a look at unreleased pictures of the construction process of this Argentine modern architecture piece.

6. STRATEGY FOR 2018.

Banco Hipotecario strives to develop Retail, Wholesale and Investment Banking, seeking to strike a balance between quality assets and liabilities. To this end, the Bank deliver all types of financial services, with special emphasis on comprehensive housing solutions, including investments, consumer loans, mortgage loans, and financial self-service. The Bank is also a leading financial entity in construction project management. Focused on process, project and expenditure efficiency, the Bank seeks to manage its business from a sustainable and comprehensive approach.

Based on these goals, the Bank builds long-lasting bonds with individuals, families, organizations and the communities in which it has a presence nationwide; creating meeting and relationship points with its value chain (employees, customers, communities where it has a presence, suppliers, corporate peers and the media) and honoring its mission: growing as an organization supporting the society's progress.

After 11 years from the creation of the Social Affairs area and after having gone a long way as a socially responsible enterprise, in 2018 the Bank will announce its new Social Investment Guidelines, following the redefinition process carried out in 2017. In this regard, the Bank developed a strategy for its community relationship focal points, with special emphasis on promoting education, building citizenship, providing direct assistance, and fostering social inclusion.

Social investment will continue to be closely aligned with the business strategy. In this regard, The Bank will continue setting aside 5% of its profits to support several civil society organization nationwide, in order to foster the development of their projects and initiatives nationwide.

The Bank will professionalize the Program for Customers' Adherence to Automatic Debit in their Credit Cards, by developing a process that will set forth the terms and conditions for candidate NGOs. This pilot test will allow eligible NGOs with whom the Bank interacts to participate in the program, providing a new and genuine path to capital raising through individual donors who are customers of the Bank. In this way, inclusion and diversity will be ensured for participating organizations.

As a federal bank with presence nationwide, the institutional campaigns will continue to drive the relationship with NGOs in local communities, empowering volunteers as leaders who are capable of conveying the spirit of solidarity inside and outside the organization.

In 2018, it will be crucial for the Bank to continue expanding voluntarism, a key pillar of our organizational culture. The institutional campaigns will help to strengthen the team, empower volunteers, and foster local development. In addition, the Bank will work on holding engagement meetings to keep its senior management abreast of the several social actions that were defined, in an attempt at consolidating the organizational culture. The Bank will also launch a Professional Voluntarism Program under which employees will be able to provide their know-how to several NGOs in order to meet their specific needs (including financial advice, technical support, strategic planning, legal advice, etc.).

The Bank will also give direct support to civil society organizations committed to the development of education as a core pillar for the social change. In this regard, relevance will be given to projects aimed at training students and people with an active role in the educational system, based on methodologies that foster engagement and thought about teaching practices. The Bank will also continue enhancing the infrastructure at several rural schools nationwide.

In 2018, the Bank will continue developing its "Towards Collaborative Leadership" program in partnership with organizations that foster the development of business, political and social leaders, devising strategic actions that will translate into research and professional training projects, empowering them as change agents in their action areas

The Bank will also support NGOs engaged in delivering food to several vulnerable communities and that strive to provide a decent home to families nationwide. These types of actions support and make sense out of BHSA's social mission.

The Bank will continue sponsoring NGOs engaged in social inclusion that favor reciprocal aid, human development and community organization processes, with special emphasis on job placement, prevention of addictions, and aid to victims of violence (gender-based violence, bullying, abuse).

The Bank's senior management will continue to visit NGOs, since this initiative is a way of managing its sustainable strategy, by raising awareness among employees.

Like every year, the Bank's comprehensive management actions will be released in the Comprehensive Annual Report, a distinctive institutional document addressed at shareholders and business chambers that embeds the Bank's social and environmental impacts into its traditional Annual Report and Financial Statements. Finally, the Bank will publish its 7th Sustainability Report on its website, according to the G4 release of the Global Reporting Initiative (GRI) guidelines.

CORPORATE GOVERNANCE CODE TABLE OF CONTENT

PRINCIPLE I.	**The relationship amongst the issuer, the conglomerate that it heads and/or is part of and its related parties must be transparent.**
PRINCIPLE II.	**Lay the groundwork for the issuer to rely on robust management and supervision.**
PRINCIPLE III.	**Endorse an effective policy for identifying, measuring, managing and disclosing enterprise risk.**
PRINCIPLE IV.	**Safeguard the integrity of financial reporting resorting to independent audits.**
PRINCIPLE V.	**Respect shareholders' rights.**
PRINCIPLE VI.	**Maintain direct and responsible bonds with the community.**
PRINCIPLE VII.	**Remunerate equitably and responsibly.**
PRINCIPLE VIII.	**Foster enterprise ethics.**
PRINCIPLE IX.	**Further the scope of the code.**

REPORT ON CORPORATE GOVERNANCE CODE.

This report has been prepared following the guidelines set forth to this end by the Argentine Securities Commission in good corporate governance matters according to which managerial teams are to produce information specifically concerning the actions of the Board for the benefit of shareholders as a whole and the market at length.

According to the requirements laid down by the Argentine Securities Commission, for each one of the items described below, we have indicated the degree of compliance as “total compliance”, “partial compliance” or “non-compliance” with the recommendations of the Corporate Governance Code incorporated by the resolution mentioned. When applicable, we have reported or explained the reasons for the degree of compliance.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
PRINCIPLE I. THE RELATIONSHIP AMONGST THE ISSUER, THE CONGLOMERATE THAT IT HEADS AND/OR IS PART OF AND ITS RELATED PARTIES MUST BE TRANSPARENT				
The corporate governance framework must:				
Recommendation I.1: Guarantee that the Board discloses the policies that apply to the relationship amongst the Issuer and the conglomerate that it heads and/or is part of and its related parties.				
The Issuer has internal procedures or policies to authorize transactions with related parties in accordance with Section 72 of Law No. 26,831, Transactions with shareholders and Board members, senior management, and statutory auditors and/or members of the supervisory committee within the purview of the conglomerate that it heads and/or is a part of.	X			Given a juridical act or contract with a related party that involves a relevant amount, the Board satisfies the requirements and follows the procedures prescribed by Section 72 of Law No. 26,831 and reports the transaction in conformity with the provisions of the Public Offering Transparency Regime. Having said this and on account of the Company being regulated by the Financial Institutions Law, the Board applies the provisions under Section 28, Sub-section d) of the above-mentioned law and the regulations issued by the Argentine Central Bank to the relationships amongst the issuer, the conglomerate, shareholders and parties directly and indirectly related to them. Broadly speaking, the issuer is prohibited from conducting transactions with directors, managers and with entities or persons related to them on a preferred basis and any financial aid conferred to related entities and persons can never exceed the following percentages calculated on the basis of its regulatory capital (*responsabilidad patrimonial computable*): (i) 5% in unsecured transactions and (ii) 10% when transactions that demand certain security interests are computed. Pursuant to the rules of the Argentine Central Bank, the issuer –at the time of filing its financial statements- provides a detail of the companies related to its directors and shareholders. Additionally, the Board of Directors receives every month a report prepared by the highest-ranking management officer with an intervention from the Supervisory Committee that accounts for all the financial aid granted to related entities and persons and has this situation acknowledged at the relevant meeting.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
Recommendation I.2: Make sure that the company has mechanisms in place to prevent conflicts of interest.				
The Issuer has, irrespective of currently applicable rules and regulations, clear and specific policies and procedures to identify, handle and resolve any conflicts of interest arising amongst the members of the Board of Directors, senior management and statutory auditors and/or supervisory committee members in their relationship with the Issuer or with the Issuer's related persons.	X			The Corporate Governance Code (section K.4.) and the Code of Ethics (Section b) lay down the policies concerning conflicts of interest. In its sections dealing with Directors, Managers and the other personnel, the Corporate Governance Code lays down their duties in this respect. In turn, Section P.5. prescribes how to resolve conflicts when they arise amongst group companies. As a highlight of the above-mentioned sections, please find below a detail of the issues that could qualify as conflicts of interest for the offices of Director or Manager and the actions that these officers must implement in those instances: (i) Directors or Management members or their spouses or their relatives by consanguinity or adoption on a straight line or collateral relatives up to the fourth degree inclusive or their next of kin within the second degree or a conglomerate where Directors or Management members hold a significant stake in their own name or through relatives who hold more than 10% of the voting rights and/or ownership interests or when, holding a smaller percentage, they are entitled to elect at least one Board member in that Company, receive inappropriate personal benefits by reason of their services as Company director, (ii) when the requirements imposed by Sections 271, 272 and 273 of the Argentine Companies Law No. 19,550 are fulfilled, (iii) engage in the same line of business as the Company or hold an ownership interest in a company that competes with the Company save for investments of less than 2% of capital stock in listed companies, (iv) take part in processes to place an issuance of securities, in which case they shall only be able to acquire or offer to buy such securities directly or indirectly under the conditions and assumptions fixed by the Argentine Securities Commission to the extent that their involvement in said placement process has not come to an end, (v) deprive the Company, for their benefit or for a third party's benefit, of opportunities to sell or buy assets, products, services or rights, (vi) hold a personal interest in a transaction that involves the Company, a competitor, a client or a supplier, (vii) exert influence on the adoption of decisions or courses of action in order to safeguard or improve any particular investment or financial interest held in a firm to which the Company relates, (viii) exert decisive influence for the Company to hire a firm as supplier, contractor, agent or representative when such firm is owned or run by close relatives or employs close relatives in high-ranking positions or on the board, (ix) provide goods or services to the Company except in the event of the Director forming part of associations of liberal professions that render advisory services to the Company as independent contractors in which case the Director shall refrain from participating in the hiring process and (x) when related to the Company in his/her own name or through a third party, borrows from the Company under preferential terms.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
	X			The Director or member of Management must report to the Ethics Committee and/or to the Board sufficiently in advance on the existence of any situation that could cause him/her any conflict of interest with the Company even if such situation was not included in the preceding non-exhaustive list. The Director or member of Management with interests contrary to the Company shall abstain from participating in the debates concerning the issue or issues involved in the conflict of interest and from voting the relevant resolutions. In order to determine the existence of a conflict of interest when there is suspicion of non-compliance by a Director or member of Management with the standards laid down in this Code, the Board of Directors shall consult the Audit Committee before considering and resolving the issue. The Director or member of Management who does not take any action to prevent conflicts of interest or fails to timely advise the Ethics Committee and/or the Board of Directors of the existence of conflicts of interest that affect or may affect him/her shall incur in misconduct punishable with the penalties that may be imposed by the Company and/or the oversight authorities (Argentine Central Bank, Argentine Securities Commission, Buenos Aires Stock Exchange) by virtue of Section 59 of the Argentine Companies Law No. 19,550, Section 41 of Law No. 21,526 and Section 132 of Law No. 26,831. The provisions under Section 20 of Law No. 26,831 shall also be considered in this regard because they refer to the powers with which the Argentine Securities Commission has been vested when the surveys that it undertakes find that the interests of minority shareholders and/or holders of listed securities have been damaged.

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<tr><th rowspan="2"></th><th colspan="2">COMPLIANCE</th><th rowspan="2">NON-COMPLIANCE</th><th rowspan="2">REPORT OR EXPLANATION</th></tr>
<tr><th>TOTAL</th><th>PARTIAL</th></tr>
<tr><td colspan="5">Recommendation I.3: Prevent the undue use of inside information.</td></tr>
<tr><td>The Issuer relies, without prejudice to currently applicable rules and regulations, on accessible policies and mechanisms to prevent the undue use of inside information by the Board of Directors, senior management, statutory auditors and/or supervisory committee members, controlling shareholders or shareholders exerting significant influence, participating professionals and the other persons listed in Sections 102 and 117 of Law No. 26,831.</td><td>X</td><td></td><td></td><td>As concerns the use of inside information, in conformity with the provisions under Law No. 26.831 and by virtue of the provisions under Section 39 of the Financial Institutions Law, the Bank's Corporate Governance Code (Section K.2.) and its Code of Ethics (Section i and the section on Confidentiality) lay down the policies concerning the use of inside information.

In this respect, the directors and members of senior management shall keep in secret the discussions maintained at the meetings of the Board of Directors and the Committees that they attend and shall refrain from disclosing information accessible to them by reason of the performance of their respective duties, irrespective of the relationship they may have with the shareholder that appointed them. In particular, they must keep in confidence any information concerning any fact not publicly disclosed and that, given its importance, may affect the placement or the course of trading in securities authorized for listing or forward contracts, futures and options. This notwithstanding, they will be exempted from their secrecy or confidentiality duties when the laws allow this information to be released or disclosed to third parties or mandate its disclosure in the event of requests from the courts or the oversight authorities and when this is the case, the delivery of information shall abide by these laws.</td></tr>
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	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
PRINCIPLE II. LAY THE GROUNDWORK FOR THE ISSUER TO RELY ON ROBUST MANAGEMENT AND SUPERVISION				
The corporate governance framework must:				
Recommendation II.1: Ensure that the Board of Directors manages and supervises the Issuer and provides it with strategic direction.				
II.1.1: the Board of Directors approves: II.1.1.1: the strategic or business plan, as well as annual management goals and budgets, II.1.1.2: the investment policy (in financial assets and in capital expenditures), and the financing policy, II.1.1.3: the corporate governance policy, II.1.1.4: the policy to select, assess and remunerate senior management,		X		The Board of Directors, either directly or through the Board of Directors' Committees, provides the approvals to the matters listed in Sections II.1.1.1. through II.1.1.9. On the different sections in particular, please be advised that: 1. The Business Plan outlines the strategy and objectives. Financial and economic forecasts are prepared every year in line with the guidelines and macroeconomic scenarios established by the Argentine Central Bank. Given that this information includes details about the business strategy, it is confidentially delivered to the Argentine Central Bank. 2. The Board of Directors defines investment and financing policies through the business plan and the budget. 3. Overall, the corporate governance policy in place at the Bank meets the requirements imposed by its Corporate Governance Code. 4. The Bank enforces its policy to conduct a formal assessment of senior management once a year, simultaneously with the process followed to evaluate all of the Bank's personnel. Based on the outcomes of these actions, the Bank maintains an ongoing feedback policy. It is on this basis that the policy to select and/or renew management positions at the Bank is designed: the policy in place seeks to have one skilled and experienced person for each position ready to step in should a management position be suddenly left vacant.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
II.1.1.5: the policy to assign responsibilities to senior management, II.1.1.6: the supervision of succession planning for senior management, II.1.1.7: the corporate social responsibility policy, II.1.1.8: comprehensive risk management, internal control, and fraud prevention policies, II.1.1.9: the training and continuing education policy applicable to the members of the Board of Directors and senior management.		X		5. The Bank has a manual of missions and functions in place that sets forth, for each management position, the responsibilities, missions and functions of each reportee. Besides, through the periodical reports provided by the Management Planning and Control area, the Board of Directors checks performance at the various divisions, which comprises making sure that the areas meet their goals –deployment of strategies and enforcement of policies- including abiding by the budget and the business plan and looking out for the Company's interests. 6. Through its different layers of management, the Bank seeks to deploy its succession planning arrangements by training managers in the development of skills associated to: (i) a strategic outlook, (ii) human capital management, (iii) multiple priorities management, (iv) productivity and output, (v) risk management, (vi) industrial and process outlook, (vii) understanding of the business and its operations, (viii) entrepreneurial spirit and (ix) analytical rigor 7. The Company has defined itself as a socially responsible enterprise and this is for the Bank's Directors and all of its personnel an objective built upon every day. Banco Hipotecario considers that its actions in the field of Corporate Social Responsibility must be dovetailed with its business strategy in the way of a win-win virtuous circle. To this end, the Bank commits to the community through actions and practices that satisfy the needs of the community. Education, social inclusion, the promotion of work and care for the environment are the main axes around which the Bank works aspiring to consolidate these deep and lasting changes to guarantee sustainable human development. The actions implemented as part of the Company's corporate social responsibility endeavors are listed in the Sustainability Report. 8. In the sphere of policies to control and manage risks that call for a periodical follow-up of the Bank's internal information and control systems, the Bank satisfies the requirements imposed by the Argentine Central Bank. In this respect, the Board of Directors approves the internal control and risk management standards and procedures –which are updated as needed- and is periodically advised of the follow-up on these procedures by the Audit Committee. 9. The Company regularly arranges for its directors and executives to attend conferences and lectures by economists and specialists on banking issues through the development of in-house and external training programs.

	COMPLIANCE TOTAL	COMPLIANCE PARTIAL	NON-COMPLIANCE	REPORT OR EXPLANATION
II.1.2.				The most significant matters have been discussed in Section II.1.1. Therefore, this Section is considered to be Non-Applicable.
II.1.3: The Issuer has in place a policy to ensure the availability of relevant information for its Board of Directors to make decisions and a channel for direct consultation with its management lines that is symmetrical for all its members (executive, external and independent) on an equal footing and sufficiently in advance so as to enable appropriate analysis.	X			Section H.8. of the Bank's Corporate Governance Code, named "Right to be informed" sets forth that for Directors to discharge their duties, they are entitled to be informed of all the matters concerning the Bank's social and corporate operations and risk management, following a request in writing addressed to the Chairman or the Vice Chairman if applicable. Any information gathered by directors may be related, amongst other matters, to: (i) the meetings held by the committees of which they are not members, (ii) the Company's books and other additional documentation concerning the issues discussed or to be considered by the Board of Directors, (iii) the matters covered by the orders of business of the respective meetings, (iv) details about Senior Management's actions and other company officers and (v) the Company's premises, both headquarters' and the branches'. In these cases, the Chairman or the Vice Chairman, as the case may be, shall assess the relevance of the request for information and entrust the General Manager or the applicable officers with the delivery of the information requested within the applicable term. In exercising this right, Directors shall refrain from undertaking actions that may hinder the conduct of the Company's operations because their actions are always collective and never individual, except in the case of the discharge of responsibilities that have been expressly delegated by the Board of Directors.
II.1.4: The matters submitted to consideration by the Board of Directors are accompanied by an analysis of the risks associated to the decisions that may be adopted, taking into account the level of enterprise risk defined as acceptable by the Issuer.	X			In accordance with the Argentine Central Bank's rules applicable to financial institutions, the Board of Directors must lay down an adequate strategy for comprehensive risk management. In this regard, the Bank has been implementing actions to have in place a procedure leading to the continuous improvement of its comprehensive risk management process, i.e., the process to identify, assess, monitor, control and mitigate all the significant aspects of its credit, liquidity, market, interest rate and operational risks and for the manner in which the Bank considers the level of risk assumed by it and its ratio to capital adequacy requirements. In this respect, the Bank has created and appointed a Risk Management Committee formed by Directors and managers who specialize in this matter. It is the Risk Management Committee that prepares the risk analysis presentations which, once thoroughly discussed and dealt with, are submitted to consideration by the Bank's Board of Directors.

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<tr><th>TOTAL</th><th>PARTIAL</th></tr>
<tr><td colspan="5">Recommendation II.2: Make sure that the Issuer exerts effective controls over management.</td></tr>
<tr><td>The Board of Directors verifies:

II.2.1: that the annual budget and business plan are complied with,

II.2.2: senior management performance and their attainment of the goals set for them (actual versus forecast earnings, financial ratings, financial reporting quality, market share, etc.).

Describe the highlights of the Issuer's Management Control policy detailing the techniques employed and the frequency of monitoring by the Board of Directors.</td><td>X</td><td></td><td></td><td>The Board of Directors mandates that the reports analyzing compliance with budgeted expenses and any deviations between actual expenses and budgeted expenses (amounts and percentage by different cost center and budgetary item) should be submitted for consideration to the Board itself or to its committees on a quarterly basis.

The Bank also controls on a quarterly basis compliance with commercial goals, investment progress and product performance (revenue generation and impact on results) and the Bank determines the degree of attainment of the goals proposed on an annual basis.

Besides, a scoreboard known as "5 environments" is periodically prepared analyzing the Bank's situation vis-à-vis its control environments, namely: (i) business, (ii) sustainability, (iii) clients, (iv) personnel and (v) organizational intelligence.

The information listed above, plus any benchmarking study, market share estimates, analyses of profitability by business unit, profitability by product and by branch, daily monitoring of loans originated and deposits captured are submitted to senior management from a daily to a monthly basis at the different meetings held by the office of the general manager and the committees entrusted with running the Bank.

Additionally, and in line with Communiqué "A" 5203, as amended and/or supplemented, in order to adequately assess future potential scenarios for managing the Bank, stress testing is conducted to primarily analyze the impact of changes in the market's main financial variables on the Entity's results.</td></tr>
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	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
Recommendation II.3: Disclose the process to evaluate Board of Directors performance and its impact.				
II.3.1: Each member of the Board of Directors abides by the Bank's By-laws and, when applicable, by the rules that govern the operation of the Board of Directors. Detail the main guidelines of the internal rules. Indicate the degree of compliance with the Bank's By-laws and its internal rules.	X			Through the Corporate Governance Code in the relevant part that deals with the operation of the Board and of its Committees the mechanisms for these to operate are laid down. First, to be a member of this Bank's Board of Directors, candidates should not be within the disqualifications prescribed by Section 264 of the Argentine Companies Law No. 19,550 and by Section 10 of Law No. 21,526 and must have previous experience in the financial business. In addition, according to Communiqué "A" 5803 issued by the Argentine Central Bank, as amended and supplemented, candidates may not have been prosecuted for money-laundering or terrorist financing crimes; should not be included in the lists of terrorists and terrorist associations issued by the UN Security Council or in the terrorist-financing resolutions released by the FIU. Furthermore, candidates may not have been punished with fines, disqualification, suspension, prohibition or revocation by the Argentine Central Bank, the FIU, the Argentine Securities Commission and/or the Argentine Office of the Superintendent of Insurance. Individuals in management positions or owning direct or indirect interests in companies engaged in gambling are also barred from taking office in the Board of Directors. It is only once the Argentine Central Bank authorizes it that candidates may take office. The Argentine Central Bank examines candidates' legal capacity, suitability, competence, integrity, experience in the financial business and ability for the discharge of directorship duties based on: (i) candidates' past performance in the financial business and/or (ii) the candidate's professional qualities and their track record in the public or private sector in analogous matters or areas that are relevant to the Entity's commercial profile. Additionally, the currently applicable rules of the Argentine Central Bank prescribe that at the time the Board of Directors is formed, at least two thirds of total membership should evidence experience related to the financial business and directors may not take office until so authorized by the Argentine Central Bank, unless the director at issue has been appointed by the Government to serve on the Board on its behalf, circumstance which shall be verified by the supervisory committee. Section H.9. of the above-mentioned code prescribes, in particular, that each year there must be a self-assessment process about the role of the Board of Directors as responsible for the corporate governance of the company. The self-assessment is a two-stage process: (1) a general evaluation: which primarily seeks to answer questions about the operation of the Board of Directors, and (2) a specific evaluation: where each Director shares his/her insights on different areas that involve the Board of Directors. Finally, the Board of Directors understands that it adequately complies with the provisions in the

				Bank's By-laws and its Corporate Governance Code.

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<tr><td>II.3.2: The Board of Directors presents the outcome of its management actions taking into account the targets fixed at the beginning of the period in a manner such that shareholders are able to evaluate the degree of compliance with such objectives, which contain both financial and non-financial aspects.

In addition, the Board of Directors presents a diagnosis about the degree of compliance with the policies mentioned in Recommendation II, paragraphs II.1.1. and II.1.2.

Detail the highlights of the evaluation made by the Annual General Meeting about the degree of compliance by the Board of Directors with the goals established and the policies mentioned in Recommendation II, Sections II.1.1 and II.1.2, with an indication of the date of the AGM where such evaluation was presented.</td><td></td><td>X</td><td></td><td>The Bank's Board of Directors presents the results of its management actions to the Bank's shareholders upon submitting to their consideration the annual report and the financial statements abiding by the principle that information should be transparent, fluid and comprehensive. The minimum requirements to be satisfied by these documents are listed in the Corporate Governance Code, Sections L.1. and L.2.

According to the policy that governs interaction with shareholders, directors and managers must discharge their duties in a manner such as to observe the standard of loyalty and diligence of a good businessman, which means that they must protect the interests of shareholders and see to their receiving an adequate return on their investment.

The Capital Markets Department is the area primarily responsible for dealing with and responding to the enquiries and concerns posed by the shareholders and investors in publicly offered debt securities, except if such enquiries call for disclosing the strategy or the plans of the Company for the future.

Additionally, the shareholders may request in writing and prior to the Shareholders' meeting within the terms prescribed by the Law or verbally in the course of the shareholders' meeting, any reports or clarification that they see fit about the matters covered by the agenda for the meeting. These requests may not involve matters concerning trade secrets or information considered strategic for the Bank's performance.

The shareholders representative of no less than 2% of capital stock may, at any time, request from the Company's Statutory Auditors information about the matters within their purview and the statutory auditors are under a duty to provide such information (Section 294, Sub-section 6 of Law No. 19,550).

It is the Board of Directors' understanding that the information submitted to Shareholders in the Annual Report and Financial Statements adequately complies with currently applicable statutory provisions and therefore, the Board does not submit to the Shareholders' meeting a detailed diagnosis of the degree of compliance with the policies indicated in Sections II.1.1. and II.1.2. to avoid disclosure of matters related to trade secrets or information that is strategic to the Bank's performance.</td></tr>
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	COMPLIANCE TOTAL	COMPLIANCE PARTIAL	NON-COMPLIANCE	REPORT OR EXPLANATION
Recommendation II.4: The number of external and independent directors must be a significant proportion of the Issuer's Board of Directors membership.				
II.4.1: The proportion of executive members, external and independent of the Board of Directors is in keeping with the capital structure of the Issuer.	X			The Corporate Governance Code deems it advisable to appoint some independent directors and to have them take part in certain committees of the Board of Directors. Section H.3 of the above-mentioned code sets forth the requirements that must be met by a Director for him/her to be considered independent from the Bank. At present, out of total Board membership, the Bank has six (6) independent directors. Besides, as explained under Recommendation II.3 and in view of the rules issued by the Argentine Central Bank, priority is to be given to the coverage of at least two thirds of said total directorship with Directors who have previous experience in financial activities. It is only once they have been authorized by the Argentine Central Bank that candidates may take office as directors, except for the directors chosen by the Government and authorized to serve on the Board "on behalf of the Government," which shall be notified by the Bank's Chairman.
II.4.2: In the current year, the shareholders agreed at a General Shareholders' Meeting on a policy aimed at maintaining a proportion of at least 20% of independent members over the total number of Board members. Describe the highlights of this policy and of any shareholder agreement that explains the manner in which the members of the Board of Directors are appointed and their terms in office.		X		The shareholders have not formally established a policy on the minimum percentage of independent directors that must form the Bank's Board. Besides, the Board cannot assure equal treatment in the dissemination of independence qualities in each nomination because the Bank's directorship includes directors elected by the public sector as well as the private sector, and in this latter case, subject to approval by the Argentine Central Bank. Upon nominating directors, shareholders seek to maintain an adequate proportion between independent and non-independent directors. Proof of this is that over a total of 13 Board members, at present there are 6 independent directors who stand for 46% of total board composition. Lastly, the capital structure and representation of shareholders at the Board of Directors abides by the provisions in Law No. 24,855 for the Privatization of Banco Hipotecario.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
Indicate if questions have been raised about the independence of Board members and if there have been abstentions caused by conflicts of interest.		X		There have been no questions raised throughout the year against the directors' independence status. It should be noted that directors acting on behalf of the Government always maintain the status of independent directors pursuant to Article 13, Section III, Chapter III of the Issuers' Handbook.
Recommendation II.5: Commit to the implementation of standards and procedures inherent in the selection and nomination of Board and senior management members at the Issuer.				
II.5.1: The Issuer has a Nominations Committee.			X	The Bank does not have a Nominations Committee, because the Company's Board of Directors establishes, in accordance with the Law for the Privatization of BHN (Law No. 24,855) and the Bank's By-laws, that the election of its members is conducted by special shareholders' meetings held by each class of shares and it is therefore impracticable to establish a Nominations Committee with the characteristics and the functions set forth in the Recommendation under General Resolution 622 of the Argentine Securities Commission.
II.5.1.1 a II.5.3.				Considering what has been discussed in Section II.5.1 these sections are considered as "Not Applicable".
Recommendation II.6: Assess the advisability of Board members and/or statutory auditors and/or supervisory committee members discharging functions at several Issuers.				
The Issuer imposes a limit on the ability of the members of the Board of Directors and/or statutory auditors and/or members of the supervisory committee to discharge functions at other entities that do not belong to the conglomerate that the Company heads or of which it is a part. Specify any such limit and detail if there has been a breach of said limit in the course of the year.	X			As concerns the "non-compete obligation", neither directors nor managers may be shareholders or directors or render professional services or be at the service of entities alien to Banco Hipotecario and its subsidiaries and whose corporate purpose is analogous or supplementary to Banco Hipotecario's or its subsidiaries'. Nor are they allowed to undertake in their names or in the name of third parties the same or analogous types of businesses. In this matter, the directors and managers are required to report that they discharge functions at other companies through a statement in writing in due time or when circumstances so warrant. This prohibition shall not apply to the directors and members of senior management who have communicated to the Ethics Committee that they render services in other companies before taking office and the Ethics Committee has not repudiated this nomination within a term of 30 running days. Nor shall this prohibition apply when the Director or Manager in office has reported his/her upcoming designation in other companies or at the time of starting to conduct competing businesses and neither the Ethics committee nor the Board of Directors have raised an express objection.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
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	X			There are no limits restricting statutory auditors from rendering services at companies outside the conglomerate on account of the statutory auditor function being discharged by independent university professionals licensed to that end and under a confidentiality duty in the exercise of their professional work.
Recommendation II.7: Make sure that Board and Senior management members at the Issuer are trained and develop their skills.				
II.7.1: The Issuer has Continuing Training Programs in connection with the Issuer's needs for the members of the Board of Directors and senior management that include topics concerning their roles and responsibilities, comprehensive enterprise risk management, knowledge specific to the business and its regulations, corporate governance dynamics and corporate social responsibility.		X		The Organizational Development and Quality Assurance area makes available to the Directors and the Managers a training program in order to maintain and refresh their knowledge and skills and improve their efficiency in overall management and leadership.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
In the case of the Audit Committee members, international accounting standards, auditing standards and internal controls and specific regulations in the capital markets. Describe the programs implemented in the year and their degree of compliance.		X		Additionally, the Bank arranges for its directors and executives to attend seminars, conferences and in-house and external training sessions, plus lectures given by economists and experts in the financial industry which may deal with matters such as international accounting standards, audit standards, internal control standards and rules specific to capital markets. Besides, when it comes to training for Directors, the Corporate Governance Committee has approved a list of topics to design a program for the period in question targeted at both Board members and at Senior management, at those responsible for bank areas or at those who, given their activities, are somehow related to the issues to be discussed. The Bank has been fulfilling the training requirements for Directors.
II.7.2 The Issuer provides incentives, through other means not mentioned in II.7.1 to the members of the Board and senior management to maintain permanent training that supplements their qualifications in order to add value to the Issuer. State how that is done.	X			In addition to the matters mentioned in II.7.1 that are institutionally organized, Banco Hipotecario has a policy in place to accept and provide incentives for their members –at all levels- to propose through the Department of Development and Quality, any training sessions that they wish to take. The Department of Development and Quality assesses the feasibility of training based on the Bank's interests.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
PRINCIPLE III. ENDORSE AN EFFECTIVE POLICY FOR IDENTIFYING, MEASURING, MANAGING AND DISCLOSING ENTERPRISE RISK				
In the framework for corporate governance:				
Recommendation III: The Board of Directors must rely on a policy for comprehensive enterprise risk management and monitor its adequate implementation.				
III.1: The Issuer has in place comprehensive enterprise risk management policies (mandating compliance with strategic, operational, financial, reporting, legal and regulatory objectives, among others).	X			The Corporate Governance Code in its Sections H.7.b. and J.2.a. points out that the responsibilities of Directors, the General Manager and Senior Management include managing the different risks in the banking industry in which Banco Hipotecario operates. Additionally, the policy concerning risk management defines “comprehensive risk management” as a process followed by the Board of Directors, Senior Management and all of the Entity’s personnel and applied in deploying the strategy necessary to identify potential incidents capable of affecting the Entity and in managing those risks in accordance with the level of tolerance established in a manner such as to provide reasonable security when it comes to the attainment of the Organization’s objectives. This policy equally lays down the comprehensive risk management framework that includes the design of policies, organizational structures and procedures that are specific (and include the application of controls testing, stress testing, risk tolerance indicators, risk maps, product schedule, etc.) concerning each identified individual risk. Besides, the Bank has risk management strategies approved by the Board of Directors that include the definition of limits or levels of tolerance for each one of the main risks to which the Entity is exposed. These limits are reviewed at least once a year as a part of the process to prepare the Business Plan which must be submitted for approval to the Entity’s Board of Directors.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
III.2: There is a Risk Management Committee as part of the Board of Directors or of the office of the General Manager. Report on the existence of manuals of procedures and detail the main risk factors that are specific to the Issuer or its business and the implemented mitigation actions. If there is no Risk Management Committee, describe the supervisory function performed by the Audit Committee concerning risk management. In addition, specify the degree of interaction between the Board of Directors or of its committees with the Issuer's General Manager in terms of comprehensive enterprise risk management.	X			By reason of the issuance by the Argentine Central Bank of Communiqué "A" 5203, as amended, the Bank created a Risk Management Committee which in tandem with the Finance Committee manages the Bank's risks. The Bank's main risks include, but are not limited to, the following: (i) credit, (ii) liquidity, (iii) market, (iv) interest rate and (v) operational. It is through these committees that the Board of Directors takes part in managing these risks. The main duties of the Risk Management Committee and of the Finance Committee are as described below: Risk Management Committee: The Risk Management Committee shall be made up by no less than 3 directors. The Risk Management Committee shall be primarily entrusted with the duty to supervise the risks to which the Entity is exposed and its responsibilities include, but are not limited to, monitoring risk management in terms of credit, market, liquidity, interest rate and operational risks, and helping the Board of Directors to lay down risk policies and strategies. Besides, it invites the Supervisory Committee to participate. Finance Committee: The Finance Committee shall be made up by no less than 3 directors. The Finance Committee shall be entrusted with the following responsibilities, among others: to control the Entity's liquidity and solvency, to define the levels of tolerance to liquidity risk, to define the limits and/or zones for early alerts in the case of financial risks and to fix, assess and control financial risks in the various investment portfolios. Please note that the Bank has a Comprehensive Risk Management policy that sets out the basic guidelines that must be followed to ensure adequate management of all the significant risks that may have a bearing on the attainment of the Bank's strategic goals and the handling of risks in accordance with the pre-established tolerance threshold in a manner such as to provide reasonable assurance concerning the attainment of the organization's objectives. Upon providing a comprehensive definition for this set of rules, consideration has been given to the orientation entitled "Risk Management Guidelines for Financial Institutions" released by the Argentine Central Bank in the above-mentioned communiqué.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
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III.3: There is an independent function within the office of the Issuer's General Manager that implements the comprehensive risk management policies (function discharged by the Risk Management Officer or equivalent position).	X			The independent area within the Issuer's office of the General Manager that implements the comprehensive risk management policies is the Area Department in charge of Risk, which has managerial units that specialize in managing each one of the main risks defined according to the following detail: (i) Retail Credit Risk: Area Department in charge of Retail Banking Risk, (ii) Wholesale Credit Risk: Risk Department in charge of Corporate Banking Credit Risk, (iii) Market Risks (price, exchange rate and interest rate): Area Department in charge of Market Risk and (iv) Operational Risk: Department in charge of Operational Risk.
III.4: The comprehensive risk management policies are permanently updated in line with the generally accepted recommendations and methodologies in the matter. Identify them.	X			The comprehensive risk management policies are updated to the extent needed on the basis of the definitions provided by COSO (Committee of Sponsoring Organizations of the Treadway Commission)'s conceptual framework. Given that Banco Hipotecario is a financial institution regulated by the Argentine Central Bank, the Bank abides by the practices indicated by the Argentine Central Bank and by some of the international best practices defined by the Basel Committee.
III.5: The Board of Directors communicates the outcomes of its supervisory tasks concerning risk management performed together with the General Manager in the financial statements and in the annual report. Specify the main sections dealing with these matters.	X			In its Annual Report, the Bank reports on these outcomes under the heading "Risk Management" and in the Notes to its Financial Statements, the Bank provides a description of its comprehensive enterprise risk management policy and considers that it is not advisable to disclose the results of its risk management actions for fear of releasing issues related to trade secrets or strategic information to the business. Furthermore, in compliance with Market Discipline Regulations, the Bank quarterly reports on its web site its risk exposure and assessment, regulatory capital, leverage ratio, and liquidity coverage ratio.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
PRINCIPLE IV. SAFEGUARD THE INTEGRITY OF FINANCIAL REPORTING RESORTING TO INDEPENDENT AUDITS				
The corporate governance framework must:				
Recommendation IV: Guarantee independence and transparency in the functions entrusted to the Audit Committee and to the External Auditor.				
IV.1: Upon electing the members of the Audit Committee, the Board of Directors takes into account that most of its members must be independent and so evaluates the advisability of it being chaired by an independent member.	X			The internal rules that govern the operation of the Audit Committee provide that the Committee must be chaired by an independent director.
IV.2: There is an internal audit function that reports to the Audit Committee or to the Chairman of the Board of Directors in charge of evaluating the internal control system. Please indicate if the Audit Committee or the Board of Directors conduct an annual assessment of the area's performance and the degree of independence of its professional involvement,	X			Section N.4. of the Corporate Governance Code sets forth that the Group's highest ranking Internal Auditor must report functionally to the Board of Directors and when such position is not occupied by a Director, the function must be discharged by employees of the Company that are independent from the remaining areas of the Company's organizational structure and conduct their work objectively and impartially in making the judgments required by their plans and reports in order to foster adequate independent criterion. Auditor objectivity consists in a professional involvement based on the reality of the facts and the circumstances surrounding such facts (acts, situations, evidence, unrestricted access to areas and information) that allow the auditor to maintain his/her judgments and opinions on solid bases without distortions caused by subordination to particular conditions. It is indispensable for auditors to maintain and show an objective and independent attitude to his/her auditees and that auditors be considered in this exact same way by third parties. Internal Auditors' independent criteria must be a mindset characterized by the existence of a high ethical sense outwardly expressed in respect for the expression of truth and awareness of the responsibility owed to the community inherent in corporate control tasks.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
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which means that the professionals discharging such function are independent from the remaining operational areas and that they meet the requirements of independence vis-à-vis the controlling shareholders or the related entities that wield significant influence on the Issuer. Specify, also, whether the internal audit function conducts its work in accordance with the international standards that govern internal audit practitioners as issued by the Institute of Internal Auditors (IIA).	X			Auditors must consider whether there is interference or impediments, internal or external, that affect their attitudes and beliefs and prevent them from rendering their services objectively and impartially. In the discharge of their duties, they must not give rise to objections against their independence. Additionally, Internal Auditors must not be within the prohibitions and incompatibilities prescribed by Section 264 of the Argentine Companies Law No. 19,550 and Section 10 of Law No. 21,526. Besides, Internal Auditors must have previous and proven experience in the matter. For as long as the Argentine government holds a majority stake in capital stock, the person in charge of the Internal Audit must meet the requirements imposed by Executive Order 971/1993, and Resolution 17/2006 of the General Office of the Comptroller (SIGEN). Besides, the audit function must be discharged within the framework of the rules issued by the Argentine Central Bank which follow the guidelines set out by international best practices, above all, the conceptual framework laid down by the COSO—Committee of Sponsoring Organizations of the Treadway Commission—. The Manual of Internal Audit Operating Procedures was designed on the basis of the internal audit professional practices issued by the Institute of Internal Auditors. As concerns the assessment of audit tasks, the Auditors Supervision Team put together by the Argentine Central Bank performs an annual assessment of the actions undertaken by the Audit Committee and the Internal Auditor. Once the team's review has concluded, a report is prepared and after addressing Management's responses, a final report is issued where the team renders its opinion. Lastly, this year the Internal Audit obtained the IRAM certification under Reference No. 13 and the SIGEN certification.

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IV.3: The members of the Audit Committee undertake an annual assessment of the suitability, independence and performance exhibited by the External Auditors designated by the Shareholders' Meeting. Describe all relevant aspects in the procedures followed in making such evaluation.	X			The Audit Committee submits to the Bank's Board of Directors an annual report that includes the evaluation of the skills, independence and performance of the External Auditors. The evaluation includes the following aspects: (i) A history of the audit firm, (ii) Qualifications and experience of the main members of the work team, (iii) An outline of the methodology used in the engagement, (iv) The audit firm's independence policies and emphasis on independence policy enforcement and (v) Sworn Statements requested by Sections 104 and concurrent statutory provisions of Law No. 26,831.
IV.4: The Issuer relies on a policy concerning the rotation of the Supervisory Committee members and/or the External Auditor. As concerns External Auditors, the policy addresses whether the rotation spans the audit firm or just the individuals.	X			As concerns the rotation of: (i) Supervisory Committee members, the Issuer abides by Section 23 of Law No. 24,855, Section 20 of its By-Laws and Section N.2.a of its Corporate Governance Code, which prescribe that although statutory auditors shall be elected for two-year terms, they will remain in office until a replacement is designated and they can be indefinitely re-elected; and (ii) the professional who will sign the Bank's financial statements as External Auditor may perform such duties for a term not to exceed five subsequent fiscal years, according to the Argentine Central Bank's regulations (Communication "A" 5042).

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PRINCIPLE V. RESPECT SHAREHOLDERS' RIGHTS				
The corporate governance framework must:				
Recommendation V.1: Make sure that shareholders have access to the Issuer's information.				
V.1.1: The Board of Directors fosters periodical informational meetings with shareholders, which coincide with the submission of interim financial statements. Explain further, providing the quantity and frequency of the meetings held in the course of the year.	X			Through its Capital Markets department, the Company answers the queries and concerns posed by shareholders, except for those that can have an impact on its strategy or plans for the future. Any matters subject to banking secrecy, trade secrets and topics associated to the network commercial operations shall be excluded from these queries. As it concerns market discipline, the Argentine Central Bank has issued Communiqué "A" 5394, as amended and supplemented. Besides, when the Board of Directors saw that it was in the best interests of the Company, it fostered informational meetings with the main shareholders, a criterion that it will continue to uphold when faced with these types of situations and in turn the shareholders who represent no less than 2% of capital stock may, at any time, request the Company's statutory auditors to provide them with information on the matters that are within the purview of the statutory auditors who are under a duty to supply said information (Section 294 sub-section 6 of Law No.19,550).
V.1.2: The Issuer relies on "information for investors" mechanisms and on an area that specializes in addressing investors' concerns. In addition, the Issuer has a web-site accessible to shareholders and other investors serving as an access channel for them to contact each other.	X			As indicated in Recommendation V.1.1., the Capital Markets Department is in charge of addressing investors' concerns. Additionally, the Bank has its own web-site, available to the public at large (www.hipotecario.com.ar) that provides institutional information that is updated, easy to access, adequate and differentiated and that deals with the Bank's operations. The web site also has an e-mail service for users to post their concerns.

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Recommendation V.2: Promote shareholders' active involvement.				
V.2.1: The Board of Directors has measures in place to foster the involvement of all shareholders at the AGMs. Explain further, distinguishing the measures required by statutory provisions from those voluntarily offered by the Issuer to its shareholders.			X	The Board of Directors complies with the dissemination of calls to meetings and makes available to shareholders the information required for meeting attendance. The turnout percentages posted in the most recent ordinary shareholders' meetings was in the region of 95% of all outstanding shares, undoubtedly, a satisfactory response to the calls to meetings. Therefore, it is not deemed advisable to adopt measures in order to boost minority shareholder attendance at shareholders' meetings.
V.2.2: The Annual General Meeting has a set of rules for its operation to make sure that the information will be available to the shareholders sufficiently in advance for decision-making purposes.		X		Given the majority ownership interest held by the Argentine government in its capital stock, the Bank falls within the scope of Executive Order 1278/2012 and Resolution191-E/2017 handed down by the Ministry of Finance, which set forth the methodology to make sure that the information to be considered should be made immediately available to the Secretariat of Financial Services within the purview of the Ministry of Finance by the Company's governance bodies (Shareholders' Meetings, Board of Directors, Executive Committee and Audit Committee). It prescribes, in particular, that sufficient notice must be given of the Shareholders' Meetings convened to designate the directors and the members of the Supervisory Committee to be able to discuss all relevant nominations. Besides, and notwithstanding what has been previously discussed, the Corporate Governance Code in Section M.1.b. "Equal Treatment" lays down that this is the equal and/or transparent treatment concerning information for its shareholders and that in this respect shareholders are entitled to receive from the Bank's directors and other managers equal treatment respectful of the rights to information and calls to meetings prescribed by the Law. In addition, when the Bank considers that the nomination submitted to a shareholders' consideration may give the shareholder an undue privilege, the Bank must immediately disseminate said response to the other shareholders resorting to the mechanisms established by the Bank's managers in that respect.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
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V.2.3: The Issuer has mechanisms in place for minority shareholders to propose matters for consideration by the Annual Shareholders' General Meeting in line with the provisions in currently applicable rules and regulations.			X	The Bank does not have mechanisms in place for minority shareholders to propose matters for consideration by the Annual Shareholders' General Meeting: this notwithstanding, the Corporate Governance Code in its Section M.1.a. and in accordance with the provisions under Section 294 Sub-section 6 of the Argentine Companies Law No. 19,550 sets forth that the shareholders who represent no less than 2% of capital stock may at any time request information on the matters within their purview from the Company's statutory auditors and statutory auditors are under a duty to provide such information.
V.2.4: The Issuer relies on policies to stimulate the involvement of the most relevant shareholders such as institutional investors.			X	With the enactment of Law No. 26,425 back in the year 2008, the pension regime based on capitalization (Law No. 24,241) was eliminated and the pension funds managed under the capitalization regime were taken over by the State-run pay-as-you-go regime. Since then, holdings of class "D" shares in the Bank in the hands of these pension funds –institutional investors- and the rights attached to said shares have become an integral part of the Argentine Integrated Social Security System run by ANSES (Argentina's Social Security Authority). Therefore, the Board of Directors estimates that there is no need for implementing a formal policy to stimulate the involvement of the most relevant shareholders.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
V.2.5: At the Shareholders' Meetings in which the nominations to the Board of Directors are discussed, (i) the position of each one of the candidates is made known as to whether or not to adopt a Corporate Governance Code; and (ii) the foundations for such position are also made known previous to the vote.			X	Shareholders' Meeting prioritize the composition of Board of Directors that takes into account the considerations under Section 21 of Law No. 24,855 and the Bank's By-laws in so far as the nominees are going to be designated by the shareholders' meetings held by classes of shares - class A elects 2 Regular Directors, class B elects 1 Regular Director in so far as class B shares are representative of more than 2% of the capital stock issued at the time of the call to the respective shareholders' meeting, class C elects 1 Regular Director in so far as class C shares are representative of more than 3% of the capital stock issued at the time of the call to the respective shareholders' meeting and the election of the rest of the Regular Directors (which under no circumstances shall be less than 9 regular directors and an equal or smaller number of alternate directors) is in the hands of class D shares and subject to the fact that the nominee must not be within the disqualifications prescribed by Section 264 of the Argentine Companies Law No. 19,550 and Section 10 of Law No. 21,526 and must have previous experience in financial activities and that it is only when the Argentine Central Bank has approved it that the nominee may take office. Therefore, in the nominations submitted to consideration by the Shareholders' Meetings no disclosures are made as to the position of each one of the nominees concerning the adoption or not of the Corporate Governance Code in the terms of General Resolution 622 of the Argentine Securities Commission. This notwithstanding and as set forth in the Corporate Governance Code, the Director nominated by each share class must formally acknowledge the acceptance of the office as well as a statement concerning his/her independence or not in the terms prescribed in the Code under the heading "Requirements to be satisfied by Independent Directors".
Recommendation V.3: Guarantee the principle of equality between shares and votes.				
The Issuer relies on a policy that promotes the principle of equality between shares and votes.			X	Law No. 24,855 and Executive Order 924/1997 set forth that the Bank's capital stock amounts to ARS1,500,000,000, which has been fully subscribed and paid in. According to the Ordinary and Extraordinary General Shareholders' Meeting No. 64 dated July 21, 2006, said capital stock is represented by 1,500,000,000 book-entry, ordinary shares divided into Class "A", "B", "C" and "D" with par value ARS 1 per share and one vote per share, except for class "D" shares which confer right to 3 votes in so far as class "A" shares (belonging to the Argentine government) represent more than 42% of capital stock.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
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State the changes in the structure of the outstanding shares by class in the past three years.			X	Additionally, pursuant to the Bank's By-laws, class "A" shares confer certain special rights and the favorable vote of this class, irrespective of the percentage of capital stock that they represent, is required for the Company to adopt valid resolutions concerning: (i) its merger with one or more companies or its spin-off, (ii) any acquisition by third parties of the company's shares that configures a consented or hostile takeover that meets the requirements to be deemed as a control situation under Section 33 of the Argentine Companies Law No. 19,550 and/or the rules of the Argentine Central Bank and/or Sub-section c) of Section 7 of the Bank's by-laws, (iii) transfers to third parties of a substantial portion of mortgage assets and the portfolio of home mortgage loans in a manner such that this should determine the total cessation or a substantial reduction in mortgage lending activities and the home mortgages for the Company, (iv) changes in the Company's corporate purpose, (v) relocation of the registered office to another country and (vi) the voluntary dissolution of the Company. The Bank's capital stock as from the enactment of Law No. 24,855 and Executive Order 924/1997 is the same. This notwithstanding, the quantity of shares that make up each class of shares has sustained changes over the last years due to the implementation of the Employee Stock Ownership Plan (Class B shares) pursuant to Executive Order 2.127/2012 and Resolution 264/2013 handed down by the Ministry of Economy and Public Finances whereby an initial stage consisted in the conversion of 17,990,721 Class B shares –over a total of 75,000,000- into Class A shares for allocation to the employees who left the Bank in accordance with the implementation guidelines. The remaining Class B shares may be allocated to the Bank's current employees. As soon as they are delivered to former employees, the 17,990,721 shares will become Class D shares. The above situation was verified as of December 31, 2015 only with 10,445,883 shares. Therefore, at the end of the fiscal year, the share structure is as follows:

Class	Shares	Par value	Capital stock	Percentage ownership
A	664,555,037	1	664,555,0377	44.30%
B	57,009,279	1	57,009,279	3.80%
C	75,000,000	1	75,000,000	5.00%
D	703,435,684	1	703,435,684	46.90%
	1,500,000,000		1,500,000,000	100.00%

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
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Recommendation V.4: Establish mechanisms to safeguard all the shareholders in the event of takeovers.				
The Issuer adheres to the mandatory public tender offer regime. Otherwise, explain further if there are other alternative mechanisms set forth in the by-laws, as would be the case of tag-along or other rights.			X	Regardless of the provisions of Law No. 26,831, Title II, according to Banco Hipotecario's By-laws, takeovers should be made by way of a mandatory public tender. In this respect, it has been set forth that all acquisitions which, in addition to previous shareholdings, represent 30% or more than the capital stock, amount to a takeover that compel bidders to make a public tender offer for all the shares of all the classes in accordance with the procedure prescribed by the by-laws. The Board of Directors must call a Special, Class "A" Shareholders' Meeting to discuss whether the tender offer is in the general best interest, and if rejected, the tender offer may not proceed. In the event of a favorable resolution, the tender offer shall be mailed to each shareholder and broadly disseminated.
Recommendation V.5: Increase the percentage of outstanding shares over capital stock.				
The Issuer relies on shareholder dispersion for at least 20% for its ordinary shares. Otherwise, the Issuer relies on a policy to increase shareholder dispersion through the market. Indicate the percentage of shareholder dispersion as a percentage of the Issuer's capital stock and the changes in such percentage over the last three years.		X		Banco Hipotecario's majority shareholder is the Argentine Government with approximately 64% of voting rights over the 1,500,000,000 ordinary shares that make up the Entity's capital stock. Such percentage is comprised by holdings of Class A, B and C shares and only the 11% of the holdings of Class D shares over the remaining 46.86%. Besides, the Entity does not have a policy to increase shareholder dispersion through the market. Neither does it have a policy to increase the percentage of outstanding shares over capital stock inasmuch as the percentage was established by Executive Order 1394/1998. Notwithstanding the Employee Stock Ownership Plan referred to in V.3. above, pursuant to which Class D shares are being awarded to employees, contributing to shareholder dispersion.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
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Recommendation V.6: Make sure that there is a transparent dividend policy in place.				
V.6.1: The Issuer relies on a dividend distribution policy set forth in the Bank's By-laws and approved by the Shareholders' Meeting setting out the conditions for distributing dividends in cash or in shares. If such policy existed, state the criteria, frequency and conditions that must be satisfied for the payment of dividends	X			It is the Bank's Corporate Governance Code (Section M.1.c), not its By-laws, that contains its dividend distribution policy. It must be underscored that the Board of Directors understands that the distribution of dividends to shareholders is a factor that encourages shareholders to assess the suitability of maintaining their investments in the Bank's shares and for shares to appreciate in market value in order to improve the relationship between market value and book value. Therefore, the Entity has in place a policy to pay dividends to shareholders in cash when the volume of earnings so permit and the conditions required by the Argentine Central Bank to that end are met (See the Annual Report's Section 4.2 Dividend Policy as proposed or recommended by the Board of Directors). If this is the case, an approval is required from the Office of the Superintendent of Financial and Foreign Exchange Institutions for the distribution of dividends in cash previous to submitting the proposal to distribute earnings to consideration by the Shareholders' Meeting.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
V.6.2: The Issuer relies on documented process to prepare the proposal to allocate the Issuer's retained earnings in order to raise reserves –be them statutory, voluntary and contemplated by the by-laws-, transfer earnings to future fiscal years and/or pay dividends. Explain these processes further and identify the minutes of the Annual Shareholders' General Meeting that approves the distribution (in cash or in shares) or not of dividends, if this is not contemplated in the Bank's By-laws.	X			The Bank has in place processes to determine (i) retained earnings, (ii) the establishment of reserves –be them statutory, voluntary or contemplated by the by-laws- and/or (iii) the payment of dividends. These processes are adopted pursuant to the rules issued by the Argentine Central Bank that provide for the mechanisms to determine retained earnings, the establishment of reserves –be them statutory, voluntary or contemplated by the by-laws- and/or the payment of dividends. The rules as issued are mentioned in: (i) the CONAU Circular Letter and (ii) the Chart of Accounts and the Accounts Manual. For instance, and in connection with: (1). The statutory reserve: this fund must be made up by allocating 20% of the earnings posted in the Statement of income at the end of the fiscal year, plus (or minus) the adjustments to prior years recorded in the period less the accumulated deficit at the end of the previous fiscal year, if any. This proportion must be applied without prejudice to the ratio of the Entity's statutory reserve to its capital stock. Besides, when the statutory reserve is used to absorb losses, no earnings may be distributed up and until such reserve is replenished. If the balance previous to the absorption exceeded 20% of capital stock plus the capital adjustment, earnings may be distributed once this latter value has been reached. (2) The conditions to distribute dividends include: (1) the Office of the Superintendent of Financial and Foreign Exchange Institutions' express authorization of the amount proposed for distribution, (2) the earnings to be distributed must have arisen from off-balance sheet adjustments on net income reflecting the differences between the book value and the market value of public debt instruments and/or monetary regulation instruments issued by the Argentine Central Bank not carried at market prices and (3) the amount for distribution should not compromise the Bank's liquidity and solvency; to these ends, the Argentine Central Bank shall not admit distribution of earnings when the Bank: (3.a) is subject to the provisions of Section 34 "Normalization and Turnaround" and Section 35 bis "Restructuring an entity to safeguard credit and bank deposits" of the Financial Institutions Law; (3.b) there are records of financial aid lent by the Argentine Central Bank on grounds of illiquidity in the framework of Section 17 of the Argentine Central Bank's Charter; (3.c) incurs in delays or fails to comply with the reporting requirements set forth by this Institution; (3.d) fails to pay the minimum capital or cash requirements, on an individual or a consolidated basis. Entities which do not fall within the above-described assumptions may distribute profits for up to the positive amount resulting from an off-balance-sheet calculation that consists of adding the balances as of year-end charged to retained earnings and the balance of the optional reserve for future distribution of profits, minus the balance of the legal reserve and other required statutory reserves, net of the following items: (1) the entire debit balance of items accounted for under "Other accumulated comprehensive income," (2) the gain (loss) from the revaluation of property, plant and equipment, intangible assets and investment properties; (3) the net positive difference between the measurement at amortized cost and the fair market value recorded by the entity in respect of public debt instruments and/or monetary regulation instruments

				issued by the Argentine Central Bank for instruments carried at amortized cost; (4) asset valuation adjustments notified by the Office of the Superintendent of Financial and Foreign Exchange Institutions –whether or not accepted by the entity- pending registration and/or such adjustments indicated by the external auditors which have not been recorded in the accounting records; (5) individual deductible amounts –from asset valuation- granted by the Office of the Superintendent of Financial and Foreign Exchange Institutions, including adjustments resulting from failure to consider the agreed-upon conformance plans. In addition, entities may not distribute dividends out of profits derived from the first-time application of the International Financial Reporting Standards (IFRS), and are required to set up a special reserve to be released for capitalization purposes only or to offset potential negative balances under “Retained Earnings.” The distributable amount may not compromise the entity’s liquidity and solvency either. This requirement will be deemed to have been met if no deficiency is found in the payment of the minimum capital position - on an individual and on a consolidated basis - for the fiscal year the retained earnings at issue are attributable to, or otherwise in the last closed position available as of the date the Argentine Central Bank’s authorization has been applied for, whichever shows less excess in the payment of the requirement, considering the following effects on the basis of the data available as of each of such dates: (a) the effects of deducting from assets the items detailed in sections (1) through (5) in the preceding paragraph; (b) the effects of failing to consider the deductible amounts granted by the Office of the Superintendent of Financial and Foreign Exchange Institutions affecting minimum capital requirements, payments or position; (c) the effects of deducting the following items from retained earnings: (i) the distributable amount and, where applicable, the amount set aside for the reserve for interest payable on debt instruments, which might become part of the entity’s regulatory capital (*responsabilidad patrimonial computable*), as per the proposal submitted to the Office of the Superintendent of Financial and Foreign Exchange Institutions; (ii) credit balances resulting from the application of tax on minimum presumptive income, net of the allowance for impairment, which have not been deducted from Tier 1 capital, pursuant to the guidelines on "Minimum capital requirements for financial institutions"; and (iii) the adjustments made by the entity as per the preceding sections (1) through (5). On the other hand, the rules establish a capital conservation buffer additional to the minimum capital requirement in order for entities’ to accumulate equity to face potential losses, thus mitigating the risk of default on this requirement. This conservation buffer shall be equal to 2.5% of the entity’s Risk-Weighted Assets (“RWA”), in addition to the minimum capital requirement. Such conservation buffer rises to 3.5% of RWA for financial institutions qualified as “of systemic importance.” (v) individual deductible amounts –from asset valuation- granted by the Office of the Superintendent of Financial and Foreign Exchange Institutions, including adjustments resulting from failure to consider the agreed-upon conformance plans; (vi) credit balances resulting from the application of tax on minimum presumptive income, net of the allowance for impairment, which have not been deducted from Tier 1 capital, pursuant to the guidelines on "Minimum capital requirements for financial institutions"; and (vii) the Entity’s additional capital requirement is a ratio of Tier 1 Capital to Risk-Weighted Assets (“RWA”) higher than 7.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
PRINCIPLE VI. MAINTAIN DIRECT AND RESPONSIBLE BONDS WITH THE COMMUNITY				
The corporate governance framework must:				
Recommendation VI: Disclose to the community matters concerning the Issuer and provide a direct means of communication to the company.				
VI.1: The Issuer has a website accessible to the public and updated that should supply not only relevant company information (the Bank's By-laws, the conglomerate, the composition of the Board of Directors, financial statements, annual reports, to name but a few) but also receive the concerns of users in general.	X			The Bank has its own web-site, available to the public at large (www.hipotecario.com.ar) that provides institutional information that is updated, easy to access, adequate and differentiated and that deals with the Bank's operations, including (i) the Annual Report, (ii) the Financial Statements, (iii) Share Structure, (iv) Highlights and etc. In this regard, it is the Bank's policy to fully and accurately disclose its financial position to national and international capital markets. The Bank abides by this policy for the benefit of its shareholders and also in compliance with stock exchange regulations and the applicable laws governing the issuance, offering and circulation of securities. The web site also has an e-mail service for users to post their concerns.

BANCO Hipotecario

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
VI.2: The Issuer releases a Social and Environmental Responsibility Statement on an annual basis, verified by an independent External Auditor. If this statement is released, state its scope or its legal or geographical coverage and where it is available. Specify the rules or initiatives adopted to implement the corporate social responsibility policy (Global Reporting Initiative and/or the UN's Global Pact, ISO 26.000, SA8000, UN's Millennium Development Goals, SGE 21-Foretica, AA 1000, Ecuador Principles, to name but a few).		X		The Bank issues an annual statement concerning corporate social responsibility and the environment under the name "Sustainability Report". It has been designed on the basis of the guidelines provided by the international indicators under the Global Reporting Initiative (GRI) and the Sectorial Supplement of Financial Services. The Bank is committed to such Sustainability Report being promptly verified through an independent External Auditor report.

	COMPLIANCE TOTAL	COMPLIANCE PARTIAL	NON-COMPLIANCE	REPORT OR EXPLANATION
PRINCIPLE VII. REMUNERATE EQUITABLY AND RESPONSIBLY				
The corporate governance framework must:				
Recommendation VII: Establish clear policies to remunerate the Issuer's Board and Senior Management members, giving special consideration to any limits imposed by contracts or the by-laws based on the existence of earnings or not.				
VII.1: The Issuer relies on a Remunerations Committee.			X	The Bank has a Personnel Incentives Committee in accordance with the rules laid down by the Argentine Central Bank in Communiqué "A" 5201, which is entrusted with the main mission of supervising the system of incentives. To that end, this Committee has the following duties: (i) To lay down the policies and practices to financially incentivize personnel to manage risk, capital and liquidity, (ii) To establish that the policy to financially incentivize personnel should be in harmony with any statutory provisions governing this matter, and (iii) To establish that the financial incentives for the benefit of the organization's members (a) should be tied to the contribution by each individual and each business unit to the Company's performance, (b) should be established in line with the objectives sought by the Company's shareholders, and (c) should be sensitive to the time dimension of risks and (iv) To promote and coordinate the annual assessment of the system of financial incentives to personnel, which must be conducted by an independent area of the Company or an external entity. Although the above-mentioned committee does not satisfy all of the conditions imposed on the Remuneration Committee by the Argentine Securities Commission's rule, its mission is to control and/or supervise the design of the system of financial incentives to personnel which should take into account the risks assumed on behalf of the Bank considering both future risks and those already existing and adjust incentives by all the risks, including those that are difficult to measure such as liquidity, reputation and cost of capital risks.
VII.1.1. through VII.4.				Considering what has been discussed in Section VII.1. these sections are considered as "Not applicable".

	COMPLIANCE TOTAL	COMPLIANCE PARTIAL	NON-COMPLIANCE	REPORT OR EXPLANATION
PRINCIPLE VIII. FOSTER ENTERPRISE ETHICS				
The corporate governance framework must:				
Recommendation VIII: Guarantee ethical behaviors at the Issuer.				
VIII.1: The Issuer relies on a Code of Enterprise Conduct. Indicate the main guidelines and whether it is available to the public. This Code is signed by, at least, the members of the Board of Directors and of senior management. Indicate if the Issuer promotes extending the enforcement of this code to suppliers and customers.	X			The Bank has a Code of Ethics that is published in the Financial Information Highway, and it is committed to conducting its business and social responsibility activities abiding by the highest ethical standards and endeavoring for efficiency, quality, unwavering effort and transparency in all its affairs. It is of the utmost importance that each member of Banco Hipotecario understands his responsibility in complying with the ethical standards and values upheld by the Bank. The Code of Ethics summarizes the general guidelines that must govern the Bank's behaviors as well as the behaviors of all of its members in the discharge of their functions and in their commercial and professional relations. No person, irrespective of the work performed or the office served in at the Bank, is empowered to draw exceptions to this Code of Ethics. This Code's Foundational and Main Ethical Standards are: (a) Honesty, (b) Conflict of interest, (c) Commercial Relations, (d) Commercial practices, laws and other commercial rules and regulations, (e) International transactions, (f) Relations with customers, suppliers, sellers, agents, public officials and government entities, (g) Entertainment, (h) Political contributions and (i) Purchase and sale of securities. This code is accepted and signed by all of the directors, managers and the rest of the personnel as soon as they join the Bank. In turn, all of the Entity's employees may access the text of the Code published in the Company's main intranet page.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
VIII.2: The Issuer relies on mechanisms to receive reports about illegal or unethical behaviors submitted personally or by electronic means ensuring that the information relayed is treated in the outmost confidentiality and abides by the highest standards of information recording and preservation. Indicate if the service to receive and assess reports is rendered by the Issuer's personnel or by external independent professionals to afford whistleblowers increased protection.			X	The Bank's employees may place their enquiries or reports about suspected deviations from the Code of Ethics directly with the Transparency Line in place to such end (toll-free number: 0800 - 222 - 3368, and e-mail address: transparencia@hipotecario.com.ar). The communication channel allows workers to warn about irregularities or situations adverse to an adequate ethical environment. It is a confidential communications channel within the Entity so that the Bank's employees have at their disposal, 24 hours a day, 7 days a week, a confidential and safe means to anonymously report on incidents of corruption or situations adverse to an adequate ethical environment. These reports are directly relayed to the Ethics Committee, which will decide which actions to take. Workers play an authentically leading role in these reports because of their proximity to the information and it is for this reason that the Committee maintains such contacts confidential. In both cases, the Committee vouches for the transparency of the process and the anonymity of the reports for those who do not wish to identify themselves upon reporting an incident. Each case shall be confidentially treated by the Ethics Committee. Under no circumstances shall adverse measures be implemented against the person posing the enquiry or the person who in good faith reports suspicions of a potential crime or irregular situation in breach of the provisions laid down by this Code, a law, regulation or internal procedure at the Bank.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
VIII.3: The Issuer relies on policies, processes and systems to handle and find a resolution for the reports mentioned in Section VIII.2. Describe their most relevant aspects and indicate the degree of involvement of the Audit Committee in said resolutions, in particular in those reports associated to internal controls for financial reporting and on the behaviors of Board and senior management members.		X		Through its Code of Ethics, the Bank establishes the mechanisms to handle the reports mentioned and find a resolution for them. As discussed in the previous section, the reports are directly relayed to the Ethics Committee as this is the party that will decide which actions to take. Workers play an authentically leading role in these reports because of their proximity to the information and it is for this reason that the Committee maintains such contacts confidential. In both cases, the Committee vouches for the transparency of the process and the anonymity of the reports for those who do not wish to identify themselves upon reporting an incident. After the request is received, the process required to respond to the enquiries and/or to corroborate the reports starts. It is a stated objective of the Bank's Board to afford a formal treatment to all the enquiries and reports received, adopting, in all cases, a resolution. This resolution shall be communicated through a formal response via the channel considered relevant in each case. The Ethics Committee will weigh the degree of involvement of the Audit Committee in these actions. This notwithstanding, when the behavior analyzed is that of Entity members other than directors, the general manager or department managers, it will be the manager in charge of the internal audit department who will take part in the analysis of the cases.

	COMPLIANCE		NON-COMPLIANCE	REPORT OR EXPLANATION
	TOTAL	PARTIAL		
PRINCIPLE IX: FURTHER THE SCOPE OF THE CODE				
The corporate governance framework must:				
Recommendation IX: Promote the inclusion of the provisions inherent in good corporate governance practices in the Bank's by-laws.				
The Board of Directors evaluates whether the provisions of the Corporate Governance Code must be reflected, in whole or in part, in the Bank's By-laws, including the general and specific responsibilities of the Board of Directors. Identify the provisions will be actually included in the Bank's By-laws as from the coming into force of the Code until to date.			X	In this respect, on top of the current provisions contained in the Bank's By-laws, the Bank has those of the Corporate Governance Code and the Code of Ethics approved in due time by the Board of Directors and disseminated through the Financial Information Highway. Aimed at preventing conflicts of interest, these provisions deal with the treatment to be afforded to the personal interests of the organization's members without distinguishing between positions and hierarchies. The Board of Directors estimates that there is no need to reflect the provisions of the Argentine Securities Commission's General Resolution 622 in whole or in part in the Bank's By-laws.

Autonomous City of Buenos Aires, February 15, 2018.
THE BOARD OF DIRECTORS