

BALANCE SHEET

For the fiscal period ended 06/30/2017
 In comparative format with the previous fiscal year
 In thousands of Argentine Pesos

	2017	2016
ASSETS		
A Cash and cash resources (Note 2.1)	3,259,774	7,099,631
Cash	873,711	714,529
Financial Institutions and Correspondents	2,386,063	6,385,102
- Argentine Central Bank (B.C.R.A.)	2,358,996	5,332,648
- Other domestic institutions	1,689	608
- Other foreign institutions	25,378	1,051,846
B Government and Corporate Securities (Schedule A and Note 2.3.)	6,299,533	3,675,743
Holdings booked at fair market value (Note 40)	2,246,397	1,957,162
Holdings booked at cost plus return	718,323	914,362
Investments in listed corporate securities	27,983	9,283
Securities issued by the BCRA	3,306,830	794,936
C Loans (Schedules B, C and D and Notes 2.2. and 2.4.)	28,801,438	25,223,029
To the non-financial public sector	102,722	122,899
To the financial sector	485,270	332,143
Interfinancial - calls granted -	130,000	30,000
Other loans to domestic financial institutions	330,925	474,679
Accrued interest, adjustments and quotation differences receivable	24,345	27,464
To the non-financial private sector and foreign residents	28,742,420	25,034,496
Overdraft facilities	546,129	290,153
Promissory notes	794,375	557,614
Mortgage loans	3,164,650	2,739,916
Pledge loans	1,152	466,500
Consumer loans	5,455,449	4,307,966
Credit cards	11,711,420	11,466,334
Unallocated collections	(7,702)	(1,166)
Other (Note 7)	6,842,150	4,948,348
Accrued interest and quotation differences receivable	257,110	274,230
Documented interest	(22,313)	(15,399)
Allowances (Schedule J and Note 5)	(528,974)	(466,509)
D Other receivables for financial transactions (Schedules B, C y D and Notes 2.2. y 2.5.)	5,436,578	7,093,076
Argentine Central Bank	647,473	668,432
Amounts receivables under spot and forward sales to be settled	1,153,004	1,199,730
Securities to be received under spot and forward purchases to be settled	1,316,754	2,489,518
Unlisted negotiable obligations	83,839	21,261
Balances of forward transactions not yet settled without delivery of underlying asset	37,173	169,717
Others not included in the debtor classification regulations (Note 8)	2,171,527	2,424,104
Others included in the debtor classification regulations (Notes 8 and 9)	22,493	114,673
Accrued interest receivable included in the debtor classification regulations (Note 9)	6,326	7,110
Allowances (Schedule J and Note 5)	(2,011)	(1,469)

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E Receivables for financial leases (Schedules B, C y D and Note 2.6.)	164.605	157.409
Receivables for financial leases	163.220	155.775
Accrued interest and adjustments receivable	2.950	3.087
Allowances (Schedule J and Note 5)	(1.565)	(1.453)
F Investments in other companies (Schedule E and Notes 2.7, 24 y 27)	1.436.249	1.664.567
In financial institutions	285.691	285.269
Others	1.150.558	1.379.298
G Miscellaneous Receivables (Note 2.8)	1.651.851	1.031.382
Minimum notional income tax - fiscal credit (Notes 2.19. and 33.)	82.693	897
Others (Note 10)	1.577.084	1.038.611
Other accrued interest receivable	2.544	2.685
Allowances (Schedule J and Note 5)	(10.470)	(10.811)
H Bank Premises and Equipment (Schedule F and Note 2.9.)	405.242	357.763
I Miscellaneous Assets (Schedule F and Note 2.9.)	1.253.687	286.017
J Intangible Assets (Schedule G and Note 2.11.)	550.186	544.918
Goodwill	9.363	10.842
Organization and development expenses	540.823	534.076
K Items pending allocation	12.897	9.874
TOTAL ASSETS	49.272.040	47.143.409

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	2017	2016
LIABILITIES		
L Deposits (Schedules H and I and Notes 2.2., 2.12. and 23)	19.926.926	19.043.948
Non-financial public sector	2.853.776	2.536.836
Financial Sector	18.354	9.820
Non-financial private sector and foreign residents	17.054.796	16.497.292
Current accounts	862.350	936.950
Savings accounts	4.099.011	3.329.856
Time deposits	10.542.773	10.613.088
Investment accounts	1.108.741	1.013.895
Others	238.943	318.055
Accrued interest and quotation differences payable	202.978	285.448
M Other liabilities for financial transactions (Schedule I and Notes 2.2., 2.13.)	21.315.947	20.652.208
Argentine Central Bank	114	56
Others	114	56
Unsubordinated negotiable obligations (Note 11)	16.025.154	13.900.745
Amounts payable under spot and forward purchases to be settled	1.280.175	2.295.724
Securities to be delivered under spot and forward sales to be settled	1.155.730	1.240.944
Loans received from domestic financial institutions	75.052	265.465
Other loans from domestic financial institutions	-	-
Interfinancial loans (calls received)	75.000	265.000
Accrued interest payable	52	465
Balances of forward transactions not yet settled without delivery of underlying asset	34.792	187.108
Others (Note 14)	2.225.912	2.214.297
Accrued interest and quotation differences payable	519.018	547.869
N Miscellaneous Liabilities (Note 2.14.)	985.067	1.060.158
Fees	26.655	25.892
Others (Note 15)	958.412	1.034.266
O Provisions (Schedule J and Notes 2.10., 2.15., 2.16., 2.17. and 16.)	323.323	299.812
Q Items pending allocation	39.572	31.055
TOTAL LIABILITIES	42.590.835	41.087.181
SHAREHOLDERS' EQUITY (per related statement) (Note 2.20.)	6.681.205	6.056.228
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	49.272.040	47.143.409

Notes and Schedules are an integral part of these financial statements.

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STATEMENT OF INCOME

For the fiscal period ended 06/30/2017
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	2017	2016
A Financial Income	4.413.379	4.113.311
Interest on cash and cash resources	86	46
Interest on loans to the financial sector	48.323	30.425
Interest on overdraft facilities	49.127	126.754
Interest on promissory notes	53.541	28.089
Interest on mortgage loans	251.062	253.715
Interest on pledge loans	14.345	51.928
Interest on credit card loans	1.485.938	1.230.481
Interest on financial leases	20.518	16.117
Interest on other loans	1.409.357	1.017.679
Interest on other receivables for financial transactions	8.861	10.150
Net income from government and corporate securities	735.604	1.062.536
Adjustment from application of CER (coefficient for reference stabilization) and CVS (coefficient for salary variation) clause	4.713	8.730
Gold and foreign currency quotation differences	-	-
Others (Note 17)	331.904	276.661
B Financial Expenses	2.967.577	2.944.315
Interest on current account deposits	9.777	-
Interest on savings account deposits	2.185	1.484
Interest on time deposits	1.002.058	1.655.655
Interest on interfinancial loans received	4.024	20.960
Interest on other loans from financial institutions	-	24.258
Interest on other liabilities resulting from financial transactions	1.164.765	492.502
Other interest	108.231	189.846
Contribution to the deposits security fund	16.297	44.761
Adjustment from application of CER (coefficient for reference stabilization) clause	29.740	-
Gold and foreign currency quotation differences	18.775	203.265
Others (Note 17)	611.725	311.584
GROSS INTERMEDIATION MARGIN	1.445.802	1.168.996
C Loan Loss Provision	229.993	140.380
D Income from services	1.505.743	966.777
Linked with lending transactions	1.086.774	629.364
Linked with borrowing transactions	115.587	80.735
Other commissions	14.562	9.259
Others (Note 18)	288.820	247.419
E Expenses for Services	630.396	386.403
Commissions	41.495	46.105
Others (Note 19)	588.901	340.298

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	2017	2016
G Administrative expenses	1,958,210	1,676,168
Personnel expenses	1,211,893	1,052,858
Directors' and syndics' fees	26,786	13,752
Other fees (Note 20)	179,457	153,587
Advertising and publicity	21,328	25,571
Taxes	69,234	63,303
Depreciation of bank premises and equipment	40,146	24,257
Amortization of organization and development expenses	82,508	67,777
Other operating expenses (Note 20)	256,039	213,235
Others	70,819	61,828
NET INCOME FROM FINANCIAL TRANSACTIONS	132,946	(67,178)
I Miscellaneous income	748,437	699,322
Income from long-term equity investments	521,607	447,713
Penalty interest	31,063	23,610
Loans recovered and allowances reversed	88,438	154,117
Others (Note 21)	107,329	73,882
J Miscellaneous losses	256,410	256,802
Penalty interest and charges in favor of BCRA	66	20
Loan loss provision for miscellaneous receivables and other provisions	112,313	158,019
Depreciation and loss of miscellaneous assets	1,805	363
Amortization of goodwill	1,478	1,478
Others (Note 22)	140,748	96,922
NET INCOME BEFORE INCOME TAX	624,973	375,342
L Income Tax (Note 2.18 and Note 32)	-	-
NET INCOME FOR THE FISCAL PERIOD	624,973	375,342

Notes and Schedules are an integral part of these financial statements.

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STATEMENT OF CASH FLOWS AND CASH EQUIVALENTS

For the fiscal period ended 06/30/2017

In comparative format with the same period of the previous fiscal year

In thousands of Argentine Pesos

	2017	2016
Changes in cash and cash equivalents		
Cash at Beginning of Fiscal Year	7,099,631	6,344,646
Cash at Fiscal Period End (Note 29)	3,259,774	3,256,231
Net increase in cash (in constant currency)	(3,839,857)	(3,088,415)
Causes of cash changes (in constant currency)		
Operating activities		
Net collection (payment) on:		
Government and corporate securities	(2,623,290)	399,726
Loans		
to the Non-financial Public Sector	20,177	(89,667)
to the Financial Sector	46,873	(226,029)
to the Non-financial Private Sector and Foreign Residents	(3,707,924)	(1,360,532)
Other receivables for financial transactions	(2,875,968)	(805,100)
Deposits		
to the Financial Sector	8,534	-
to the Non-financial Public Sector	316,940	(3,285,089)
to the Non-financial Private Sector and Foreign Residents	557,504	787,081
Other (except for liabilities under Financing activities)	2,561,375	54,469
Collections linked with income from services	1,505,743	966,777
Payments linked with expenses for services	(630,396)	(386,403)
Administrative expenses paid	(1,835,556)	(1,584,134)
Collections net of penalty interest	31,063	25,610
Payments of organization and development expenses	(5,268)	(75,470)
Other collections/ (payments) linked to miscellaneous profits and losses	54,401	23,451
Net (payments) from other operating activities	137,591	(493,164)
(Payment) Income Tax/Minimum Notional Income Tax		(75,800)
Net cash flow (used for) operating activities	(6,438,721)	(6,124,274)
Investment activities		
Net payments on bank premises and equipment	(1,015,149)	(262,742)
Net cash flow (used for) investment activities	(1,015,149)	(262,742)
Financing Activities		
Net collections/ (payments) on:		
Unsubordinated negotiable obligations	2,124,409	1,935,070
Dividends	-	-
Net cash flow originated from financing activities	2,124,409	1,935,070
Financial gain (loss), and holding of cash and cash equivalents (including interest and monetary results)		
	1,489,604	1,363,531
Net increase in cash	(3,839,857)	(3,088,415)

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MEMORANDUM ACCOUNTS
For the fiscal period ended 06/30/2017
In comparative format with the previous fiscal year
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	2017	2016
DEBIT	201.457.524	222.415.573
Contingencies	18.750.460	15.416.468
Guarantees received	16.867.141	13.559.762
Others not included in the debtor classification regulations	39.270	37.803
Contingencies - re. contra items	1.844.049	1.818.903
Control	78.718.118	74.175.076
Loans classified as non-recoverable	925.443	916.764
Other	76.991.003	72.917.972
Control - re. contra items	801.672	340.340
Derivatives	12.563.193	48.844.338
"Notional" value of forward transactions without delivery of the underlying asset	5.855.241	24.694.412
Interest rate swap	491.875	528.144
Derivatives - re. contra items	6.216.077	23.621.782
Trust activities	91.425.753	83.979.691
Trust Funds	91.425.753	83.979.691
CREDIT	201.457.524	222.415.573
Contingencies	18.750.460	15.416.468
Loans granted (unused balances) included in the debtor classification regulations (Schedules B, C and D)	138.171	126.962
Other guarantees provided included in the debtor classification regulations (Schedules B, C and D)	109.836	103.040
Contingencies - re. contra items	18.502.453	15.186.466
Control	78.718.118	74.175.076
Amounts to be credited	75.066	54.854
Control - re. contra items	78.643.052	74.120.222
Derivatives	12.563.193	48.844.338
"Notional" value of forward transactions without delivery of the underlying asset	6.216.675	23.622.380
Derivatives - re. contra items	6.346.518	25.221.958
Trust activities	91.425.753	83.979.691
Trust accounts re. contra items	91.425.753	83.979.691

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STATEMENT OF SHAREHOLDERS' EQUITY
For the fiscal period ended 06/30/2017
In comparative format with the same period of the previous fiscal year
In thousands of Argentine Pesos

Changes	Capital Stock	Non-Capitalized Contributions		Equity Adjustments	Profit reserves		Retained earnings	Total for the period 06/30/2017	Total for the period 06/30/2016
		Share issuance premiums	Irrevocable contributions for future capital increases		Legal	Others			
1. Opening balances	1.500.000	834	-	717.115	1.006.896	1.052.465	1.778.922	6.056.232	5.440.900
2. Subtotal	1.500.000	834	-	717.115	1.006.896	1.052.465	1.778.922	6.056.232	5.440.900
3. Distribution of Retained Earnings - Shareholders' Meeting dated 04/04/2017 (*)					123.066		(123.066)		
6. Net income for the period	-	-	-	-			624.973	624.973	375.342
7. Fiscal period closing balances	1.500.000	834	-	717.115	1.129.962	1.052.465	2.280.829	6.681.205	5.816.242

(*) See Note 1

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GOVERNMENT AND CORPORATE SECURITIES
For the fiscal period ended 06/30/2017
In comparative format with the previous fiscal year

SCHEDULE (A)

In thousands of Argentine Pesos

Description	Identification	Holding			Position without options	Options	Final Position
		Market value	Book value 06/30/2017	Book value 12/31/2016			
GOVERNMENT SECURITIES AT FAIR MARKET VALUE							
Argentina		-	2.246.397	1.957.162	2.246.397	-	2.246.397
In Argentine Pesos		-	117.670	820.779	117.670	-	117.670
Argentine bond due 06/21/2020	TJ20	-	27.133	-	27.133	-	27.133
BOGAR 2018	NF 18	-	717	80.428	717	-	717
GDP-LINKED NEGOTIABLE SECURITIES IN ARGENTINE PESOS	TVPP	-	1.127	1.038	1.127	-	1.127
DISCOUNT BOND PESOS	DICP	-	27.135	2.460	27.135	-	27.135
BOCON PRO 13	PR13	-	297	36.349	297	-	297
BOCON PRO 15	PR15	-	2.508	-	2.508	-	2.508
BONAR 19	AMX9	-	207	34.794	207	-	207
BONAR 17	AM17	-	-	114	-	-	-
PAR ARS (ARGENTINE LAW)	PARP	-	905	839	905	-	905
Argentine BOND due 2017/05/09	AY17	-	-	164.035	-	-	-
Argentine BOND due 2021/07/22	TC21	-	37.740	881	37.740	-	37.740
Argentine BOND due 2020/04/28 with- CER Adjustment	TC20	-	-	23.301	-	-	-
Argentine BOND due 2021/10/03 - Fixed rate	TO21	-	2.877	7.517	2.877	-	2.877
Argentine BOND due - 2023/10/17	TO23	-	4.428	191.559	4.428	-	4.428
Argentine BOND due 2026/10/17 - Fixed rate	TO26	-	2.232	65.370	2.232	-	2.232
Argentine BOND due 2018/03/05	TM18	-	558	14.330	558	-	558
Argentine BOND due 2018/09/19	T518	-	6.250	1.414	6.250	-	6.250
Argentine BOND \$ private badlar + 325 bps	AM20	-	337	77.511	337	-	337
Argentine BOND \$ private badlar + 275 bps	AMX8	-	1.428	42	1.428	-	1.428
Argentine BOND \$ private badlar + 300 bps	AO17	-	1.600	101.089	1.600	-	1.600
Argentine BOND CUASIPAR 2003 due 2045	CUAP	-	191	17.708	191	-	191

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SCHEDULE (A)

In thousands of Argentine Pesos

Description	Identification	Holding			Position without options	Options	Final Position
		Market value	Book value 06/30/2017	Book value 12/31/2016			
In foreign currency		-	2.128.727	1.136.383	2.128.727	-	2.128.727
BONCOR 2017	CO17	-	600	1.177	600	-	600
BONAR X due 04/2017	AA17	-	-	31.592	-	-	-
GLOBAL BOND 2017	GJ17	-	-	42	-	-	-
BONAD 2017 due June	AJ17	-	-	19.628	-	-	-
BONAD 2017 due September	AS17	-	174.111	79.760	174.111	-	174.111
BONAR 2026 (NY LAW) due 04/2016	AA26	-	298.549	158.549	298.549	-	298.549
BONAR 2046 (NY LAW) due 04/2017	AA46	-	6.263	3.441	6.263	-	6.263
BONAR 2021 (NY LAW)	AA21	-	77.054	-	77.054	-	77.054
US Dollar-linked Argentine Bond due 02/2017	AF17	-	-	30.992	-	-	-
DISCOUNT BOND IN US DOLLARS- Argentine Law	DICA	-	-	19.140	-	-	-
PAR BOND IN US DOLLARS - New York Law	PARY	-	75.920	115.808	75.920	-	75.920
PAR BOND in US dollars - Argentine Law	PARA	-	21.502	40.025	21.502	-	21.502
DISCOUNT BOND IN US DOLLARS	DICY	-	335.946	308.703	335.946	-	335.946
Argentine Bond in US Dollars (***)	AY24	-	710.289	62.862	710.289	-	710.289
Argentine Bond in US Dollars	AM18	-	30.884	79	30.884	-	30.884
Argentine International Bonds in US Dollars due 01/2027	A2E7	-	89.500	-	89.500	-	89.500
Argentine Bond at 7.625% due 04/2037	AA37	-	51.900	-	51.900	-	51.900
Treasury Bill due 12/2017	LTDD7	-	20.646	-	20.646	-	20.646
Treasury Bill due 09/2017	LTDG8	-	15.122	-	15.122	-	15.122
Treasury Bill due 08/2019	LTD87	-	4.012	-	4.012	-	4.012
Treasury Bill in US Dollars due 07.17.2017	L2DL7	-	9	-	9	-	9
Treasury Bill in US Dollars due 04/2018	L2DA8	-	391	-	391	-	391
Argentine Bond in US Dollars	AO20	-	-	1.672	-	-	-
Argentine Bond in US Dollars	AN18	-	-	905	-	-	-
Treasury Bill in US Dollars due 01/30/2017	L2DE7	-	-	2.235	-	-	-
Argentine Bond at 6.625%	AL28	-	2.506	2.343	2.506	-	2.506
TVPA - GDP-link Bond in USD - Argentine Law -	TVPA	-	4.470	4.353	4.470	-	4.470
TVPE - GDP-link Bond in EUROS - English Law -	TVPE	-	25.921	22.460	25.921	-	25.921
Province of Neuquén Bill due 10/11/2018	LDNO18	-	111.502	141.544	111.502	-	111.502
Province of Chubut Bill due 10/21/2019	PUO19	-	11.594	13.398	11.594	-	11.594
Province of Mendoza Bill due 10/29/2018	POM18	-	60.036	75.675	60.036	-	60.036
TOTAL GOVERNMENT SECURITIES AT FAIR MARKET VALUE		-	2.246.397	1.957.162	2.246.397	-	2.246.397

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Eduardo S. Elsztain
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Ricardo Flammini
For the Supervisory
Committee

GOVERNMENT AND CORPORATE SECURITIES

For the fiscal period ended 06/30/2017

In comparative format with the previous fiscal year

SCHEDULE (A)

In thousands of Argentine Pesos

Description	Identification	Holding			Position without options	Options	Final Position
		Market value	Book value 06/30/2017	Book value 12/31/2016			
GOVERNMENT SECURITIES AT COST PLUS RETURN							
Argentina							
In Argentine Pesos							
Province of Buenos Aires Bill Series 3 due 01/2017	PBE17	-	-	2.092	-	-	-
Province of Buenos Aires Bill due 12/06/2019	PBD19	-	50.670	50.829	50.670	-	50.670
In foreign currency							
Province of Neuquén Treasury Bill Series 3 due 11/23/2017	BN2N7	-	4	7	4	-	4
Argentine State Bills in US dollars due 08/24/2018	L2DG8	-	48.060	-	48.060	-	48.060
Argentine State Bills in US dollars due 06/29/2018	L2DJ8	-	101.274	-	101.274	-	101.274
Argentine State Bills in US dollars due 11/24/2017	L2DN7	-	3.354	-	3.354	-	3.354
Argentine State Bills in US dollars due 04/27/2018	L3DA8	-	6.178	-	6.178	-	6.178
Argentine State Bills in US dollars due 12/14/2018	LTDD8	-	101.214	-	101.214	-	101.214
Treasury Bills in US dollars due 02/09/2018	LTDF8	-	13.723	-	13.723	-	13.723
Treasury Bills in US dollars due 06/15/2018	LTDJ8	-	143.003	-	143.003	-	143.003
Treasury Bills in US dollars due 11/30/2018	LTDN8	-	63.339	-	63.339	-	63.339
Treasury Bills in US dollars due 10/13/2017	LTDQ7	-	59	-	59	-	59
Treasury Bills in US dollars due 05/24/2018	LTDY8	-	46.467	-	46.467	-	46.467
Treasury Bill in US dollars due 05/24/2018	L2DM7	-	-	393.674	-	-	-
Treasury Bill in US dollars due 04.03.17	LTDA7	-	-	143.015	-	-	-
Treasury Bill in US dollars due 01.16.17	LTDE7	-	-	15.800	-	-	-
Treasury Bill in US dollars due 02.20.17	LTDF7	-	-	14.063	-	-	-
Treasury Bill in US dollars due 03.06.17	LTDZ7	-	-	137.825	-	-	-
Treasury Bill in US dollars due 08.25.17	LTDG7	-	-	-	-	-	-
Province of Mendoza Bill due 12/18/2018	PMD18	-	53.540	70.032	53.540	-	53.540
Province of Chubut Bill due 03/30/2021	PUM21	-	85.438	87.025	85.438	-	85.438
TOTAL GOVERNMENT SECURITIES AT COST PLUS RETURN		-	718.323	914.362	718.323	-	718.323
INVESTMENTS IN LISTED CORPORATE SECURITIES							
Argentina							
In Argentine Pesos							
Comercial del Plata	COME	-	-	7.418	-	-	-
Transportadora del Sur	TGSUR	-	2.227	-	2.227	-	2.227
Central Puerto	CEPU	-	2.453	-	2.453	-	2.453

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GOVERNMENT AND CORPORATE SECURITIES

For the fiscal period ended 06/30/2017

In comparative format with the previous fiscal year

SCHEDULE (A)

In thousands of Argentine Pesos

Description	Identification	Holding			Position without options	Options	Final Position
		Market value	Book value 06/30/2017	Book value 12/31/2016			
Telecom	TECO2	-	4.293	1.466	4.293	-	4.293
Pampa Energia	PAMP	-	12.955	-	12.955	-	12.955
Edenor	EDN	-	3.639	-	3.639	-	3.639
YPF	YPF	-	2.416	-	2.416	-	2.416
Aluar Aluminio Argentino	ALUA	-	-	399	-	-	-
TOTAL INVESTMENTS IN LISTED CORPORATE SECURITIES		-	27.983	9.283	27.983	-	27.983
SECURITIES ISSUED BY THE BCRA in Argentine Pesos		-	3.306.830	794.936	3.306.830	-	3.306.830
BCRA Bills at fair market value		-	2.899.379	292.612	2.899.379	-	2.899.379
BCRA Bills for swap transactions		-	-	-	-	-	-
BCRA Bills at cost plus return		-	407.451	502.324	407.451	-	407.451
SECURITIES ISSUED BY THE BCRA in US Dollars		-	-	-	-	-	-
BCRA Bills at cost plus return		-	-	-	-	-	-
TOTAL SECURITIES ISSUED BY THE BCRA		-	3.306.830	794.936	3.306.830	-	3.306.830
TOTAL GOVERNMENT AND CORPORATE SECURITIES		155.801	6.299.533	3.675.743	6.299.533	-	6.299.533

(***) Securities AY24, See Note 40 Capital Markets Law.

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SCHEDULE (B)

CLASSIFICATION OF FINANCING ACCORDING TO LOANS AND GUARANTEES RECEIVED

For the fiscal period ended 06/30/2017
In comparative format with the previous fiscal year
In thousands of Argentine Pesos

<u>COMMERCIAL PORTFOLIO</u>	2017	2016
Normal Situation	10.279.871	8.361.556
With "B" preferred collateral and counter-guarantees	1.485.595	1.290.430
Without preferred collateral or counter-guarantees	8.794.276	7.071.126
Potential Risk	38.444	386
With "B" preferred collateral and counter-guarantees	35.751	-
Without preferred collateral or counter-guarantees	2.693	386
Problematic	517	990
With "B" preferred collateral and counter-guarantees	128	-
Without preferred collateral or counter-guarantees	389	990
High risk of insolvency	7.723	5.090
With "B" preferred collateral and counter-guarantees	68	1.229
Without preferred collateral or counter-guarantees	7.655	3.861
Uncollectible	466	16.931
With "B" preferred collateral and counter-guarantees	88	93
Without preferred collateral or counter-guarantees	378	16.838
TOTAL COMMERCIAL PORTFOLIO	10.327.021	8.384.953

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SCHEDULE (B)

Continued

CLASSIFICATION OF FINANCING ACCORDING TO LOANS AND GUARANTEES RECEIVED

 For the fiscal period ended 06/30/2017
 In comparative format with the previous fiscal year
 In thousands of Argentine Pesos

<u>CONSUMER AND HOUSING PORTFOLIO</u>	<u>2017</u>	<u>2016</u>
Normal Situation	18.555.414	17.077.799
With "B" preferred collateral and counter-guarantees	2.034.150	1.704.073
Without preferred collateral or counter-guarantees	16.521.264	15.373.726
Low risk	455.334	356.726
With "B" preferred collateral and counter-guarantees	18.209	20.696
Without preferred collateral or counter-guarantees	437.125	336.030
Mid risk	252.280	193.379
With "B" preferred collateral and counter-guarantees	3.579	3.616
Without preferred collateral or counter-guarantees	248.701	189.763
High risk	247.372	199.366
With "B" preferred collateral and counter-guarantees	1.964	2.662
Without preferred collateral or counter-guarantees	245.408	196.704
Uncollectible	19.686	8.964
With "B" preferred collateral and counter-guarantees	812	814
Without preferred collateral or counter-guarantees	18.874	8.150
Uncollectible for technical reasons	140	259
With "B" preferred collateral and counter-guarantees	50	58
Without preferred collateral or counter-guarantees	90	201
TOTAL CONSUMER AND HOUSING PORTFOLIO	19.530.226	17.836.493
GENERAL TOTAL	29.857.247	26.221.446

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CONCENTRATION OF FINANCING
 For the fiscal period ended 06/30/2017
 In comparative format with the previous fiscal year
 In thousands of Argentine Pesos

Number of customers	FINANCING			
	2017		2016	
	Debt balance	% of total portfolio	Debt balance	% of total portfolio
10 largest customers	3.748.003	12,55%	3.414.286	13,02%
50 following largest customers	4.095.219	13,72%	2.953.544	11,26%
100 following largest customers	1.349.065	4,52%	1.164.411	4,44%
Rest of customers	20.664.960	69,21%	18.689.205	71,27%
Total	29.857.247	100⁰%	26.221.446	100⁰%

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BREAKDOWN OF FINANCING ACCORDING TO MATURITY DATES

For the fiscal period ended 06/30/2017

In thousands of Argentine Pesos

Item	Past due portfolio	Remaining terms to maturity						Total
		1 month	3 months	6 months	12 months	24 months	More than 24 months	
Non-financial public sector	11	4.375	8.941	13.914	25.178	50.303	-	102.722
Financial sector	3	246.537	83.723	82.510	65.213	7.284	-	485.270
Non-financial private sector and foreign residents	483.304	7.336.488	3.797.149	4.676.368	3.157.193	4.001.107	5.817.646	29.269.255
Total	483.318	7.587.400	3.889.813	4.772.792	3.247.584	4.058.694	5.817.646	29.857.247

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BREAKDOWN OF INVESTMENTS IN OTHER COMPANIES
SCHEDULE (E)

For the fiscal period ended 06/30/2017
In comparative format with the previous fiscal year
In thousands of Argentine Pesos

Item Description	Shares and/or Units				Balance as of 06/30/2017	Balance as of 12/31/2016	Information on the Issuer Principal line of business	Data of latest fin. statements			
	Class	Face value per unit	Votes per share	Number				Fiscal period/year closing date	Capital stock	Shareholders/ equity	Result for the period/year
- In Financial Institutions, supplementary and authorized activities											
Controlled - Argentina											
- BACS Banco de Crédito y Securitización S.A.	ordinary	1	1	54.687.500	285.691	285.269	Banking	06/30/2017	87.813	458.721	32.702
- BH Valores SA Soc de Bolsa	ordinary	1	1	1.425.000	59.041	34.957	Brokerage	06/30/2017	1.500	62.149	25.352
- BHN Sociedad de Inversión S.A.	ordinary	1	1	39.131.682	584.236	882.268	Investment	06/30/2017	39.132	584.295	451.939
- TARSHOP S.A.	ordinary	1	1	195.037.152	502.270	457.062	Issuance and marketing of CC	06/30/2017	243.796	627.838	56.506
Subtotal controlled - Argentina					1.431.238	1.659.556					
- In Other Companies											
Non-controlled - Argentina											
(*) - BHN Vida S.A.	ordinary	1	1	120	-	-	Insurance	06/30/2017	16.201	965.698	328.702
(*) - BHN Seguros Generales S.A.	ordinary	1	1	120	-	-	Insurance	06/30/2017	10.111	247.235	109.529
- Mercado Abierto Electrónico S.A.	ordinary	1.200	1	1	4	4	Securities open market	12/31/2014	242	24.899	12.485
(**) - ACH S.A.	ordinary	1	1	2.500	7	7	Electronic payment company	12/31/2011	650	371	153
Supplementary services -											
Non-controlled - Argentina											
Confederar NEA - Mutual guarantee company -	Protecting partner	1	1	12	5.000	5.000	Mutual guarantee company	31/01/2016	258	34.923	727
Subtotal non-controlled - Argentina					5.011	5.011					
Total investments in other companies					1.436.249	1.664.567					

(**) The Extraordinary General Shareholders' Meeting held on 05/17/2011 unanimously resolved the early termination of the company under the terms of Section 94, subsection 1 of the Business Companies Law, which as of to date is in its final stage of liquidation.

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BANK PREMISES, EQUIPMENT AND MISCELLANEOUS ASSETS
SCHEDULE (F)

For the fiscal period ended 06/30/2017
 In comparative format with the previous fiscal year
 In thousands of Argentine Pesos

Item	Net book value at the beginning of the fiscal year	Additions	Transfers	Withdrawals	Losses due to impairment of value	Depreciation for the fiscal year		Net book value at the end of fiscal period 06/30/2017	Net book value at the end of fiscal year 12/31/2016
						Useful life (years)	Amount		
BANK PREMISES AND EQUIPMENT									
- Real estate properties	146.810	51	45.650	-	-	50	1.680	190.831	146.810
- Furniture and facilities	54.337	9.897	-	(112)	-	10	3.958	60.164	54.337
- Machinery and equipment	91.698	1.573	-	(114)	-	5	11.668	81.489	91.698
- Computer equipment	59.787	30.405	-	-	-	3	22.067	68.125	59.787
- Vehicles	386	-	-	-	-	5	48	338	386
- Sundry	4.745	291	-	(16)	-	5	725	4.295	4.745
Total	357.763	42.217	45.650	(242)	-		40.146	405.242	357.763
MISCELLANEOUS ASSETS									
- Construction in progress	51.458	1.209.506	(52.797)	-	-	-	-	1.208.167	51.458
- Works of art and collectors' items	226	-	-	-	-	-	-	226	226
- Leased assets	2.610	-	-	-	-	50	58	2.552	2.610
- Assets acquired through foreclosures	1.596	-	-	-	-	50	11	1.585	1.596
- Stationery and office supplies	32.555	2.707	-	-	-	-	-	35.262	32.555
- Other miscellaneous assets	21.021	-	7.148	(22.228)	-	50	46	5.895	21.021
- Advance payment for purchase of goods	176.551	-	(176.551)	-	-	-	-	-	176.551
Total	286.017	1.212.213	(222.200)	(22.228)	-		115	1.253.687	286.017

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SCHEDULE (G)
INTANGIBLE ASSETS

For the fiscal period ended 06/30/2017

In comparative format with the previous fiscal year

In thousands of Argentine Pesos

Item	Net book value at the beginning of fiscal year	Additions	Transfers	Withdrawals	Losses due to impairment of value	Amortization for the fiscal year		Net book value at the end of fiscal period 06/30/2017	Net book value at the end of fiscal year 12/31/2016
						Useful life (years)	Amount		
Organization and development expenses	180.511	45.262	-	(831)	-	5	21.601	203.341	180.511
Mortgage loan origination expenses	353.565	45.048	-	(225)	-	5	60.906	337.482	353.565
Goodwill	10.842	-	-	-	-	10	1.479	9.363	10.842
Total	544.918	90.310	-	(1.056)	-		83.986	550.186	544.918

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CONCENTRATION OF DEPOSITS

For the fiscal period ended 06/30/2017

In comparative format with the previous fiscal year

In thousands of Argentine Pesos

Number of customers	2017		2016	
	Debt balance	% of total portfolio	Debt balance	% of total portfolio
10 largest customers	4.596.498	23,07%	4.376.170	22,98%
50 following largest customers	2.316.395	11,62%	2.645.444	13,89%
100 following largest customers	923.789	4,64%	1.020.246	5,36%
Rest of customers	12.090.244	60,67%	11.002.088	57,77%
Total	19.926.926	100%	19.043.948	100%

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**BREAKDOWN OF DEPOSITS, OTHER LIABILITIES FOR FINANCIAL TRANSACTIONS AND SUBORDINATED
NEGOTIABLE OBLIGATIONS ACCORDING TO MATURITY DATE**

For the fiscal period ended 06/30/2017

In thousands of Argentine Pesos

Item	Remaining terms to maturity						Total
	1 month (*)	3 months (*)	6 months (*)	12 months (*)	24 months (*)	More than 24 months (*)	
Deposits	14.796.072	4.157.792	834.452	116.301	21.212	1.097	19.926.926
- Time deposits	7.426.791	4.157.792	834.452	116.301	21.212	1.097	12.557.645
- Investment account	1.160.022	-	-	-	-	-	1.160.022
- Savings accounts	4.415.775	-	-	-	-	-	4.415.775
- Current accounts	1.661.424	-	-	-	-	-	1.661.424
- Other deposits	132.060	-	-	-	-	-	132.060
Other liabilities for financial transactions	2.300.964	1.116.579	632.813	145.200	1.086.877	13.562.817	18.845.250
- Argentine Central Bank	-	-	-	-	-	114	114
- Other	-	-	-	-	-	114	114
- Unsubordinated negotiable obligations	-	1.116.579	632.813	145.200	1.086.877	13.562.703	16.544.172
Series XII, XXXI and XXXIX Bonds in US dollars	-	499.522	163.063	-	244.496	5.794.453	6.701.534
Series XXX, XXXII, XXXIV, XXXV, XXXVI, XXXVIII, XXXIX, XL, XLII, XLIII, XLIV, XLV, XXXVIII, XXXIX, XL, XLI, XLII Bonds in Pesos	-	612.763	469.750	145.200	842.381	6.719.209	8.789.303
Uva Bond	-	4.294	-	-	-	1.049.041	1.053.335
Loans received from domestic financial institutions	75.052	-	-	-	-	-	75.052
- Local institutions	75.052	-	-	-	-	-	75.052
- Others	2.225.912	-	-	-	-	-	2.225.912
Others	2.225.912	-	-	-	-	-	2.225.912
Total	17.097.036	5.274.371	1.467.265	261.501	1.108.089	13.563.914	38.772.176

(*) These figures are stated pursuant to contract clauses.

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CHANGES IN ALLOWANCES AND PROVISIONS

SCHEDULE (J)

For the fiscal period ended 06/30/2017
In comparative format with the previous fiscal year
In thousands of Argentine Pesos

Breakdown	Opening balances	Increases in constant currency	Decreases in constant currency	Decreases in constant currency	Balances at fiscal period ended 06/30/2017	Balances at fiscal year ended 12/31/2016
			Reversals	Allocations		
ASSET OFFSETTING ACCOUNTS						
Loans						
Loan loss risk and impairment (a)	466.509	229.339	11.564	155.310	528.974	466.509
Other receivables for financial transactions						
Loan loss risk and impairment (b)	1.469	542	-	-	2.011	1.469
Receivables for financial leases						
Loan loss risk and impairment	1.453	112	-	-	1.565	1.453
Miscellaneous receivables						
Loan loss risk and impairment (c)	10.811	-	-	341	10.470	10.811
Total	480.242	229.993	11.564	155.651	543.020	480.242
LIABILITY OFFSETTING ACCOUNTS						
Other contingencies (d)	299.812	112.313	17.489	71.313	323.323	299.812
Total	299.812	112.313	17.489	71.313	323.323	299.812

a) **LOAN LOSS RISK**: Stems from the analysis covering uncollectibility risks of the loan portfolio performed by the Bank, which considers the regulations laid down by the Argentine Central Bank and estimates for the fiscal year, as mentioned in Note 5.

b) **LOAN LOSS RISK OF OTHER RECEIVABLES FOR FINANCIAL TRANSACTIONS**: Reflects the potential uncollectibility of mortgage loans transferred in trust, but not yet securitized.

c) **LOAN LOSS RISK OF MISCELLANEOUS RECEIVABLES**: Stems from the analysis covering uncollectibility risks of miscellaneous receivables.

d) **FOR OTHER CONTINGENCIES**: This provision was set up to cover contingencies involving lawsuits, certain expenses related to the administrative restructuring undertaken by the Bank, customer loyalty programs and administrative, disciplinary and criminal penalties (See Notes 2.15 and 37).

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For the Supervisory
Committee

COMPOSITION OF CAPITAL STOCK

For the fiscal period ended 06/30/2017

In thousands of Argentine Pesos

Shares			Capital Stock					
Class	Number (1)	Votes per share	Issued		Pending issuance or distribution	Alloted	Paid-in	Not yet paid-in
			Outstanding	Treasury stock				
Ordinary								
Book-entry	1.500.000.000	(1)	1.463.365	36.635	-	-	1.500.000	-
Total			1.463.365	36.635	-	-	1.500.000	-

(1) See Note 1

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SCHEDULE (L)

FOREIGN CURRENCY BALANCES
For the fiscal period ended 06/30/2017
In comparative format with the previous fiscal year
In thousands of Argentine Pesos

CAPTIONS	Head office and branches in Argentina	Total for the period as of 06/30/2017	Total for the period			Total for the fiscal year 12/31/2016
			US\$	EUROS	YENS	
ASSETS						
Cash and cash resources	1.332.368	1.332.368	1.319.357	13.011	-	4.675.184
Government and corporate securities	2.796.380	2.796.380	2.770.499	25.921	-	1.997.824
Loans	4.163.338	4.163.338	4.163.338	-	-	2.849.934
Other receivables for financial transactions	1.387.163	1.387.163	1.387.163	-	-	1.225.305
Miscellaneous receivables	130.163	130.163	130.163	-	-	132.396
Items pending allocation	1	1	1	-	-	114
Total	9.809.413	9.809.413	9.770.481	38.932	-	10.880.757
LIABILITIES						
Deposits	3.545.158	3.545.158	3.545.158	-	-	3.405.535
Other liabilities for financial transactions	7.070.062	7.070.062	7.070.025	37	-	7.570.473
Miscellaneous liabilities	10.678	10.678	10.678	-	-	11.879
Items pending allocation	25	25	25	-	-	383
Total	10.625.923	10.625.923	10.625.886	37	-	10.988.270
MEMORANDUM ACCOUNTS						
DEBIT (except for contra items)						
	7.931.434	7.931.434	7.923.969	7.465	-	6.040.717
Contingencies	3.848.233	3.848.233	3.848.233	-	-	2.686.953
Control	4.083.201	4.083.201	4.075.736	7.465	-	3.353.764
CREDIT (except for contra items)						
	39.836	39.836	39.836	-	-	38.040
Contingencies	39.836	39.836	39.836	-	-	38.040

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FINANCIAL ASSISTANCE OF RELATED PARTIES

For the fiscal period ended 06/30/2017
 In comparative format with the previous fiscal year
 In thousands of Argentine Pesos

Item - Situation	Normal	Potential risk / inadequate performance	With problems / deficient performance		High risk of insolvency / difficult collection		Uncollectible	Uncollectible for technical reasons	Total	
			Not yet due	Past due	Not yet due	Past due			06/30/2017	12/31/2016
1. Loans	142.477	-	-	-	-	-	-	-	142.477	141.670
- Overdraft facilities	16.649	-	-	-	-	-	-	-	16.649	8.540
With "B" preferred collateral and counter-guarantees	2.984	-	-	-	-	-	-	-	2.984	442
Without any preferred collateral or counter-guarantees	13.665	-	-	-	-	-	-	-	13.665	8.098
- Mortgage and pledge loans	939	-	-	-	-	-	-	-	939	1.912
With "B" preferred collateral and counter-guarantees	939	-	-	-	-	-	-	-	939	1.912
- Credit cards	8.505	-	-	-	-	-	-	-	8.505	8.699
Without any preferred collateral or counter-guarantees	8.505	-	-	-	-	-	-	-	8.505	8.699
- Other	116.384	-	-	-	-	-	-	-	116.384	122.519
With "B" preferred collateral and counter-guarantees	3.736	-	-	-	-	-	-	-	3.736	1.002
Without any preferred collateral or counter-guarantees	112.648	-	-	-	-	-	-	-	112.648	121.517
2 Other receivables for financial transactions	535	-	-	-	-	-	-	-	535	23
3 Eventual liabilities	-	-	-	-	-	-	-	-	-	-
4 Equity investments in other companies	1.431.238	-	-	-	-	-	-	-	1.431.238	1.659.556
Total	1.574.250	-	-	-	-	-	-	-	1.574.250	1.801.249
Allowances	1.626	-	-	-	-	-	-	-	1.626	1.427

Manager
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General manager
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DERIVATIVE FINANCIAL INSTRUMENTS

For the fiscal period ended 06/30/2017
In thousands of Argentine Peso

SCHEDULE (O)

Kind of Agreement	Purpose of transactions	Underlying assets	Kind of settlement	Trading environment or counterparty	Average weighted term originally agreed	Average residual weighted term	Average weighted term for the settlement of differences	Amount
Futures (Note 13.1.)	Foreign currency hedge	Foreign currency	Daily differences	MAE	11	2	12	103.150
Futures (Note 13.1.)	Foreign currency hedge	Foreign currency	Daily differences	ROFEX	7	2	9	5.564.297
Futures (Note 13.1.)	Foreign currency hedge	Foreign currency	Daily differences	ROFEX	6	2	9	(5.046.564)
Futures (Note 13.1.)	Foreign currency hedge	Foreign currency	Daily differences	OTC - Domestic residents - Financial sector	9	2	11	(360.205)
Swap (Note 13.2.)	Brokerage own account	Other	Upon maturity of differences	Domestic residents - Non-financial sector	195	115	1	111.750
Swap (Note 13.3.)	Brokerage own account	Other	Upon maturity of differences	Domestic residents - Non-financial sector	195	114	1	157.794
Swap (Note 13.4.)	Brokerage own account	Other	Upon maturity of differences	Domestic residents - Non-financial sector	194	115	1	92.419
Swap (Note 13.5.)	Brokerage own account	Other	Upon maturity of differences	Domestic residents - Non-financial sector	205	136	1	120.215
Swap (Note 13.6.)	Brokerage own account	Other	Upon maturity of differences	Domestic residents - Non-financial sector	216	149	1	51.150
Swap (Note 13.7.)	Brokerage own account	Other	Upon maturity of differences	Domestic residents - Non-financial sector	215	154	1	56.307
Repo transaction (Note 13.8)	Brokerage own account	Government Securities	With delivery of underlying asset	MAE	1	1	1	322.290

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In comparative format with the previous fiscal year

1. BANCO HIPOTECARIO SOCIEDAD ANÓNIMA

Pursuant to Law 24855 enacted on July 2, 1997 and promulgated by the National Executive Branch through Decree 677 dated July 22, 1997, and Decree 924/97, Banco Hipotecario Nacional was declared "subject to privatization" under the terms of Law 23696 and the National Executive Branch was ordered to proceed to its transformation into a corporation ("sociedad anónima"). The new entity arising from this transformation will do business under the denomination of "Banco Hipotecario Sociedad Anónima", and as a commercial bank in accordance with Law 21526 and supplementary rules, as amended, with the scope envisaged by the regulations, and with the rights and obligations of its predecessor, as well as with the franchise to provide insurance over transactions originated until July 23, 2007.

Banco Hipotecario Sociedad Anónima has a corporate capital of ARS 1,500,000 thousand, fully subscribed and paid-in, represented by 1,500,000,000 ordinary book-entry Class A, B, C and D shares, with a face value of ARS 1 each and one vote per share (according to the decision made by the General and Extraordinary Shareholder's Meeting held on July 21, 2006), except for the special multiple vote right for the Class D shares envisaged by the Bank's by-laws.

On February 2, 1999, Banco de la Nación Argentina, as trustee of the Assistance to the Federal Trust Fund for Regional Infrastructure, made the combined public offering of 42,000,000 ordinary Class D shares and 270,000 options, each of the latter representing the right to purchase 100 shares, with the obligation that investors acquire a minimum quantity of Class D shares so as to be awardees of the options. This right expired on February 2, 2004.

With the authorization of the National Securities Commission of Argentina, the Bank placed 13,616,606 Class D shares and 61,289 options on the local capital market, and 28,383,394 ADSs (American Depositary Shares), each representing one Class D share and 208,711 options, on the international capital market in compliance with Rule 144A of the Securities Act of 1933 of the United States of America.

As a result of the expiration date for exercising the options indicated above, on February 2, 2004 certain holders of those options acquired 17,909,500 class D shares.

Due to the expiration on January 29, 2009 of the Total Return Swap that had been executed and delivered on January 29, 2004, Deutsche Bank AG transferred to the Bank 71,100,000 ordinary Class "D" shares of Banco Hipotecario Sociedad Anónima with a face value of \$ 1 each, which were available according to the terms and conditions prescribed in the section 221 of the Argentine Companies Law.

Through Minutes No. 268 dated January 12, 2010, the Board of Directors resolved: 1) to propose to the Shareholders' Meeting that treasury Class D shares be given as payment to the holders of DAAs (StARS) to the extent of their accrued amounts, considering the shares' value at that moment, and 2) to discuss possible alternatives for the Shareholders' Meeting to resolve upon the allocation of the remaining shares.

On April 30, 2010, the General Ordinary Shareholders' Meeting resolved to extend for a year, counted as from January 31, 2010, the term for realizing the treasury shares held by the Bank. On the other hand, the General Extraordinary Shareholders' Meeting resolved to delegate upon the Board of Directors the decision to pay with the treasury shares in portfolio the Stock Appreciation Rights (StAR) coupons resulting from the 2003 debt restructuring as advisable based on the contractually agreed valuation methods and their actual market value after allowing the shareholders to exercise their preemptive rights on an equal footing.

On June 16, 2010, the Board of Directors resolved to launch a preemptive offer to sell a portion of the Bank's treasury shares, for a total of 36.0 million class D shares. The remaining shares would be delivered in

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payment to the holders of Stock Appreciation Rights (StAR) coupons arising from the debt restructuring, which fell due on August 3, 2010. On July 26, 2010, within the framework of the referred offer, the Bank sold approximately 26.9 million of the shares mentioned above.

On August 3, 2010 the proceeds of the offer and the balance of the shares referred in the preceding paragraph were made available to the holders of the Stock Appreciation Rights (StAR) coupons. With the above-mentioned offering, 999,312 Class D shares were sold in excess of those required to pay off the obligation previously mentioned. In connection with such excess sale, Ps. 554 thousand were recorded as Unappropriated retained earnings to reflect the addition of the shares to the entity's equity, which took place on January 29, 2009 as detailed in this note, and a further Ps. 834 thousand were booked as Additional paid-in capital for the difference between the value as added to the entity's equity and the sales value.

On April 13, 2011, the General Extraordinary Shareholders' Meeting authorized the Board of Directors to sell their own treasury stock in the market reducing to ten days the term for exercising the preemptive right, and suspending the exercise thereof when the sale of shares does not exceed 1% of the Capital Stock within any twelve-month fiscal year. The General Ordinary Shareholders' Meeting held on March 27, 2012 extended for one year the term fixed for the disposition of those shares.

The General Ordinary Shareholders' Meeting held on April 24, 2013 resolved to allocate 35,100,000 Class D shares held by the Bank to a compensation program for the personnel under the terms of Section 67 of Law 26,831. This resolution is pending approval by the CNV.

On April 24, 2014 the General Ordinary Shareholders' Meeting acknowledged the incentive or compensation program described in the preceding paragraph and its extension to the personnel employed by the subsidiaries BACS Banco de Crédito y Securitización S.A., BH Valores S.A., BHN Sociedad de Inversión S.A., BHN Vida S.A. and BHN Seguros Generales S.A.

As of December 31, 2016, the Bank held 36,634,733 treasury shares, out of which 1,534,733 correspond to third-party holders of StARs who have not filed the documentation required for their collection. The Shareholders' Meeting held on April 4, 2017 unanimously resolved to include 1,534,733 common shares in the compensation program for the personnel that had been approved at the Shareholders' Meetings held on April 24, 2013 and April 24, 2014.

Under Decree 2127/2012 and Resolution 264/2013 issued by the Ministry of Economy and Public Finance, the *Programa de Propiedad Participada* (Employee Stock Ownership Plan) was implemented. Under this plan, in a first stage, out of a total of 75,000,000, 17,990,721 Class B shares were converted into Class A shares, to be allocated among the employees that have withdrawn from the Bank in accordance with the implementation guidelines. Upon delivery to the former employees, the 17,990,721 shares will become Class D shares. The shares allocated to the Bank's current employees are designated as Class B shares, representing the *Programa de Propiedad Participada*.

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The following table shows the composition of the capital stock as of June 30, 2017, detailing the classes of shares and their face value.

<u>Class</u>	<u>Shares</u>	<u>Face Value</u>	<u>Capital Stock</u>
A	664,818,687	1	664,818,687
B	57,009,279	1	57,009,279
C	75,000,000	1	75,000,000
D	703,172,034	1	703,172,034
	<u>1,500,000,000</u>		<u>1,500,000,000</u>

On December 2, 2015, the Bank took notice of an observation raised by the Superintendent of Financial Institutions reporting to the Argentine Central Bank with regard to the insurance business developed by Banco Hipotecario S.A. through BHN Vida S.A. and BHN Seguros Generales S.A.

The observation requires the enforcement of the credit scoring regulations, which impose a 12.5% limit on interests in the capital stock and voting rights of other companies.

In reply, the Bank has claimed that such observation should be revised, in that the Bank is allowed to conduct the business in question pursuant to the Privatization Law No. 24,855 and its regulations, in particular Decree No. 1394/98, as continuing company of Banco Hipotecario Nacional, as set forth in the first paragraph of this Note.

In response to the decision made by the Superintendent of Financial Institutions to dismiss the request for reconsideration, the Bank produced further arguments in support of the reasons of fact and of law in its favor so that they should be duly considered in passing judgment on the administrative appeal lodged.

The Attorney General was asked to participate in the proceedings pursuant to the provisions of Law 12,954, and the motion for having the challenged administrative act stayed under the terms of Section 12 of Law No. 19,549, was maintained. The Argentine Central Bank admitted the motion and sent the file of the proceedings to the Office of the Attorney General. His opinion, which might be instrumental to the resolution of the matter discussed, is still pending. (See Note 36).

2. BASIS FOR PRESENTATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in line with accounting standards established by the Argentine Central Bank through CONAU 1 Circular, supplementary rules and amendments.

The financial statements of the predecessor entity, Banco Hipotecario Nacional, have been adjusted for inflation in conformity with the guidelines set in Communication "A" 551 of the Argentine Central Bank up to the financial year ended December 31, 1994, and prepared in accordance with the standards laid down by CONAU 1 Circular. As from January 1, 1995, and according to the authorization accorded by Resolution No. 388 of the Argentine Central Bank's Superintendency of Financial and Exchange Institutions, the Bank discontinued the adjustment for inflation of its financial statements until December 31, 2001. As from January

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1, 2002, as a result of the application of Communication "A" 3702 which established the repeal of any legal and regulatory rule that did not allow companies to restate their accounting balances at period-end currency values, the Bank resumed the application of the adjustment for inflation in accordance with the rules issued in due time by the Argentine Central Bank using the adjustment coefficient derived from the domestic wholesale price index published by the National Statistics and Census Institute (INDEC). Furthermore, it has been considered that the accounting measurements derived from the changes in the purchasing power of the currency between December 31, 1994 and 2001 are stated in the currency value as of the latter date.

On March 25, 2003, the Executive Branch issued Decree 664 establishing that the financial statements for years ending as from that date are to be stated in nominal currency. Consequently, in accordance with Communication "A" 3921 of the BCRA, the restatement of the financial statements was discontinued as from March 1, 2003.

Pursuant to the Argentine professional accounting standards in effect in the City of Buenos Aires, the financial statements must be stated in constant currency. The restatement method and the need to apply it arise from requirements contained in Technical Pronouncements No. 6 and No. 17 of the Argentine Federation of Professional Councils in Economic Sciences (FACPCE), as amended by Technical Pronouncement No. 39 issued by the referred entity on October 4, 2013 and approved by the Professional Council in Economic Sciences of the City of Buenos Aires on April 16, 2014. These standards provide that the effects of inflation should be recognized in the financial statements in the event that certain conditions in the Argentine economy are met.

This circumstance should be considered upon assessing and interpreting these financial statements, which have been prepared in line with the accounting standards issued by the Argentine Central Bank for application by financial institutions. The differences between the Argentine Central Bank regulations and the professional accounting standards in force in the Autonomous city of Buenos Aires are detailed in Note 3.

The restatement method and the need to apply it arise from requirements contained in Technical Pronouncements (RT) No. 6 and No. 17 of the FACPCE, as amended by Technical Pronouncement No. 39 issued by the referred entity on October 4, 2013 and approved by the Professional Council in Economic Sciences of the City of Buenos Aires on April 16, 2014. These standards provide that the effects of inflation should be recognized in the financial statements. As of June 30, 2017, the cumulative inflation rate for the three consecutive years ended on such date could not be calculated on the basis of official data provided by the INDEC since, in October 2015, the referred entity discontinued the calculation of the Wholesale Domestic Price Index (IPIM) and resumed it in January 2016.

As of the end of the reporting period, the Bank has found that the economy does not meet the conditions established in the Argentine professional accounting standards to qualify as highly inflationary; moreover, the Argentine government expects that the inflation level will fall. Therefore, these financial statements were not restated to constant currency.

However, in recent years, certain macroeconomic variables affecting the Bank's business, including, without limitation, wage costs and prices for supplies, have experienced significant annual changes. This circumstance should be considered in assessing and interpreting the Bank's financial position and results disclosed in these financial statements.

The principal disclosure and valuation criteria followed for preparing these financial statements are described below:

2.1. Foreign currency assets and liabilities

US dollar assets and liabilities have been valued at the rate of exchange between the peso and the US dollar published by the Argentine Central Bank. Assets and liabilities valued in foreign currencies other

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than the US dollar were converted into the latter currency using the swap rates communicated by the Argentine Central Bank's operations desk, in force at the close of operations on the last business day of the fiscal period ended June 30, 2017 and the fiscal year ended December 31, 2016.

2.2. Interest accruals and adjustments of principal amounts (UVA, UVI, CER and CVS)

Interest accruals were determined using the exponential method for all lending and certain borrowing transactions in local and foreign currency, and interest accruals for loans overdue more than ninety days were discontinued.

Adjustments of principal amounts from application of the UVA, UVI, CER and CVS were accrued as established by Argentine Central Bank regulations, and interest accruals on loans overdue more than ninety days were discontinued.

2.3. Government and corporate securities

As of June 30, 2017 and December 31, 2016, the securities classified as "Holdings booked at fair market value", "Investment in listed corporate securities" and "Securities issued by the BCRA" with volatility published by the BCRA, have been valued at period or year-end market quotation.

As of June 30, 2017 and December 31, 2016, the securities classified as "Holdings booked at cost plus return" and "Securities issued by the BCRA" with no volatility published by the BCRA or with volatility but which the Entity decides to book under the first category, have been valued, in accordance with the provisions of Communication "A" 5180 and supplementary rules, at their acquisition cost subject to an exponential increase based on the internal rate of return, net of contra accounts, if applicable. For comparison purposes with market values, see Schedule A.

The balance and nature of the liquid contra-account required by the Argentine Securities Commission are disclosed in Note 40.

2.4. Loans

The portfolio of performing loans and loans due ninety days or less has been valued in terms of the principal amounts actually lent, plus capitalized interest, net of principal amortization collected and debt balance refinancing, plus adjustments (from the application of the CER, CVS and UVA where applicable) and accrued interest receivable and less the estimated reserve for loan losses.

Other loans to the public sector:

- i) as of June 30, 2017 and December 31, 2016, those loans were valued at cost plus return according to point 2.2.6 of Communication "A" 5180, taking as cost their book value as of December 31, 2010.
- ii) those originally granted in foreign currency have been converted into Ps. at the exchange rate of \$1.40 per US dollar, as established by Law 25561, Decree 214 and supplementary rules and amendments. Since February 3, 2002, the CER has been applied to the amount of those loans and maximum rates have been established, in accordance with Decree 1579/02, if those assets were subjected to the Exchange of Provincial Public Debt.

Loans to the non-financial private sector originally granted in foreign currency have been converted into Ps. at the exchange rate of \$1.00 per US dollar, as established by Law 25561, Decree 214 and

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supplementary rules and amendments. Since February 3, 2002, the CER and CVS have been applied to the amount of those loans and maximum rates have been established, depending on the borrower.

2.5. Other receivables for financial transactions

The individual mortgage loans the trustee ownership of which was transferred by the Bank and recorded in this caption have been valued and converted into Ps. following the criterion described in points 2.2. and 2.4.

The rights arising from currency swap transactions have been valued at the quotation of that currency following the criterion described in point 2.1 (Note 13.3).

The financial trust participation certificates have been valued according to the equity method of accounting.

Financial trust debt securities have been stated at cost plus return, index-adjusted by applying the CER to the appropriate instruments.

The interest rate swap transactions carried out for the purposes of hedging assets and liabilities with fixed and floating rates have been valued in accordance with the unsettled balances of agreed upon lending and borrowing interests rates (Notes 13.2, 13.4, 13.5, 13.6 and 13.7).

OTC transactions agreed upon through ROFEX that are mainly closed as hedging for the position in foreign currency have been valued in accordance with the balances pending settlement (Note 13.1).

US dollar forward transactions which are generally settled upon maturity without delivery of the underlying asset have been valued in accordance with the balances pending settlement (Note 13.1).

Unlisted negotiable obligations have been valued at acquisition cost exponentially increased according to the internal rate of return.

The Bank holds Negotiable Obligations in its own portfolio, measured at their residual value plus interest accrued.

AY24 (Bonar 2024) and DICY (Discount Bond 2033) government securities held as collateral for OTC transactions are valued as explained in item 2.3 of this note.

Repo transactions are carried at the value originally agreed upon, plus accrued premiums.

Reverse repo transactions are carried at the book value of the underlying assets, as explained in item 2.3.

2.6. Receivables for financial leases

Receivables for financial leases are carried at the current value of the periodic installments and the residual value previously agreed upon, calculated as per the conditions set forth in the respective lease agreements, applying the internal rate of return and net of allowances for loan losses.

2.7. Investments in other companies

This caption mainly includes the equity investments held by the Bank in BACS Banco de Crédito y Securitización S.A., BHN Sociedad de Inversión Sociedad Anónima, BH Valores SA and Tarshop SA

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(Note 24). As of June 30, 2017 and December 31, 2016, those equity investments were recorded at their equity value according to the BCRA's accounting rules, plus intercompany profits not involving third parties, where applicable. Those equity investments amount to Ps. 1,431,238 thousand and Ps. 1,659,556 thousand, respectively.

In order to calculate the equity value of BHN Sociedad de Inversión Sociedad Anónima, BH Valores and Tarshop SA, the shareholders' equity and results captions have been subject to some adjustments and reconciliations with the accounting standards used by each subsidiary in order to adapt them to the BCRA's accounting standards. These adjustments and reconciliations have been subject to monitoring and management approval procedures, which contemplate all the significant captions that receive a different treatment under the standards applied, mainly including deferred tax, allowance for loan losses and capitalization of intangible assets.

The above equity investments arise from the financial statements of BACS Banco de Crédito y Securitización S.A., BHN Sociedad de Inversión Sociedad Anónima, BH Valores SA and Tarshop S.A. for the fiscal period ended June 30, 2017 and the fiscal year ended December 31, 2016.

As of June 30, 2017 and December 31, 2016, the Bank carries its participation in the mutual guarantee company (Confederar NEA S.G.R.) at the value of the contribution actually made.

2.8. Miscellaneous receivables

Miscellaneous receivables have been valued at the amounts actually transacted, plus interest accrued and net of allowances for loan losses or impairment, if applicable.

2.9. Bank premises, equipment and miscellaneous assets

These assets are recorded at cost restated in constant monetary units until February 28, 2003, following the method mentioned in the second and third paragraphs of this Note, net of accumulated depreciation calculated following the straight-line method, based on the estimated useful life of the assets. The cost of assets added before December 31, 1994 is restated in uniform currency as of that date, while subsequent transactions are valued in current purchasing power values of the year to which they correspond.

The Bank records in "Miscellaneous assets - Assets acquired through foreclosures" housing units added to the Bank's assets in repayment of mortgage loans. These housing units have been valued at the lower of market value or the value of the loan, net of allowances.

The net book values of the assets taken as a whole do not exceed their economic value, except for the assets intended for sale, which do not exceed their net realizable value.

2.10. Housing, life and unemployment insurance premiums in lending transactions and other transactions originated in its capacity of insurer, in accordance with the franchise granted by the privatization law (Note 1). Life self-insurance on debit balance.

The Bank's policy is to recognize the premium income when the corresponding loan installment accrues, except for those loans that are more than ninety days in arrears, and allocate the expenditures for claims to the net income/(loss) for the year in which they occur.

The policy of charging the claims to income in the fiscal year in which they occur is applied to settle financial transactions in which the Bank acts as self-insurer. Besides, the Bank has additional allowances

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that cover potential contingencies associated to the debit balance of loan transactions (See Notes 5 and 33).

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Organization and system development expenses have been restated in constant monetary units up until February 28, 2003, following the method mentioned in the second and third paragraphs of this Note, and are being amortized monthly according to the straight-line method, based on their estimated useful life.

The Goodwill stemming from the purchase of 80% of Tarshop SA's capital stock (Note 24) has been valued at acquisition cost, net of the accumulated amortization that had been calculated pro rata of the estimated useful life months.

Pursuant to Argentine Central Bank Communication "A" 5392, the Bank has capitalized increased direct expenses incurred in the mortgage loan origination process in its capacity as trustee, which disbursements would not have been incurred by it had it not been for the grant of the related loans. Such origination expenses are amortized in 60 monthly installments (Notes 38 and 39).

2.12. Deposits

Deposits have been valued at their placement value, plus adjustments (CER, UVA and UVI) and accrued interest, where applicable. The fixed return on each transaction is accrued on an exponential basis, while the variable return on time deposits adjusted by applying the CER and included in "Investment Accounts" is accrued at the pro rata agreed upon rate of return based on the improvement in the price of the financial asset or financial asset indicator, between the time the transaction is arranged and the end of the month.

2.13. Other liabilities for financial transactions

Unsubordinated negotiable obligations have been valued at their residual value plus accrued interest.

Foreign currency-denominated obligations under swap transactions carried out as a hedge have been converted into Argentine pesos according to the criterion described in point 2.1. (Note 13.3)

The interest rate swap transactions carried out for the purposes of hedging assets and liabilities with fixed and floating rates have been valued in accordance with the unsettled balances of agreed upon lending and borrowing interests rates (Notes 13.2, 13.4, 13.5, 13.6 and 13.7). In addition, following a prudent criterion, the Bank creates provisions for these transactions when the value stated above exceeds its fair value.

OTC transactions agreed upon through ROFEX that are mainly closed as hedging for the position in foreign currency have been valued in accordance with the balances pending settlement (Note 13.1).

US dollar forward transactions which are generally settled upon maturity without delivery of the underlying asset have been valued in accordance with the balances pending settlement (Note 13.1).

Repo transactions are carried at the value originally agreed upon plus any accrued premium amounts.

Reverse repo transactions are carried at the book value of the underlying securities in the manner discussed in note 2.3.

2.14. Miscellaneous liabilities

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They are valued at the amounts actually transacted, plus accrued interest as of fiscal period or year-end.

2.15. Provisions

The Bank estimates contingencies and records them in Provisions, under Liabilities according to the estimated likelihood of occurrence. These provisions cover various items, such as provisions for lawsuits, provisions for taxes, other contingencies, etc. (Note 16).

In addition, the Bank has created the allowance required under Communication "A" 5689 issued by the Argentine Central Bank in order to provide for the total amount of administrative and/or disciplinary sanctions and criminal penalties supported by first instance rulings, applied or pursued by the Argentine Central Bank, the Financial Information Unit, the Argentine Securities Commission and the Argentine Superintendence of Insurance.

2.16. Dismissal indemnities

The Bank does not set up any provisions to cover the risk of dismissal indemnities involving the staff. The disbursements in respect thereof are charged to the results for the period or year in which they occur.

2.17. Personnel benefits

The Bank has set up provisions for its employees' retirement plans (Note 16).

2.18. Income Tax

Pursuant to Article 28 of Law 24855, Banco Hipotecario Sociedad Anónima is subject to income tax, except for all the housing loan transactions carried out prior to October 23, 1997, date of registration of its by-laws with the Superintendence of Corporations.

The Bank charges to income and sets up a provision under Liabilities for the income tax determined on its taxable transactions in the fiscal year in which those transactions are carried out (Note 32).

2.19. Minimum notional income tax

In view of the option granted by the BCRA by means of Communication "A" 4295, as of December 31 and June 30, 2017, the Bank capitalized the tax amount paid in previous fiscal years as a minimum notional income tax credit (Note 33).

2.20. Shareholders' Equity

a. Capital stock, treasury shares, non-capitalized contributions, reserves, and capital adjustment:

The Shareholders' Equity account activity and balances prior to December 31, 1994 have been stated in the currency values prevailing at that date, following the method mentioned in this Note. The transactions carried out subsequent to that date have been recorded in currency values of the period or year to which they correspond. The balances of the shareholders' equity accounts as of June 30, 2017 have been restated up to February 28, 2003 as explained in the third paragraph. The adjustment derived from the restatement of the balance of "Capital Stock" was allocated to "Equity Adjustments". The issued treasury shares added due to the termination of Total Return Swap transaction (Note 1) are carried at nominal value.

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b. Results:

Income and expenses have been recognized against the results for the fiscal year, regardless of whether they have been collected or paid.

The preparation of the financial statements requires that the Bank's Board of Directors perform estimates affecting assets and liabilities, the net income/ (loss) for the fiscal period or year and the determination of contingent assets and liabilities at the date thereof, such as allowances for loan losses and impairment, the recoverable value of assets and provisions. Since these estimates involve value judgments regarding the probability of occurrence of future events, the actual net income/ (loss) may differ from the estimated amount and thus generate losses or profits affecting subsequent periods or years. All legal and regulatory rules in force at the date of presentation of these financial statements have been considered.

The financial statement figures for the previous fiscal period or year, presented for comparative purposes, include certain reclassifications and adjustments that contemplate specific disclosure criteria so as to present them on a consistent basis with those of the current fiscal period or year.

3. DIFFERENCES BETWEEN ARGENTINE CENTRAL BANK REGULATIONS AND PROFESSIONAL ACCOUNTING STANDARDS

Below is a detail of the main differences between the Argentine Central Bank regulations and professional accounting standards, considering the statement made in Note 2:

3.1. Valuation criteria

a) Accounting for income tax according to the deferred tax method

The Bank determines income tax at the statutory rate applicable to the estimated taxable income, without considering the effect of any timing differences between the accounting and taxable results. Under professional accounting standards, income tax must be recognized according to the deferred tax method (see Note 32).

b) Derivatives

Derivative instruments were valued as described in Note 2.5. The criteria applied to the recognition of the currency and interest rate swaps, in certain cases, differ from those prescribed by professional accounting standards. As there are no stock exchange quotations available for such instruments, they should have been valued through the application of mathematical models, discounting lending and borrowing cash flows at market rates by currency and by term for comparable transactions as prescribed by FACPCE's Technical Pronouncement No. 18.

c) Receivables and debts stemming from refinancing

Pursuant to professional accounting standards, when certain receivables and debts are replaced by others which terms and conditions are substantially different from the original ones, the existing account shall be closed and a new receivable or debt shall be recorded, the accounting measurement of which shall be made on the best possible estimate of the amount payable or receivable, using a discount rate that reflects market valuations on the time value of money and the specific risks of such assets and liabilities. Said transactions are valued under

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BCRA standards based on the rates contractually agreed upon and, as the case may be, the risk is measured pursuant to the classification and provisioning criteria specifically set forth.

d) Financial Trusts

The financial trust participation certificates have been valued according to the equity method of accounting, net of allowances, as applicable. In addition, financial trust debt securities have been stated at cost plus return, index-adjusted by applying the CER to the appropriate instruments, net of allowances, less the negative amount of the Participation Certificates, as the case may be, reported by the Trustee. This criterion differs from professional accounting standards.

e) Commissions, Interest and Costs related to Loans and Credit Cards

Pursuant to accounting standards, certain captions for commissions, fees, charges and costs incurred in connection with the granting of loans or the issuance of credit cards must be capitalized based on future income generation. This criterion is not applied under the Argentine Central Bank's standards.

f) Intangible assets

The Bank determined the Goodwill for the acquisition of 80% of Tarshop SA's capital stock based on the excess of the acquisition cost over the equity value of such ownership interest and made the adjustments called for by the differences between the professional accounting standards applied upon valuing shareholders' equity and the accounting standards imposed by BCRA, such as deferred tax and allowances for loan losses. According to the currently applicable professional accounting standards, Goodwill should reflect the difference between the acquisition cost of said ownership interest and the holding percentage over the amount of the net assets valued at fair value as estimated.

Pursuant to Communication "A" 5392, the Bank has capitalized and amortized in 60 installments incremental direct expenses incurred in the origination process of certain mortgage loans in its capacity as trustee. This criterion differs from professional accounting standards.

3.2. Disclosure issues

a) Earnings per share and business segment

The criterion established by Technical Pronouncement No. 19 for disclosing these items differs from that established by the Argentine Central Bank in its Circular CONAU 1.

It is to be emphasized that the exposure and valuation of the various items that make up these financial statements must be analyzed in the light of each one of the sets of regulations in its entirety, that is, both the accounting standards issued by the Central Bank of Argentina for application by financial institutions and the professional accounting standards considering that the application of certain valuation and disclosure criteria may have an impact on the application of other criteria.

Had the above-mentioned effects been contemplated, the Bank's equity under professional accounting standards would have decreased by approximately Ps. 8,357 thousand and increased by Ps. 12,031 thousand as of June 30, 2017 and December 31, 2016, respectively, whilst income/(loss) under such

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criteria would have decreased by approximately Ps. 20,383 thousand and increased by Ps. 98,135 thousand as of June 30, 2017 and December 31, 2016, respectively.

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4. RECONCILIATION OF BALANCES TO THE APPLICABLE ACCOUNTING FRAMEWORK FOR CONVERGENCE TOWARDS THE IFRS

On February 12, 2014, BCRA issued its Communication “A” 5541, as amended, whereby it provides a roadmap to convergence between the informational and accounting regime and International Financial Reporting Standards (IFRS), pursuant to this Communication, the entities and institutions must start to account for their financial transactions and changes in accordance with the rules issued by BCRA following the above-mentioned convergence regime as from the fiscal years beginning on January 1, 2018 and their interim periods.

On December 12, 2016, the BCRA issued Communication “A” 6114, whereby it established the criteria that should be taken into consideration by financial institutions in the framework of convergence starting on January 1, 2018, highlighting: i) application of IFRS issued by the International Accounting Standards Board and adopted as of the date hereof by Technical Resolution No. 26 issued by the Argentine Federation of Professional Councils in Economic Sciences, as amended, and any circulars for adoption already approved and scheduled to come into force before December 31, 2018, ii) exception from application of Section 5.5 (impairment) of IFRS 9 “Financial Instruments” for institutions subject to control, with the standards on “Minimum allowances for loan losses” continuing in effect (in due time the BCRA will release a specific schedule for convergence towards the model adopted in line with international best practices), and iii) for the calculation of the interest rate that actually applies to the assets and liabilities that require the use of an interest rate for measurement purposes, preparers should take into consideration the principles, definitions and examples included in IFRS 9; allowing temporarily -until December 31, 2019- to use an overall estimate of the calculation of the interest rate actually applied to a group of similar financial assets or liabilities over which such interest rate should apply.

Accordingly, BHSA has prepared the following reconciliation of asset and shareholders’ equity balances according to the BCRA’s rules and to the IFRS as of June 30, 2017, and a reconciliation of comprehensive income for the period ended June 30, 2017. As established in IFRS 1 “First-time Adoption of International Financial Reporting Standards,” the transition date to the IFRS for the Bank is January 1, 2017.

At present, the Bank is conducting a process to tailor its systems to the adoption of the IFRS. Therefore, the items and figures contained in this note might change. If by December 31, 2018, the standards in force were to have changed again, these items and figures might have to change as well.

Reconciliation of balances to the applicable accounting framework for convergence towards the IFRS

A. Reconciliation of balances and shareholders’ equity as of June 30, 2017

	Ref.	Separate Financial Statements			Consolidated Financial Statements		
		BCRA Balances	IFRS Adjustments	IFRS Balances	BCRA Balances	IFRS Adjustments (b)	IFRS Balances
In thousands of Pesos							
Assets		49,272,040	(536,074)	48,735,966	55,261,858	(88,964)	55,172,894
Cash and cash resources		3,259,774	-	3,259,774	3,435,303	227,238	3,662,541
Government and Corporate Securities	(a), (h)	6,299,533	424,164	6,723,697	8,082,099	202,519	8,284,618
Loans	(a), (h)	28,801,438	(4,382)	28,797,056	31,167,477	4,377,206	35,544,683
Other receivables for financial transactions	(a), (h), (i)	5,436,578	(1,518,930)	3,917,648	7,942,975	(5,747,290)	2,195,685

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Receivables for financial leases		164,605	-	164,605	164,605	-	164,605
Investments in other companies	(b)	1,436,249	(66,473)	1,369,776	103,120	-	103,120
Miscellaneous Receivables	(h)	1,651,851	(5,627)	1,646,224	2,074,134	220,179	2,294,313
Bank Premises and Equipment	(c)	405,242	933,363	1,338,605	437,640	933,363	1,371,003
Miscellaneous Assets	(c)	1,253,687	97,479	1,351,166	1,267,042	97,479	1,364,521
Intangible Assets	(d)	550,186	(395,668)	154,518	574,566	(399,658)	174,908
Items pending allocation		12,897	-	12,897	12,897	-	12,897
Liabilities		42,590,835	(1,019,101)	41,571,734	48,580,653	(873,586)	47,707,067
Deposits		19,926,926	-	19,926,926	19,882,975	-	19,882,975
Other liabilities for financial transactions	(a), (e), (h), (i)	21,315,947	(1,209,847)	20,106,100	25,753,785	(377,857)	25,375,928
Miscellaneous liabilities	(g), (i)	985,067	99,110	1,084,177	2,242,471	(292,220)	1,950,251
Provisions	(f)	323,323	91,636	414,959	348,821	97,061	445,882
Items pending allocation		39,572	-	39,572	52,031	-	52,031
Minority interests		-	-	-	300,570	(300,570)	-

	Separate Financial Statements			
	BCRA Balances	First-time IFRS Adjustments (k)	IFRS Adjustments	IFRS Balances
	In thousands of Pesos			
Shareholders' equity attributable to parent company's owners	6,681,205	620,201	(137,174)	7,164,232
Capital, Contributions and Reserves	4,400,376	-	-	4,400,376
Other comprehensive income	-	-	(4,322)	(4,322)
Unappropriated earnings	2,280,829	620,201	(132,852)	2,768,178
Shareholders' equity attributable to minority interests	-	-	-	-

	Consolidated Financial Statements			
	BCRA Balances	First-time IFRS Adjustments (k)	IFRS Adjustments	IFRS Balances
	In thousands of Pesos			
Shareholders' equity attributable to parent company's owners	6,681,205	620,201	(137,174)	7,164,232
Capital, Contributions and Reserves	4,400,376	-	-	4,400,376
Other comprehensive income	-	-	(4,322)	(4,322)
Unappropriated earnings	2,280,829	620,201	(132,852)	2,768,178
Shareholders' equity attributable to minority interests	-	163,767	137,828	301,595
Total Shareholders' Equity	6,681,205	783,968	654	7,465,827

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B. Reconciliation of the statement of comprehensive income as of June 30, 2017

	Ref.	Separate Financial Statements			Consolidated Financial Statements		
		BCRA Balances	IFRS Adjustments	IFRS Balances	BCRA Balances	IFRS Adjustments (b)	IFRS Balances
In thousands of Pesos							
Net Income for the Period		624.973	(110.072)	514.901	624.973	(110.072)	514.901
Financial Income		4.413.379	19.875	4.433.254	5.331.279	511.858	5.843.137
Financial Expenses	(a)	2.967.577	-	2.967.577	3.440.399	395.050	3.835.449
Loan Loss Provision		229.993	-	229.993	379.680	151.567	531.247
Income from Services	(e)	1.505.743	137	1.505.880	2.922.960	(21.710)	2.901.250
Expenses for Services	(a)	630.396	27.098	657.494	645.011	15.838	660.849
Administrative Expenses	(a), (c), (d), (f)	1.958.210	(39.177)	1.919.033	2.812.407	16.092	2.828.499
Other		492.027	(33.344)	458.683	(72.142)	32.263	(39.879)
Income Tax	(j)	-	108.819	108.819	279.627	53.936	333.563
Other Comprehensive Income				(4.322)			(4.322)
Changes to surplus from revaluation of Bank Premises, Equipment and Intangible Assets				(4.810)			(4.810)
Gains (loss) from financial instruments at fair value through Other comprehensive income (IFRS 9, Sections 5.7.5 and 4.1.2A)				488			488
Total Comprehensive Income for the Period				510.579			510.579
Total Comprehensive Income attributable to:							
Comprehensive income attributable to parent company's owners	(a)						470.722
Comprehensive income attributable to minority interests	(c)						39.857

The items and figures contained in this reconciliation may only be regarded as final when annual financial statements are prepared for the year in which the IFRS are adopted for the first time, within the scope defined by the Argentine Central Bank in Communication "A" 6114, as amended.

C. Adjustments explained

(a) Changes to financial asset classification and measurement criteria

Under the IFRS, financial assets are classified into three categories: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit and loss, on the basis of the business model and the specific features of the instruments.

The Bank's accounting criteria pursuant to the BCRA'S rules differ from the provisions of the IFRS in certain aspects, namely:

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- (i) Government securities with no volatility published by the BCRA have been valued at their acquisition cost subject to an exponential increase based on the internal rate of return;
- (ii) Loans are stated at their acquisition cost, plus accrued interest on the basis of the contractual rate;
- (iii) Debt securities acquired at par value are stated at their current redemption value;
- (iv) Participation certificates in financial trusts have been valued taking into account the share of liabilities in net assets, as per the financial statements of the respective trusts, adjusted for the effect the application of the BCRA's rules may have had on them, where applicable;
- (v) Unlisted negotiable obligations and debt securities have been valued at their acquisition cost subject to an exponential increase based on the internal rate of return.

On the basis of the provisions contained in the IFRS, BHSA has classified the following financial instruments as "amortized costs":

- Loans and receivables associated to financial leases
- Financial trust debt securities
- Third-party negotiable obligations
- Financial liabilities

In addition, the following financial assets have been classified within the "fair value" category:

- Government securities
- Monetary regulation instruments issued by the Argentine Central Bank
- Shares

The differences in valuation criteria as of June 30, 2017 amount to:

	IFRS Adjustments in Separate Financial Statements	IFRS Adjustments in Consolidated Financial Statements
	Thousands of Pesos	
Government Securities	(2,207)	(2,207)
Loans	(62,664)	(95,683)
Other receivables for financial transactions	115,342	115,342
Other liabilities for financial transactions	(54,956)	(63,514)

(b) Investments in other companies

According to the rules laid down by the Argentine Central Bank, the companies discussed in Note 1 to the Consolidated Financial Statements are considered to be controlled companies. According to the IFRS, these companies continue to be considered subsidiaries and the following special purpose entities join them inasmuch as they are considered to be controlled by BACS:

Entity's name	Business
Fideicomiso Hipotecario BACS III	Financial trust
Fideicomisos Hipotecarios BACS Funding I	Financial trust
Fideicomisos Hipotecarios BACS Funding II	Financial trust

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An entry to recognize the IFRS adjustments in controlled companies has been recorded in the separate financial statements which led to a decrease in shareholders' equity for Pesos 66,473 thousand.

(c) Bank Premises, Equipment and Miscellaneous Assets

The Entity used the voluntary exemption set forth in IFRS 1 to measure certain items in the Real Estate Property caption. This entails measuring such items at their fair value and using such fair value as the cost attributed at the date of transition.

Additionally, the Entity capitalizes the costs associated to stationery and office supplies. According to the IFRS, these costs do not fulfill the requirements to be capitalized. Therefore, the balance of such item was reversed.

	Separate Financial Statements			Consolidated Financial Statements		
	BCRA Balances	IFRS Adjustments	IFRS Balances	BCRA Balances	IFRS Adjustments	IFRS Balances
	In thousands of pesos					
Revaluation of Real Estate Property pursuant to application of the IFRS 1	82,699	933,363	1,016,062	82,699	933,363	1,016,062
Other bank premises and equipment	322,543	-	322,543	354,941	-	354,941
Total bank premises and equipment caption	405,242	933,363	1,338,605	437,640	933,363	1,371,003
Revaluation of Real Estate Property pursuant to application of the IFRS 1	10,032	132,741	142,773	10,032	132,741	142,773
Stationery and office supplies	35,262	(35,262)	-	35,262	(35,262)	-
Other miscellaneous assets	1,208,393	-	1,208,393	1,221,748	-	1,221,748
Total Miscellaneous assets caption	1,253,687	97,479	1,351,166	1,267,042	97,479	1,364,521

(d) Intangible Assets

Under the IFRS, an intangible asset is an identifiable non-monetary asset without physical substance. In order to recognize intangibles, the Bank is required to have control over the asset, and future economic benefits are to be derived from that asset. Under the BCRA's rules, the Bank has recognized intangible assets that do not meet the recognition requirements of IFRS. As of June 30, 2017, the adjustment represents a decrease in shareholders' equity of Ps. 395,668 thousand and Ps. 399,658 thousand at separate and consolidated level, respectively.

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(e) Financial Collateral

Under the IFRS, financial collateral given by an entity should be initially recognized at fair value, which in most cases is equal to the fees charged. Such amount is then amortized on a straight line basis during the term of the contract. At each period end, financial collateral is measured at the higher of: (i) the fees not yet accrued as of the period/year-end, and (ii) the best estimate of the amount payable to terminate the contract, discounted at its present value as of the period/year-end.

Under the BCRA's rules, fees earned on financial collateral arrangements are charged to income when cashed.

The adjustment encompasses recognizing an asset in receivables for financial transactions for Ps. 1,032 thousand and a liability in other liabilities for financial transactions for Ps. 677 thousand.

(f) Accruals

Under the IFRS, short-term employee benefits, such as, vacations, salaries and wages, and social security contributions, are recognized as a liability for the undiscounted amount the Bank expects to pay for such benefits.

Under the BCRA's rules, the Bank set up a vacation accrual for an amount equal to the vacation bonus. The adjustment entails recognizing the vacation accrual for the total amount of the benefit the Bank expects to pay, which as of June 30, 2017 amounts to:

	Separate Financial Statements			Consolidated Financial Statements		
	BCRA Balances	IFRS Adjustments	IFRS Balances	BCRA Balances	IFRS Adjustments	IFRS Balances
	In thousands of Pesos					
Vacation Bonus Accruals	25,246	91,636	116,882	44,813	97,061	141,874

(g) Claims reserve

BHN Vida S.A. and BHN Seguros Generales S.A. are subsidiaries of our BHN Sociedad de Inversión S.A. subsidiary and they have evaluated at the end of each fiscal period/year being reported whether insurance claims' liabilities have been adequately recognized on the basis of the current estimates of the future cash flows stemming from their insurance contracts. Based on the evaluation as of June 30, 2017, the shareholders' equity was reduced by Pesos 2,972 thousand.

(h) Reclassifications without impact on shareholders' equity

Reverse repo transactions

Under the IFRS, a bank will derecognize a financial asset that had been assigned only to the extent the risks and benefits associated to that asset had been substantially transferred. In a reverse repo transaction, where the repurchase price is fixed, the Bank is not deemed to have substantially transferred all risks and benefits attached to the instrument and, hence, a liability should be recognized for the consideration received, without derecognizing the instrument involved in the repo transaction.

Under the BCRA's rules, a financial asset is to be derecognized when it is transferred. The adjustment involves recognizing the instruments and then reversing the receivable for financial transactions and the haircut booked under miscellaneous receivables.

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Repo transactions

Under the IFRS, a financial asset acquired through a repo transaction with no transfer of the risks and benefits associated to that asset should be recognized as a loan granted.

Under the BCRA's rules, the acquired security is recognized at the time of the transfer. The adjustment involves derecognizing the listed government security, followed by the reversal of the holding gains (losses) from such security that had been charged to income, and by the reversal of the liability booked under liabilities for financial transactions.

Transactions to be settled

Under the IFRS, a conventional purchase or sale of financial assets is recognized using the "trade date" or the "settlement date" accounting. The election between one or the other is a matter of accounting criteria that will then have to be consistently applied to all purchases and sales of financial assets classified within the same category.

The Bank relies on the accounting criteria of recognizing spot and forward transactions to be settled on the trade date. Accordingly, the Bank will recognize all traded transactions that are pending as if such transactions had been settled.

Under the BCRA's rules, the Bank recognizes spot and forward transactions to be settled on the trade date under Other receivables for financial transactions or under Other liabilities for financial transactions, as applicable, and classifies them under the applicable item on the settlement date.

The amounts reclassified as of June 30, 2017 are as follows:

	IFRS Adjustments in Separate Financial Statements				
	Repo Transactions	Reverse repo Transactions	Transactions to be settled	Guarantees	Total
	In thousands of pesos				
Government Securities	(64,795)	19,205	178,949	293,012	426,371
Loans	58,282	-	-	-	58,282
Other receivables for financial transactions	(58,282)	(19,205)	(1,269,400)	(287,385)	(1,634,272)
Miscellaneous receivables		-	-	(5,627)	(5,627)
Other liabilities for financial transactions	(64,795)	-	(1,090,451)	-	(1,155,246)
Total impact on shareholders' equity	-	-	-	-	-

	IFRS Adjustments in Consolidated Financial Statements				
	Repo Transactions	Reverse repo Transactions	Transactions to be settled	Guarantees	Total
	In thousands of pesos				
Government Securities	(282,960)	19,205	175,469	293,012	204,726
Loans	276,760	-	-	-	276,760
Other receivables for	(276,760)	(19,205)	(1,345,988)	(287,385)	(1,929,338)

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financial transactions					
Miscellaneous receivables		-	-	(5,627)	(5,627)
Other liabilities for financial transactions	(282,960)	-	(1,170,519)	-	(1,453,479)
Total impact on shareholders' equity	-	-	-	-	-

(i) Derecognition of financial assets

According to the IFRS, entities must derecognize financial assets from the accounts if and only if:

- (a) Contractual rights over the financial assets' cash flows expire; or
- (b) The financial asset is transferred and the transfer satisfies all the requirements for derecognition from the accounts.

Transfer of financial assets

Entities shall be considered to have transferred a financial asset if and only if:

- (a) the entities transfer the contractual rights to receive the cash flows from a financial asset, or
- (b) entities retain the contractual rights to receive the cash flows from the financial asset but take the contractual obligation to pay them to one or more receivers.

Derecognition from the accounts: requirements

When entities transfer a financial asset, the entities shall assess the extent to which they retain the risks and the rewards inherent in ownership. In this case:

(a) If an entity proceeds with a substantial transfer of the risks and rewards inherent in the ownership of a financial asset, the entity shall derecognize it from the accounts and shall recognize separately, as either assets or liabilities, any rights and duties created or retained upon transferring ownership.

(b) If the entity retains substantially all the risks and rewards inherent in ownership of a financial asset, the entity will continue to recognize this asset.

(c) If the entity proceeds with neither a substantial transfer nor retention of all the risks and rewards inherent in ownership of a financial asset, the entity shall determine whether it has retained control over the financial asset. In this case:

(i) If the entity has not retained control, the entity shall derecognize the financial asset and shall separately recognize, as assets or liabilities, any rights or obligations created or retained as a result of the transfer.

(ii) If the entity has retained control, the entity shall continue to recognize the financial asset to the extent of its continued involvement in the financial asset.

Transfers that do not satisfy the requirements for derecognition from the accounts

If a transfer does not lead to a derecognition from the accounts because the entity has substantially retained all the risks and rewards inherent in ownership of the asset transferred, the entity shall continue to recognize said transferred asset in its entirety and shall recognize a financial liability in exchange for the consideration received. In subsequent periods, the entity shall recognize all income from the asset transferred and all expenses incurred by the financial liability.

As of the date of transition, we have adopted the IFRS 1 exception concerning financial asset derecognition. This exception provides that an entity that is a first-time IFRS adopter shall apply the IFRS 9's requirements for derecognition from the accounts on a prospective basis for the transactions that are conducted as from the date of transition to the IFRS.

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This notwithstanding, IFRS 1 also sets forth that if an entity is a first-time adopter of the IFRS after a subsidiary, this entity shall measure in its consolidated financial statements the subsidiary's assets and liabilities for the same book amounts as those appearing in the subsidiary's financial statements. This is the case of our Tarshop S.A. subsidiary which adopted the IFRS for the periods starting as from January 1, 2012 and therefore, the subsidiary applies IFRS 9 and applies the requirements for derecognition from the accounts prescribed by IFRS9 giving rise to an adjustment that reduces shareholders' equity for Ps. 178,987 thousand.

(j) Income tax

Under IFRS, the income tax liability for the period encompasses current and deferred taxes. Current income tax is calculated on the basis of legislation that was, or is about to be, enacted as of the balance sheet date. Deferred tax is recognized pursuant to the asset-liability method, that is, for the temporary differences arising from the valuation of assets and liabilities for tax and accounting reporting purposes. Deferred tax is assessed using tax rates (and laws) that are, or about to be, enacted as of the balance sheet date and that are expected to be applicable upon the realization of the respective deferred tax asset, or upon the settlement of the deferred tax liability.

Under the BCRA's rules, the Bank recognizes the current tax liability for the period/year.

As of June 30, 2017, the effect of recognizing deferred tax asset is a decrease in shareholders' equity equivalent to Ps. 99,110 thousand at separate level and an increase in shareholders' equity for Ps. 51,277 thousand at consolidated level.

(k) Application of IFRS 1

Below is a detail of the applicable exemptions and exceptions used in this reconciliation.

Optional exemptions under IFRS:

Below is a detail of the applicable exemptions and exceptions under IFRS 1 that were relied upon during the transition from the BCRA's rules to the IFRS:

Under IFRS 1, entities adopting the IFRS for the first time are allowed to consider certain one-off waivers to the retroactive application requirement of the IFRS in force for financial statements ending on December 31, 2018. The IASB has established such waivers in order to streamline the first-time adoption of such standards.

Below is a detail of the optional exemptions applicable to the Bank under IFRS 1:

1. **Cost allocated to Bank Premises & Equipment and Investment Property:** the fair value of certain property and investment property has been adopted as allocated cost as of the transition date to the IFRS.
2. **Business combinations:** the Bank has decided not to apply IFRS 3 "Business combinations" retroactively to business combinations consummated before the transition date to the IFRS.
3. **Assets and liabilities of subsidiaries that have already adopted the IFRS:** the Bank has adopted the IFRS for the first time after its subsidiary Tarshop S.A. Therefore, the carrying values of this subsidiary's assets and liabilities have been measured in the Bank's consolidated financial statements for the same amounts disclosed in that subsidiary's separate financial statements.

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4. **Designation of previously recognized financial instruments:** the Bank has opted for designating certain financial instruments, in the light of the facts and circumstances prevailing on the transition date to the IFRS.
5. **Loan costs:** BHSA has opted for applying the requirements of IAS 23 as from the transition date to the IFRS.
6. The Bank has not relied on the other exemptions available under the IFRS 1.

Mandatory exceptions under IFRS

Below is a detail of the mandatory exceptions applicable to the Bank under IFRS 1:

1. **Estimates:** the Bank's estimates to calculate balances as per IFRS as of the transition date to the IFRS are consistent with the estimates made as of the same date following the BCRA's accounting rules (without applying the impairment chapter under IFRS 9)
2. **Derecognition of financial assets and liabilities:** IFRS 1. The Bank has relied on the derecognition criteria for financial assets and liabilities under IFRS 9 on a prospective basis for transactions occurring as of the transition date to the IFRS.
3. **Classification and measurement of financial assets:** the Bank has taken into consideration the facts and circumstances prevailing as of the transition date to the IFRS in assessing whether financial assets are eligible for classification as assets measured at amortized cost, or at fair value through other comprehensive income.
4. Below is a list of other mandatory exceptions established in IFRS 1 that were not applied for they are not relevant to the entity:
 - Hedge accounting,
 - Minority interests,
 - Embedded derivatives,
 - Government loans

However, in preparing this information, the Bank had to make estimates affecting assets and liabilities and net income for the period/year which may result in changes when preparing the financial statements as of December 31, 2018.

5. DEBTORS CLASSIFICATION AND PROVISIONING

Allowances for loan losses established as of June 30, 2017 and December 31, 2016, cover the minimum allowances required by the Argentine Central Bank, which are determined according to the level of compliance of debtors, the guarantees securing the loans and the debtor's economic and financial condition, among others, the provisions raised for individual loans refinanced in accordance with the criterion described in Communication "A" 4583, and supplementary rules, as amended, and certain estimates concerning the impact of the current economic situation on the recoverability of the loan portfolio which includes self-

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insurance of risks stemming from death and disability on the debit balance of the financing covered by contracts made with insurance companies.

All individual consumer loans that must be fully provisioned in accordance with the rules in force are written off from the Bank's assets one month after the date in which such provision is made. As a result of the foregoing, in compliance with Argentine Central Bank Communication "A" 2357 and supplementary rules, as amended, the Bank recorded Ps. 925,443 thousand and Ps. 916,764 thousand in memorandum accounts as of June 30, 2017 and December 31, 2016, respectively.

The individual mortgage loans granted and managed by the Retail Bank Network, in which said banks assume 100% of cash flows guarantees, have been classified as normal for purposes of calculating provisioning levels.

Based on the foregoing, the Bank's Board of Directors believes that the allowances for loan losses set up are sufficient to cover the minimum allowances required by the Argentine Central Bank rules and professional accounting standards on the total amount of the portfolio.

6. RESTRICTED ASSETS

As of June 30, 2017 and December 31, 2016, the Bank maintains deposits amounting to Ps. 158,635 thousand in AY24 (Bonar 2024) and Ps. 128,750 thousand in DICY (Discount Bond 2033) and Ps. 326,789 thousand in Central Bank Bills (I18E7-I19L7-I24Y7 and I25E7), respectively, as collateral for OTC ROFEX transactions. These escrow deposits have been recorded under "Other receivables for financial transactions".

In addition, as of June 30, 2017 and December 31, 2016, the Bank maintains escrow deposits for MAE transactions amounting to Ps. 5,627 thousand in AY24 (Bonar 2024) and Ps. 3,989 thousand in Central Bank Bills (HO4E7), respectively. These escrow deposits have been recorded in "Miscellaneous Receivables".

As of June 30, 2017 and December 31, 2016, the Bank maintains deposits amounting to Ps. 307,976 thousand and Ps. 364,586 thousand, respectively, as collateral for Visa credit card transactions. These escrow deposits have been recorded in "Miscellaneous Receivables".

As of June 30, 2017 and December 31, 2016, the Bank maintains deposits amounting to Ps. 1,198 thousand and Ps. 1,027 thousand, respectively, as collateral for offices and stores leases. These escrow deposits have been recorded in "Miscellaneous Receivables".

As of June 30, 2017 and December 31, 2016, the Bank maintains deposits amounting to Ps. 896 thousand and Ps. 810 thousand, respectively, as collateral for Red Link losses. These escrow deposits have been recorded in "Miscellaneous Receivables".

7. LOANS

The breakdown of the "Others" line under the "Loans" caption is as follows:

	06/30/2017	12/31/2016
	Thousands of Ps.	Thousands of Ps.
Working capital loans in \$	2,896,603	2,221,256
Working capital loans in US\$	1,247,900	973,698
Loans for the financing of Manufacturers in US\$	192,362	189,838

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Export prefinancing	844,034	602,308
Other loans in foreign currency	1,661,251	961,248
Total	6,842,150	4,948,348

8. OTHER RECEIVABLES FOR FINANCIAL TRANSACTIONS

The breakdown of the "Other receivables included in the debtor classification regulations" line, under the "Other receivables for financial transactions" caption is as follows:

	06/30/2017	12/31/2016
	Thousands of Ps.	Thousands of Ps.
Mortgage loans delivered in trust (Note 9)	5,801	6,934
Loan-related items	16,061	11,249
Other consumer loan-related items	631	96,490
Total	22,493	114,673

The breakdown of the "Other receivables not included in the debtor classification regulations" line, under the "Other receivables for financial transactions" caption, is as follows:

	06/30/2017	12/31/2016
	Thousands of Ps.	Thousands of Ps.
Own negotiable obligations	197,126	366,439
Trust participation certificates (Note 9)	75,135	85,026
Mortgage-backed debt securities (Note 9)	66,379	67,607
Other securities and Trust participation certificates	1,832,446	1,903,002
Other	441	2,030
Total	2,171,527	2,424,104

9. SECURITIZATION OF THE MORTGAGE LOAN PORTFOLIO

The Bank has executed various financial trust agreements under which, as trustor, it has transferred the fiduciary ownership of mortgage loans belonging to its loan portfolio to different financial institutions, as trustee. Once the trustee receives the mortgage loan it proceeds to issue the corresponding debt securities and participation certificates and to use the proceeds of the placement thereof for settling the amount of the loans ceded by the Bank. The trust assets entail a separate and distinct equity from the trustee's assets and those of the trustor.

The trustee is responsible for the management of the trust funds previously set up in accordance with the specifications contained in the trust agreement.

As of June 30, 2017 and December 31, 2016, the Bank recorded Ps. 5,801 thousand and Ps. 6,934 thousand, respectively, in respect of mortgage loans originally granted in foreign currency and converted into Ps. as required by Law 25561 and Decree 214, registered in the name of the trustee, in the "Others included in the debtor classification regulations" line, under the "Other receivables for financial transactions" caption; Ps. 6,326 thousand and Ps. 7,110 thousand, respectively, in the "Accrued interest receivable included in the debtor classification regulations" line, under that caption, in respect of accrued interest and adjustments from application of the CER receivable. Those receivables are held in the Bank's assets because at that date, the trustee had not yet issued the related securities and the Bank continued to act as trustor and only beneficiary.

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In 2004, the Bank created a Global Trust Securities Program, "CÉDULAS HIPOTECARIAS ARGENTINAS" for the securitization of individual mortgage loans for the financing of housing units for a face value of up to ARS 500,000,000, which was authorized by CNV Technical Pronouncement No. 14814 dated June 3, 2004.

As of June 30, 2017, fourteen series of Argentine Mortgage Bonds Financial Funds (CHA) were created, of which eight series fell under the scope of the referred Program, and the other six series were individual issues. As of the closing date of these financial statements, the following series were outstanding:

	Debt Securities Class A1/AV	Debt Securities Class A2/AF	Debt Securities Class B	Participation Certificates	Total
BHSA I Issued on 02.01.2002 Face value in thousands of ARS Declared Maturity Date				43,412 02.01.2021	43,412
CHA VI Issued on 04.07.2006 Face value in thousands of ARS Declared Maturity Date	56,702 12.31.2016			12,447 12.31.2026	69,149
CHA VII Issued on 09.27.2006 Face value in thousands of ARS Declared Maturity Date	58,527 08.31.2017			12,848 02.28.2028	71,375
CHA VIII Issued on 03.26.2007 Face value in thousands of ARS Declared Maturity Date	61,088 08.31.2024			13,409 08.31.2028	74,497
CHA IX - Issued on 08.28.2009 Face value in thousands of ARS Declared Maturity Date	192,509 02.07.2027			10,132 07.07.2027	202,641
CHA X - Issued 08.28.2009 Face value in thousands of ARS Face value in thousands of US\$ Declared Maturity Date	85,001 01.07.2027			17,224 06.07.2028	17,224 85,001
CHA XI - Issued 12.21.2009 Face value in thousands of ARS Declared Maturity Date	204,250 03.10.2024			10,750 10.10.2024	215,000
CHA XII - Issued 07.21.2010 Face value in thousands of ARS Declared Maturity Date	259,932 11.10.2028			13,680 02.10.2029	273,612
CHA XIII- Issued 12.02.2010 Face value in thousands of ARS Declared Maturity Date	110,299 12.10.2029			5,805 04.10.2030	116,104
CHA XIV- Issued 03.18.2011 Face value in thousands of ARS	119,876			6,309	126,185

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Declared Maturity Date 05.10.2030 08.10.2030

As of June 30, 2017, Banco Hipotecario S.A. has recorded in memorandum accounts the right to receive the residual value of the mortgages registered in financial trusts BHN II, BHN III, BHN IV and BACS as a result of their settlement.

As of June 30, 2017 and December 31, 2016, the Bank held in its portfolio the following securities corresponding to the abovementioned trusts:

	06/30/2017	12/31/2016
	Thousands of Ps.	Thousands of Ps.
Class A debt securities – CHA VI to CHA XIV	66,379	67,607
Subtotal	66,379	67,607

	06/30/2017	12/31/2016
	Thousands of Ps.	Thousands of Ps.
Participation certificates – CHA IX	7,802	8,782
Participation certificates – CHA X	21,632	24,446
Participation certificates – CHA XI	10,579	11,173
Participation certificates – CHA XII	11,565	12,386
Participation certificates – CHA XIII	1,944	3,132
Participation certificates – CHA XIV	1,661	3,063
Participation certificates – CHA VI	10,506	13,095
Participation certificates – BHSA I 2002	9,446	8,949
Subtotal	75,135	85,026
Total	141,514	152,633

10. MISCELLANEOUS RECEIVABLES

The breakdown of the "Others" line corresponding to the "Miscellaneous receivables" caption is as follows:

	06/30/2017	12/31/2016
	Thousands of Ps.	Thousands of Ps.
Tax prepayments and withholdings	99,242	31,398
Prepayments and advances	7,374	19,866
Debtors for Financial Transactions	22,302	11,179
Other receivables for legal actions	5,597	6,729
Directors' and Supervisory fees	16,087	25,889
Escrow deposits - Visa credit card transactions (Note 6)	307,976	364,586
Escrow deposits for lease - Red Link Losses and others (Note 6)	1,047	1,837
Collections pending reporting by collecting entities	99,896	181,275
Loans to the entity's personnel	181,645	188,175
Receivables from subsidiaries	767,440	17,721
Leasing-related goods – services and insurance	16,589	21,246

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Other	51,889	168,710
Total	<u>1,577,084</u>	<u>1,038,611</u>

11. NEGOTIABLE OBLIGATIONS AND OTHER FINANCING

As of June 30, 2017, the contractual residual nominal value of the negotiable obligations amounts to Ps. 16,025,154 thousand and as of December 31, 2016, to Ps. 13,900,745 thousand. These amounts include ordinary negotiable obligations not convertible into shares.

The balance of the negotiable obligations has been included in the "Other liabilities for financial transactions" caption. The residual face values of the different negotiable obligation series issued are as follows:

	ISSUE DATE	MATURITY DATE	ANNUAL INTEREST RATE	RESIDUAL FACE VALUE 06/30/2017	RESIDUAL FACE VALUE 12/31/2016
Thousands of Ps.					
Series XII (US\$ 39,508 thousand)	08/14/13	08/14/17	3.95%	496,596	474,206
Series XXX (Ps. 314,611 thousand)	09/04/2015	03/04/2017	9 months 28.25% and 9 months Badlar + 4.5%	-	314,611
Series XXXI (US\$ 14,730 thousand)	09/04/2015	09/04/2018		244,496	233,473
Series XXXII (Ps. 265,770 thousand)	11/30/2015	05/30/2017	3 months 27% and 15 months Badlar +4.75%	-	265,770
Series XXIX - tranche I (US\$ 200,000 thousand)	11/30/2015	11/30/2020	9.75%	3,304,677	3,153,644
Series XXIX - tranche II (US\$ 150,000 thousand)	05/23/2016	11/30/2020	9.75%	2,489,775	2,377,530
Series XXXIV (Ps. 264,030 thousand)	02/10/2016	08/18/2017	Badlar +4.00%	264,030	264,030
Series XXXV (Ps. 235,970 thousand)	02/10/2016	02/10/2019	Badlar +4.99%	235,970	235,970
Series XXXVI (Ps. 469,750 thousand)	05/18/2016	11/18/2017	Badlar +4.25%	469,750	469,750
Series XXXVIII (Ps. 145,200 thousand)	08/18/2016	02/18/2018	Badlar +4%	145,200	145,200
Series XXXIX (Ps. 343,241 thousand)	08/18/2016	08/18/2019	Badlar + 3.49%	343,241	343,241
Series XL (Ps. 6,078,320 thousand)	10/12/2016	01/11/2020	Badlar +2.5%	5,634,899	5,623,320
Series XLI (Ps. 354,162 thousand)	02/20/2017	08/20/2018	Badlar +2.89%	351,300	-
Series XLII (Ps. 645,638 thousand)	02/20/2017	02/20/2020	Badlar +3.20%	639,263	-
Series XLIII (UVA Ps. 54,606 thousand)	05/08/2017	05/08/2020	2.75%	1,049,040	-
Series XLIV (Ps. 256,644 thousand)	05/08/2017	05/08/201	Badlar + 2.75%	255,111	-
Series XLV (Ps. 102,436 thousand)	05/08/2017	05/08/2020	Badlar +2.98%	101,806	-
				<u>16,025,154</u>	<u>13,900,745</u>

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The Bank uses the net proceeds of the placement of negotiable obligations for any of the purposes as set forth in Section 36 of the Negotiable Obligations Law, BCRA Communication "A" 3046, as amended and supplemented, and other applicable regulations.

The Ordinary General Shareholders' Meeting held on May 23, 2008, approved the creation of a new Global Program for the issuance of ordinary negotiable obligations, not convertible into shares, secured or unsecured, for up to two billion US dollars (US\$2,000,000,000) or an equal amount in Pesos, which was subsequently amended, extended and increased in several opportunities by subsequent Ordinary General Shareholders' Meetings and Board Resolutions. The current amount authorized to be issued under the Global Note Program is up to US\$ 1,500,000,000 (or its equivalent in Pesos).

The Program's Public Offering was authorized by Resolution No. 16,573 dated May 24, 2011, the increase of the Program amount was authorized by Resolution No. 17,805 dated September 9, 2015, the extension of the Program and the increase of its amount were authorized by Resolution No. 18,145 dated July 28, 2016 and a new increase of its amount was authorized by Resolution No. 18,493 dated February 2, 2017, all of them issued by the Argentine Securities Commission.

On February 20, 2017, two new Notes (Series XLI and XLII) were issued in the local market for Ps. 1,000,000 thousand.

On March 6, 2017, Series XXX Notes were fully repaid.

On May 8, 2017, Series XLIII - XLIV and XLV notes were issued. One of them was issued in UVA at a fixed rate and the other two series were issued at BADLAR plus spread for a total of approximately Ps. 1,373,600.

As of the closing of these financial statements, the Bank expects to issue Series XLVI notes in Pesos at a floating rate, and Series XLVII notes in US dollars at a fixed rate. The estimated principal amount of Series XLVI notes is one hundred fifty million pesos, and the estimated principal amount of Series XLVII notes is a US dollar amount equivalent to one hundred fifty million pesos.

12. LEVEL 1 AMERICAN DEPOSITARY RECEIPTS PROGRAM

On March 27, 2006 the US Securities and Exchange Commission (SEC) has made effective the Level I American Depositary Receipts, "ADR" program.

This program allows foreign investors to buy the Bank's stock through the secondary market where ADRs are traded freely within the United States. The Bank of New York has been appointed as depositary institution.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The following are the derivative financial instruments outstanding as of June 30, 2017:

1. Forward transactions: US dollar forward transactions have been carried out, the settlement of which, in general, is made without delivery of the underlying asset but by means of the payment in Pesos of currency differences. Transactions closed through MAE call for daily settlement in Pesos and those closed through ROFEX are settled the following day (T+1) in Pesos. These transactions were performed mainly as hedge for foreign currency positions.

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At the close of this fiscal period, Ps. 103,150 thousand have been recorded in debit memorandum accounts and Ps. 360,205 thousand have been recorded in credit memorandum accounts for US dollar forward transactions.

Furthermore, Ps. 37,173 thousand have been recorded in Assets and Ps. 34,792 thousand have been recorded in Liabilities in connection with forward transactions traded through ROFEX and pending settlement, which have also been included in debit and credit memorandum accounts for Ps. 5,564,297 thousand and Ps. 5,046,564 thousand, respectively.

As of June 30, 2017, losses for Ps. 314,459 thousand have been recorded in connection with the transactions described above.

2. Interest rate swaps: On August 28, 2009, the Bank issued Series IX of Cédulas Hipotecarias Argentinas (CHA). For purposes of covering the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see note 9) from potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 245 bps and receives a fixed rate (9.1%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. As of June 30, 2017, this transaction had no balance in assets and liabilities. The balance recorded as of period-end in debit memorandum accounts is Ps. 111,750 thousand. In addition the Bank recorded losses for Ps. 4,651 thousand as of June 30, 2017.
3. Currency Swap: On August 28, 2009, the Bank issued Series X of Cédulas Hipotecarias Argentinas (CHA). For purposes of covering the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see Note 9) from potential fluctuations in the dollar exchange rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a rate of 2% on a flow of dollars and receives a fixed rate on a flow of pesos (9.25%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. As of June 30, 2017, this transaction had no balance in assets and had a balance of Ps. 592,503 thousand in liabilities. The balances recorded as of period-end in debit and credit memorandum accounts are Ps. 187,794 thousand and Ps. 809,906 thousand, respectively. The Bank recorded profits for Ps. 1,039 thousand as of June 30, 2017.
4. Interest rate swaps: On December 21, 2009, the Bank issued Series XI of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see Note 9) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 291 bps and receives a fixed rate (11.33%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. As of June 30, 2017, this transaction had no balance in assets and liabilities. The balance recorded as of period-end in debit memorandum accounts is Ps. 92,419 thousand. The Bank recorded losses for Ps. 2,635 thousand as of June 30, 2017.
5. Interest rate swaps: On July 21, 2010, the Bank issued Series XII of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see Note 9) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate plus 10 bps and receives a fixed rate (13.25%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main

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securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. As of June 30, 2017, this transaction had no balance in assets and liabilities. The balance recorded as of period-end in debit memorandum accounts is Ps. 120,218 thousand. The Bank recorded losses for Ps. 3,865 thousand as of June 30, 2017.

6. Interest rate swaps: On December 2, 2010, the Bank issued Series XIII of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see Note 9) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate plus 27 bps and receives a fixed rate (9.279%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. As of June 30, 2017, this transaction had no balance in assets and liabilities. The balance recorded as of period-end in debit memorandum accounts is Ps. 81,180 thousand. The Bank recorded losses for Ps. 4,376 thousand as of June 30, 2017.
7. Interest rate swaps: On March 18, 2011, the Bank issued Series XIV of Cédulas Hipotecarias Argentinas (CHA). For purposes of protecting the holders of Trust Debt Securities and the Participation Certificate held by BHSA (see Note 9) against potential fluctuations in the BADLAR rate at which the referred trust Debt Securities were issued, the Bank entered into a total return swap whereby it pays a variable BADLAR rate less 20 bps and receives a fixed rate (9.91%). This transaction is periodically settled to reflect financial flow differences without any exchange of the main securities. In addition, this transaction is not subject to early termination and no assets are given as collateral. As of June 30, 2017, this transaction had no balance in assets and liabilities. The balance recorded as of period-end in debit memorandum accounts is Ps. 86,307 thousand. The Bank recorded losses for Ps. 4,398 thousand as of June 30, 2017.
8. Repo transactions: As of June 30, 2017, Ps. 322,290 thousand were recorded in liabilities on account of repo transactions involving several government securities.

The instruments mentioned in paragraphs 1 through 7 of this Note meet the requirements imposed by AFIP's General Resolution No. 3421/2012 to be considered as hedging transactions inasmuch as said transactions are: i) directly related to BHSA's main financial activities and to their underlying elements; ii) identified as from their inception and iii) their risks have been evaluated and mitigated (See Note 30).

14. OTHER LIABILITIES RESULTING FROM FINANCIAL TRANSACTIONS

The breakdown of the "Others" line included in the "Other liabilities for financial transactions" caption is as follows:

	06/30/2017	12/31/2016
	Thousands of Ps.	Thousands of Ps.
Collections and other transactions on behalf of third parties	26,073	36,641
Credit cards consumptions payable	1,564,478	1,549,661
Retail Bank Network	6,768	6,382
Financial hedge contract (Note 13.3)	623,267	620,080
Others	5,326	1,533
	2,225,912	2,214,297

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15. MISCELLANEOUS LIABILITIES

The breakdown of the "Others" line corresponding to the "Miscellaneous liabilities" caption is disclosed as follows:

	06/30/2017	12/31/2016
	Thousands of Ps.	Thousands of Ps.
Sundry creditors	219,029	158,518
Other expenses payable	127,733	205,131
Tax withholdings to be deposited	74,884	112,606
Taxes payable	229,423	221,280
Payroll withholdings and contributions	94,897	79,440
Salaries and social security charges payable	212,446	257,291
Total	958,412	1,034,266

16. PROVISIONS

The breakdown of the "Provisions" line is disclosed as follows:

	06/30/2017	12/31/2016
	Thousands of Ps.	Thousands of Ps.
Provision for other contingencies (**)	78,522	35,961
Provision for taxes	25,068	3,131
Provision for lawsuits	178,970	201,996
Customers' Loyalty Program	40,163	58,124
Allowance for administrative-disciplinary-criminal penalties (**)	600	600
Total	323,323	299,812

(**) See Notes 2.15 and 37.

17. FINANCIAL INCOME AND EXPENSES

The breakdown of the "Others" line included in the "Financial income" caption is as follows:

	06/30/2017	06/30/2016
	Thousands of Ps.	Thousands of Ps.
Premiums for forward transactions	-	209,062
Premiums for repos	331,904	67,599
Total	331,904	276,661

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The breakdown of the "Others" line included in the "Financial expenses" caption is as follows:

	06/30/2017	06/30/2016
	Thousands of Ps.	Thousands of Ps.
Turnover tax on financial income	258,728	235,183
Premiums on swap and forward transactions	333,072	29,191
Result from interest rate swaps	19,925	47,210
Total	611,725	311,584

18. INCOME FROM SERVICES

The breakdown of the "Others" line included in the "Income from services" caption is as follows:

	06/30/2017	06/30/2016
	Thousands of Ps.	Thousands of Ps.
Insurance services (Notes 1 and 2.10)	-	8,527
Services on loans	95,000	55,120
Fees for repo transactions	28,955	48,496
Fees for debit cards	21,955	20,351
Income from PRO.CRE.AR services	133,998	107,895
Other	8,912	7,030
Total	288,820	247,419

19. EXPENSES FOR SERVICES

The breakdown of the "Others" line included in the "Expenses for services" caption is as follows:

	06/30/2017	06/30/2016
	Thousands of Ps.	Thousands of Ps.
Services on loans	428,498	236,258
Turnover tax	84,872	49,139
Aerolíneas Argentinas Co-Branding	36,541	30,948
Services related to borrowing transactions	38,990	22,474
Other	-	1,479
Total	588,901	340,298

20. ADMINISTRATIVE EXPENSES

The breakdown of the "Other fees" line included in the "Administrative Expenses" caption is as follows:

	06/30/2017	06/30/2016
	Thousands of Ps.	Thousands of Ps.
Legal, notarial, accounting and tax consulting services	3,224	3,885
Temporary personnel	97,431	79,053
Consulting services	59,624	55,959
Other fees	19,178	14,690

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Total	179,457	153,587
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The breakdown of the "Other operating expenses" line included in the "Administrative expenses" caption is as follows:

	06/30/2017	06/30/2016
	Thousands of Ps.	Thousands of Ps.
Insurance	6,541	6,931
Rental income	60,010	49,938
Telephone, electricity, and mailing services	36,642	32,496
System links	17,001	12,526
Maintenance and conservation of premises and equipment	34,952	39,915
Surveillance	31,301	24,395
Cleaning expenses	24,924	19,139
Technological infrastructure maintenance expenses	23,557	20,418
Other	21,111	7,477
Total	256,039	213,235

21. MISCELLANEOUS INCOME

The breakdown of the "Others" line included in the "Miscellaneous income" caption is as follows:

	06/30/2017	06/30/2016
	Thousands of Ps.	Thousands of Ps.
Rental income	3,212	1,354
Result on operations with premises and equipment and miscellaneous assets	59,038	1,709
Interest on Bank loans to its personnel	19,246	18,510
Result on collateral securities	224	34,051
Interest on miscellaneous receivables	24,868	17,509
Other	741	749
Total	107,329	73,882

22. MISCELLANEOUS LOSSES

The breakdown of the "Others" line included in the "Miscellaneous losses" caption is as follows:

	06/30/2017	06/30/2016
	Thousands of Ps.	Thousands of Ps.
Turnover tax	6,857	4,462
Other taxes	65,693	38,500
Donations	2,425	2,836
Debit card discounts	24,277	13,445
Credit card discounts	22,651	26,884
Loan discounts	5,057	1,467
Other	13,788	9,328
Total	140,748	96,922

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23. DEPOSIT GUARANTEE INSURANCE SYSTEM

According to Law 24485, Decrees 540/95 and 1127/98, Communication "A" 2337 and supplementary ones from the Argentine Central Bank, institutions encompassed by the Financial Institutions Law should make a standard contribution equivalent to 0.03% of their monthly average daily balances of deposits in current accounts, savings accounts, time deposits, special accounts, fixed-term investments and frozen balances stemming from those deposits. After several changes, through Communication "A" 5641 dated November 6, 2014, the percentage is set at 0.06%. As of the end of these financial statements, the percentage is 0.015%.

In addition to the standard contribution, the institutions are required to make a separate additional contribution, in proportion to the result obtained from the weighting of several factors.

It is also established that the BCRA may require an advance payment of an amount equivalent to 24 minimum standard contributions within at least 30 calendar days to meet the Fund's needs for resources.

This System does not cover transferable time deposits whose ownership has been acquired through endorsement, placements attracted through systems which offer incentives in addition to the interest rate agreed upon, deposits in which interest rates exceeding the reference rate established by the Argentine Central Bank are arranged, deposits made by financial institutions with other brokers, including the time deposit certificates acquired through a secondary transaction, deposits made by persons related to the Bank, either directly or indirectly, time deposits of securities, acceptances or guarantees, and the immobilized balances arising from deposits and other liabilities excluded from that System.

As of September 30, 2014, the maximum limit for the guarantee for deposits in force is Ps. 120,000 thousand, according to the provisions in Communication "A" 5170 dated January 11, 2011.

As from and as set forth by the Argentine Central Bank in Communication "A" 5641, the maximum limit of the guarantee for deposits was increased to Ps. 350,000 thousand and by means of Communication "A" 5943, the Argentine Central Bank resolved that effective May 1, 2016, the maximum limit of the guarantee for deposits is Ps. 450,000.

24. SUBSIDIARY COMPANIES

The bank has equity investments in the following subsidiaries:

1. 99.99% of the BHN Sociedad de Inversión Sociedad Anónima's share capital, those of which amount to Ps. 39,132 thousand and whose corporate purpose is investments. In turn, BHN Sociedad de Inversión Sociedad Anónima owns 99.99% of BHN Vida Sociedad Anónima and BHN Seguros Generales Sociedad Anónima and 5% of BH Valores SA.
2. As of December 31, 2016, Banco Hipotecario S.A. had an 87.50% equity interest in BACS Banco de Crédito y Securitización Sociedad Anónima, equivalent to Ps. 62,500 thousand. As of June 30, 2017, Banco Hipotecario S.A. has a 62.28% equity interest in BACS Banco de Crédito y Securitización Sociedad Anónima, equivalent to Ps. 87,813 thousand, following a resolution passed at a meeting of BACS' Board of Directors held on February 21, 2017 in respect of the issuance of 25,313,251 book-entry common shares with a face value of Ps. 1 and one voting right each in favor of IRSA - Inversiones y Representaciones S.A. It should be noted that, as of December 31, 2016, BACS' core business was to promote the creation and development of a secondary market for mortgage loans in Argentina. On March 14, 2017, BACS' Board of Directors was served notice of a resolution passed by the Board of Directors of the Argentine Central Bank on March 3, 2017, pursuant to which BACS was

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expressly allowed, under the terms of Article 7 of the Financial Institutions Law, to do business as a first-tier commercial bank.

3. 95% of the share capital of BH Valores S.A., those of which amount to Ps. 1,500 thousand and which is devoted to stock trading activities.
4. 80% of the share capital of Tarshop S.A., those of which amount to Ps. 243,796 and whose main activity is the issuance and marketing of credit cards. On January 10, 2017, the Argentine Central Bank notified the Bank it had completed the final registration of TARSHOP S.A. in the Register of "Other Non-Financial Credit Providers" maintained by the Superintendent of Financial and Exchange Institutions under code number 70106.
5. On January 9, 2012, the Board of Directors of the Bank approved the Bank's involvement as a *protector* member in the mutual guarantee company that is currently in its formation stage and will be called "Confederar NEA S.G.R.". This decision was formalized on June 13, 2013 when the Bank contributed Ps. 12,000 to the capital of Confederar NEA S.G.R. and on June 25, 2013 when the Bank contributed Ps. 5,000 thousand to this company's risk fund. On June 13, 2016, the Bank entered into an agreement with Confederar NEA S.G.R. mutual guarantee company for contributing Ps. 5,000 thousand (renewal) to the risk fund. It must be noted that the regulations laid down by the Argentine Central Bank classify the contributions made by financial institutions to mutual guarantee companies, in the capacities as *protector* members, as services supplementary to financial activities.

The relevant total amounts arising from the June 30, 2017 financial statements of the main controlled investees are as follows:

	BACS Banco de Crédito y Securitización S.A. (1) (9)	BHN Sociedad de Inversión S.A. (1) (2) (6) (8)	BH Valores SA	Tarshop SA (2) (3)(4)(5)(7)
	Thousands of Ps.			
Assets	2,328,216	1,912,036	62,504	4,039,216
Liabilities	1,867,582	1,327,741	355	3,411,378
Shareholders' equity	458,721	584,295	62,149	627,838
Net income/(loss)	32,702	451,939	25,352	56,506

1. Consolidated balances
2. Financial statements adjusted as per BCRA's accounting rules.
3. On October 22, 2014, the Board of Directors of Banco Hipotecario S.A. unanimously approved an irrevocable capital contribution to Tarshop S.A. in the amount of Ps. 110,000 thousand to be made by shareholders Banco Hipotecario S.A. and Alto Palermo S.A. pro rata of their shareholdings so that Tarshop S.A. should have sufficient resources for its operating activities and to be able to execute its 2015 Business Plan.
4. On September 11, 2015, the Board of Directors of Banco Hipotecario S.A. unanimously approved an irrevocable capital contribution to Tarshop S.A. in the amount of Ps. 52,500 thousand to be made by shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. (continuing company after Alto Palermo S.A.'s change of corporate name) pro rata of their shareholdings so that Tarshop S.A. should have sufficient resources for its operating activities.
5. On November 4, 2015, the Board of Directors of Banco Hipotecario S.A. unanimously approved an irrevocable capital contribution to Tarshop S.A. in the amount of Ps. 52,500 thousand to be made by shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. (continuing company after Alto Palermo S.A.'s change of corporate name) pro rata of their shareholdings, in line with the capitalization program previously approved.

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6. On March 9, 2016, the General Ordinary Shareholders' Meeting of BHN Sociedad de Inversión S.A. approved the payment of dividends in cash and/or government securities for Ps. 650,000 thousand, and empowered the Board of Directors to make the relevant distribution as and when they deem it convenient during fiscal year 2016 (See Note 42).
7. On June 23, 2016, the Board of Directors of Banco Hipotecario S.A. unanimously approved an irrevocable capital contribution to Tarshop S.A. in the amount of Ps. 250,000 thousand to be made by shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. (continuing company after Alto Palermo S.A.'s change of corporate name) pro rata of their shareholdings.
8. On November 29, 2016, the Shareholders' Meeting of BHN Sociedad de Inversión S.A. approved the payment of interim dividends against net income for fiscal year 2016 for Ps. 150,000 thousand and the Shareholders' Meeting held on March 30, 2017 approved the distribution of dividends for Ps. 900,000 thousand and ratified the distribution of interim dividends for Ps. 150,000 thousand (See Note 42).
9. The General Extraordinary Shareholders' Meeting of BACS Banco de Crédito y Securitización S.A. dated December 12, 2013 approved the issuance of Convertible Subordinated Notes (the "Convertible Notes") to be privately offered, for an amount of up to Ps. 100,000,000 (one hundred million Pesos). On June 22, 2015, BACS issued notes convertible into common, book-entry shares of the Company for a principal amount of Ps. 100,000 thousand, solely addressed to the Company's shareholders and fully subscribed by IRSA. On June 21, 2016, the Subsidiary was given notice by Inversiones y Representaciones S.A. (IRSA) of its intention to exercise its conversion right over such Subordinated Notes Convertible into Common Shares. On February 10, 2017, BACS took notice of BCRA's Resolution No. 63, dated February 7, 2017, granting its unqualified authorization for the conversion of the Notes Convertible into Common Shares in favor of IRSA, representing 26.989% of its stock capital. BACS's board meeting held on February 21, 2017 approved BACS's capital increase for Ps. 87,813 thousand and the issuance of 25,313,251 book-entry common shares with a face value of (\$1) and one voting right each in favor of IRSA Inversiones y Representaciones S.A.

25. DISTRIBUTION OF PROFITS

Argentine Central Bank Communication "A" 4152 dated June 2, 2004 waived the suspension of the distribution of profits established by Communication "A" 3574. However, those banks that proceed to such distribution must be previously authorized by the Superintendent of Financial and Exchange Institutions.

Through Communication "A" 4526 dated April 24, 2006, the BCRA established that when the Legal Reserve is used to absorb losses, earnings shall not be distributed until the reimbursement of said losses. Should the balance prior to the absorption exceed 20% of the Capital Stock plus the Capital Adjustment, profits may be distributed once the latest value is reached.

For purposes of determining distributable balances, the net difference arising from the book value and the market quotation shall be deducted from retained earnings, in the event the Entity records government debt securities and/or debt securities issued by the BCRA not valued at market prices, with volatility published by such entity.

Pursuant to its Communication "A" 5072, BCRA established that no dividend distribution shall be admitted insofar as: a) the amounts deposited as minimum cash requirements on average - in Pesos, foreign currency or in Government securities - were less than the requirements pertaining to the most recently closed position or the position as projected taking into account the effect of the distribution of dividends, and/or b) the amounts deposited as minimum capital requirements were less than the requirements recalculated as previously mentioned plus a 30% increase, and/or c) the Entity has received financial aid from the BCRA on grounds of illiquidity as set forth in Section 17 of BCRA's Charter.

On January 27, 2012, the BCRA issued Communication "A" 5272 whereby it established that for the calculation of the minimum capital requirement, the minimum capital for operational risk shall be included. On the same date, Communication "A" 5273 was also issued, whereby the BCRA resolved to increase the percentage referred to in the preceding paragraph, subsection b), from 30% to 75%.

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Communication "A" 5369 provided that as of January 1, 2013, for the purposes of calculating the position of minimum capitals, the capital requirement for credit risk due to securitizations must be computed over all the outstanding transactions as of the computation date.

On September 23, 2013 the Argentine Congress enacted Law No. 26,983 which amends the Income Tax Law and sets forth that dividends or earnings in money, or in kind shall be levied with Income Tax at a 10% tax rate payable in a final lump sum.

Through Note 314/43/14 dated December 23, 2014, the Argentine Central Bank authorized Banco Hipotecario S.A. to distribute cash dividends for Ps. 42,000 thousand.

This cash dividend distribution had been approved by General Ordinary Shareholders' Meeting dated April 24, 2014.

At its meeting dated January 7, 2015, the Board of Directors of Banco Hipotecario S.A. resolved that these dividends should be made available to the shareholders as of January 16, 2015.

On July 12, 2016, by means of Communication "A" 6013, the Argentine Central Bank published the updated text on "Distribution of profits", effective as from 1/1/2016 by means of Communication "A" 5827 et seq. The provisions of this Communication aim at converging towards international principles and standards, and, among other changes, they establish additional capital margins.

26. RUBRICATION OF BOOKS

At the date of these financial statements, the transactions conducted by the Bank had been recorded in the rubricated books, as called for by the regulations in force.

27. INTERCOMPANY TRANSACTIONS SECTION 33, LAW 19550

The balances of the intercompany transactions are as follows:

	<u>06/30/2017</u>	<u>12/31/2016</u>
	<u>Thousands of Ps.</u>	
<u>Loans</u>		
BACS - Banco de Crédito y Securitización	24,108	33,342
<u>Miscellaneous receivables - Sundry Debtors</u>		
BACS Banco de Crédito y Securitización SA	9,010	9,443
BHN Vida SA	5,470	20,467
BHN Seguros Generales SA	3,430	10,850
Tarshop SA	136	1,898
BHN Sociedad de Inversión SA	750,000	
<u>Deposits - Current accounts - Savings accounts and time deposits</u>		
BHN Sociedad de Inversión SA	1,807	1,172
BHN Vida SA	449	2,357
BHN Seguros Generales SA	198	358
BH Valores SA	2,996	15

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BACS Banco de Crédito y Securitización SA	11,678	3,426
Tarshop SA	26,623	51,628

Other liabilities for financial transactions

BHN Seguros Generales SA	13,408	1,464
BHN Vida SA	36,651	10,523
BACS Banco de Crédito y Securitización SA	13,180	21,590

Miscellaneous Liabilities

BHN Seguros Generales SA	4,642	11,745
BHN Vida SA	10,023	19,303
BACS Banco de Crédito y Securitización S.A.	3,684	-
Tarshop SA	115	-

06/30/2017 06/30/2016

Thousands of Ps.

Financial Income

BACS Banco de Crédito y Securitización SA	3,801	5,077
Tarshop S.A.	1,487	806

Financial Expenses

BHN Vida S.A.	9,450	17,188
BHN Seguros Generales S.A.	1,100	842

Income from services

BACS Banco de Crédito y Securitización S.A.	54	32
BHN Vida SA	169,889	50,918
BHN Seguros Generales SA	142,814	58,288

Expenses for services

BACS Banco de Crédito y Securitización SA	4,597	1,940
BHN Vida SA	113	183
BHN Seguros Generales SA	365	173

In order to calculate the equity value of BHN Sociedad de Inversión Sociedad Anónima and Tarshop SA, the shareholders' equity captions have been subject to certain adjustments for them to conform to the BCRA's accounting standards. These adjustments mainly refer to Deferred Tax, allowances for loan losses and capitalization of intangible assets.

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28. ACCOUNTS THAT IDENTIFY THE COMPLIANCE OF THE MINIMUM CASH REQUIREMENTS

The items computed by the Bank to comply with the minimum cash requirements (according to regulations established by BCRA on the matter) and the corresponding average balances as of June 30, 2017:

Item	Currency/Security				
	Ps.	Dollars	Euro	BONAR IN USD 2024	Discount in USD governed by Argentine law
(Figures in thousands in the relevant currency)					
Checking accounts at BCRA	1,579,688	38,468	95	-	-
Special accounts at BCRA	351,591	295	0	-	-
CRYL account	-	-	-	12,147	10
Total Paid-in	1,931,279	38,763	95	12,147	10
Total Requirement	2,374,887	37,496	1	3,170	0
Required Deduction (ATM withdrawals, "Ahora 12" plan and "MiPymes" deduction)	461,033	-	-	-	-
Total Requirement previous month	-	951	-	-	-
Monthly Position	17,425	316	94	8,977	10

29. STATEMENT OF CASH FLOW AND CASH EQUIVALENTS

The Statement of cash flows and cash equivalents explains the changes in cash and cash equivalents. In this connection, total Cash and cash resources were taken into consideration. Breakdown is as follows:

	06/30/2017
Cash	873,711
Financial institutions and correspondents:	
BCRA	2,358,996
Other, domestic	1,689
Foreign	25,378
Total	3,259,774

30. RISK MANAGEMENT POLICY

Comprehensive Risk Management

The Bank relies on a comprehensive process to manage risks that includes identifying, assessing, tracking, controlling and mitigating all significant risks. The comprehensive process for managing risks is geared towards having the Board of Directors and Senior Management involved in the management of all significant risks and having them oversee such management and understand the nature and level of risk taken on by the entity and how such risk relates to capital adequacy.

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In addition, it is in line with the best practices in risk management and, in particular, with the Argentine Central Bank's guidelines for financial institutions' risk management. To make sure that its significant risks are properly managed, the Bank relies on a management framework and on management devices that are fitting to its size, complexity, economic weight and risk profile.

Policies

The Bank implements its comprehensive risk management strategy through policies that guide its decisions. The following are its main policies:

- **Rule Ranking Policy**

This policy defines the Bank's internal rule ranking structure and the guidelines that govern the process to create, issue, manage or update and distribute the rules that make up the policy.

Overall, it lays down the hierarchy of the different rules, the positions responsible for drafting them and the scheme for approving each rule.

In particular, it regulates, among other things, the launch of new products and/or services in order to ensure that the Board approves them and that they are subsequently enforced.

In respect to the launch of new products or services, this policy establishes the duty to draft a Product Program and, if applicable, a Credit Program and obtain the requisite approval.

Product Programs are documents that lay down in a structured and formal manner, all the relevant information concerning the product and/or service –considering, in particular, aspects associated to profitability and the risks inherent in the product or service.

Credit Programs are, in turn, documents that detail the guidelines laid down to manage credit risk in the various stages of the product's loan cycle.

- **Comprehensive Risk Management Policy**

This policy lays down the main guidelines to undertake appropriate management actions vis-à-vis the main risks faced by the Bank.

It comprises risks such as credit risk, liquidity risk, market risk, interest rate risk, operational risk, securitization risk, reputational risk and strategic risk.

This policy establishes the general organizational and legal framework and the devices shared for the comprehensive management of the risks faced by the entity.

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

The following are, in addition, part of this policy:

- The Benchmark Policy for Quoting Loans and Deposits;
- The Stress-testing Policy and the Contingency Plan;
- The Contingency Plan itself.

- **Strategic Planning Policy**

This lays down the general guidelines for preparing the Bank's Business Plan, which is approved annually by the Board of Directors.

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The preparation of the Business Plan implies a strategic planning process. As such, it entails the definition of a group of specific activities that seek to consummate the Vision and Mission that the organization has proposed for itself.

The organization's Vision is a description of its long-term goals. It draws a picture, defines a guiding idea as well as the manner in which the organization wishes to be externally perceived.

The Mission specifies medium-term objectives. It describes the basic purpose pursued by the organization's activities 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 Bank's General Manager's office and its validation is the responsibility of the Board of Directors. At all times, strategic planning must take into account these main aspects:

Specifically, the preparation of the Business Plan implies strategic planning by all of the areas of the Bank and its subsidiaries, in response to the following topics:

- Levels of origination and of new businesses
- Funding structure
- Risk Management strategy
- Distribution channels
- Productivity and quality
- Image and relationship with customers

Organizational structure

The Bank has units responsible for managing each one of the significant risks comprised in this policy. They take the form of committees or are made up by management-level areas and when this is the case, they report to the highest-ranking officer in the risk area, that is, the Risk Area Manager who in turn reports to the General Manager.

In addition, the Bank has created a Risk Management Committee made up by at least 3 (three) Directors and coordinated by the highest-ranking officer in the Risk Area. This Committee has been primarily created to follow up on the activities of Senior Management in connection with risk management and to advise the Board of Directors on the entity's risks.

The following are the units responsible for managing each one of the risks:

- **Retail Banking Credit Risk Area:**

Retail Banking Credit Risk including management of the risks inherent in asset concentration in Retail Banking and securitization (as to the underlying exposures).

- **Corporate Banking Credit Risk Area:**

Corporate Banking, Public Sector and Finance Banking Credit Risk including management of counterparty risks and country risk as well as the risks inherent in asset concentration in Corporate Banking.

When it comes to credit risk management, the Credit Committee is also involved. The Credit Committee is made up by no less than 3 regular directors and no more than 7 regular directors. A majority of these directors must be knowledgeable in the matter. Also part of the Credit Committee are the highest ranking officers in credit risk in both the retail and the corporate banking segments. Credit Committee sessions may be attended by the General Manager who is allowed to voice opinions but not to cast votes.

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- **Market Risk:**
 - Market risks encompass interest rate risk, price and exchange rate and securitization.
- **Finance Committee:**

Liquidity risk entails managing the risk of liability concentration.

The Finance Committee is made up by at least 3 (three) Directors and the highest-ranking officers in the Finance, Financial Operations and Market Risk, Planning and Management Control Areas are also regularly involved in it; its functions have been approved by the Board of Directors.
- **Operational Risk:**
 - Operational risk
 - Reputational risk

Committee membership as well as their responsibilities are described in the Corporate Governance Code.

Management devices

The Bank has appropriate devices -feasible, stable, efficient and efficacious- for managing each of the significant risks comprised in this policy. These processes reflect in each case the specifics of their purviews. Notwithstanding, the Bank also has devices that favor risk management comprehensiveness.

The Bank has the following devices, shared in managing the main risks:

Risk Strategy:

The Risk Strategy is a document that is prepared every year at the time when the Business Plan is put together and that lays down the Bank's general approach to risk management.

The objective pursued by the Risk Strategy consists in defining for each one of the Bank's main risks a level of tolerance and the risk management strategy.

The tolerance level is a limit imposed on one or more indicators to determine how much risk (credit risk, interest rate risk, etc.) the Bank is willing to accept as a maximum while striving for attaining its strategic objectives (profitability, growth, value, etc.) within the context described in the Business Plan.

The limits or levels of tolerance imposed may be re-defined if a significant change were verified in the context referred to, for instance, if there were evidence of a substantial alteration in the assumed macro-economic scenario. All changes must be approved by the Risk Management and/or Financial Committee and then notified to the Board of Directors.

The definition of a tolerance level for an indicator is compared to the risk profile, which is the current value of such indicator.

The risk management strategy for each one of the main risks is the deployment of the means for ensuring that the risk profile is adjusted to the tolerance level established for that risk and for attaining the desired risk positioning.

The definition of the management strategy consists in a description of the main devices (policies, processes, tools, etc.) that will be available in each case for that purpose.

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Any significant change concerning the Risk Strategy approved for a given fiscal year, resulting from the variation in the economic and/or regulatory context must be informed and the Board of Directors must give its formal approval.

Stress Testing Program

Stress testing comprises a series of analytical simulation drills that are conducted to determine the Bank's ability to bear extreme adverse economic situations as regards liquidity, profitability and solvency. To this end, the analysis must:

- Identify those aspects of the business that present meaningful vulnerability in the face of the occurrence of sizable events, either external and/or internal.
- Measure the impact on the Bank of the occurrence of events that are very adverse, highly unlikely but possible.
- Infer the capitalization levels required in connection with the scenarios posited.

Stress tests are considered to be comprehensive when they comprise the main risks and their interaction jointly. Besides, stress tests are considered to be individual when the analysis is conducted in isolation on each one of the factors with an impact on each one of the risks taken in isolation, that is, with the rest of the variables being equal. Comprehensive and individual tests complement each other: whilst comprehensive tests are useful to assess crossed effects between risks -feedback and offsets- and individual tests are useful to focus the analysis on risk factors that are either microeconomic or highly specific, hard to take into account in comprehensive tests.

The environment in which stress tests are conducted, assessed and used in the Bank's decision-making process is defined as a Stress Testing Program.

The establishment of a stress testing program has multiple benefits: it provides a prospective risk assessment, favors the procedures to plan capital and manage liquidity, helps to fix risk tolerance levels and facilitates contingency plans in the event of stress situations.

Closely related to stress tests are the contingency plans which comprise planning the actions geared towards facing possible stress situations.

The conclusions of stress tests as well as the assumptions and scenarios used are disclosed, documented and submitted to the Board in due time. Comprehensive tests are conducted at least once a year and more tests can be run in response to special requirements or when such are warranted by changes in conditions at any given time.

Contingency Plan

Contingency Plans are the set of actions geared towards facing stress situations.

The Bank has a Contingency Plan that establishes a menu of possible actions and measures to deal with the occurrence or the increase in the likelihood of stress situations in the economic and/or financial situations and which are, a priori, classified as highly adverse to the Bank's solvency, liquidity and profitability.

This Plan is regularly reviewed, at least annually, and updated to ensure efficacy, feasibility and operational appropriateness.

Economic capital

Economic capital is the capital needed by the Bank to cover any unexpected losses caused by the exposure to material risks as well as those originating in other risks to which the Bank may be exposed.

In contrast to "unexpected losses" which must be supported by economic capital, "expected losses" are implied in the price of the product (interest rates, commissions, etc.) which must be fixed based on risk and are

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therefore covered by ordinary operating income. When this is not the case, expected losses must be equally supported by capital.

The methodology employed by the Bank in determining economic capital is based on the quantitative approach "Value at Risk" (VaR). Using this approach, economic capital is the sum of all "Values at Risk" (likely loss in a given horizon and the associated likelihood) of each one of the individual risks.

The time horizon as defined is one year (except in the portfolio of securities, which provides for a holding period of at least 10 rounds) and the associated likelihood of no less than 99% which in theory implies that there is a 1% likelihood that the economic capital determined is insufficient for the portfolio under discussion.

Internal Capital Adequacy Assessment Process (ICAAP)

This is the internal process implemented by the Bank in order to assess whether it has both at the stand-alone and at the consolidated levels, an adequate level of capital to cover all its material risks as well as a long-term capital maintenance strategy.

Every year, together with the Business Plan, the Risk Area drafts a document that describes the scope and the conclusions of said process, for consideration by the Bank's Risk Management Committee and Board of Directors.

Besides, the Risk Area prepares a "Capital Self-Assessment Report" which constitutes an integral part of the information to be submitted by the Bank to satisfy the requirements imposed by BCRA's Communication "A" 5515.

Information systems

The Bank's Management Information System helps to determine and track the components and characteristics of exposures in due time and manner so that the Bank's risk profile and requirements can be quickly and accurately assessed. This information contains the exposures to all the risks, including those originating in off-balance sheet transactions.

The Bank's Management Information System helps:

- To add risk exposures and measurements from different lines of business,
- Identify emerging risks and concentrations,
- Identify departures from the established limits
- Evaluate the effect of different types of adverse economic and financial scenarios.

In this respect, the Bank has a comprehensive report that is submitted to Senior Management on a monthly basis, to the Risk Management Committee on a bi-monthly basis and to the Board of Directors on a quarterly basis. This is the "Risk Dashboard" which reflects the risk profile at the Bank and its subsidiaries that helps to monitor the most relevant indicators of each one of the main risks.

In addition, for each risk, the Bank has more specific reports addressed to Senior Management, to the Finance Committee, the Risk Management Committee and/or the Board of Directors. These include:

- Value At Risk Market Risk Position (daily)
- FX Position Summary (weekly)
- Main Credit Risk Indicators for Retail Banking (monthly)
- High Liquidity, Minimum Liquidity Level Report (monthly) and LCR
- Interest Rate Risk Report (monthly)

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- Corporate Banking Credit Risk Report (quarterly)
- Price Risk and Backtest Reports (quarterly)
- Operating Risk Report (half-yearly)
- Individual Stress Test Report – Securities Portfolio (half-yearly)

Subsidiary Risk Management

The Bank's Corporate Governance Code lays down the corporate supervision and coordination structure vis-à-vis the Bank's subsidiaries. This structure allows each Company's Board of Directors to:

- a) Periodically review risk management policies and strategies and determine tolerance levels;
- b) Control that management levels take the steps necessary to identify, assess, monitor, control and mitigate the risks assumed.

This in turn, facilitates each company's Senior Management ability to:

- a) Implement the policies and strategies approved by their Boards of Directors;
- b) Undertake risk management processes to identify, assess, monitor, control and mitigate the risks incurred by the Company;
- c) Implement appropriate internal control systems and monitor their effectiveness, periodically reporting to the Board of Directors on the attainment of objectives.

According to this structure, the objectives, risk management strategies and, overall, the business plans and budgets of each subsidiary are approved by the subsidiary's Board of Directors made up by the Bank's Board of Directors and communicated by the Boards of Directors to the different organizational levels at each company.

In order to perform a periodical review of the attainment of the objectives and the deployment of the strategies and general business plans and control how management levels manage risks, this structure defines several mechanisms for supervision and coordination.

On one hand, each Company's internal supervision and coordination mechanisms and on the other hand, the application to the subsidiaries of the Bank's supervision and coordination mechanisms. The mechanisms applied by the Bank to the subsidiaries mandate that the Board can obtain information from the Bank's Senior Management, which receives information from each Company's Senior Management.

In this respect, it must be mentioned that the Bank monitors observance of the limits established in each subsidiary's risk management strategies through the Risk Dashboard that the Bank's Senior Management submits to the Risk Management Committee and to the Board.

31. TRANSPARENT CORPORATE GOVERNANCE POLICY

Banco Hipotecario assumes that institutions must rely on a Corporate Governance system to provide guidance to the structure and operation of their corporate bodies for the benefit of the institutions, their shareholders, depositors, investors and the community at large.

The Bank sees its Corporate Governance system as a dynamic process that accompanies its evolution, the results of its performance, all new developments in the applicable legislation and all of the market's recommended best practices tailored to the Bank's needs as a legal entity.

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The Bank's Corporate Governance is thus governed by currently applicable laws and regulations, its by-laws and the Code of Corporate Governance that address matters related to the Bank's operations, its Shareholders' Meetings, the Board, the Board's committees, the office of the General Manager, Senior Management and relations with its subsidiaries.

Besides, the Bank relies on guidelines for internal behavior contained in its Code of Ethics which enshrines the ethical tenets and principles that are to inspire the behaviors of directors, managers and employees.

1) The Board of Directors: Structure

Pursuant to Law No. 24,855, Section 21 and Banco Hipotecario's by-laws, the Bank's Board of Directors is composed of thirteen regular members elected to hold office for two-year terms by the different share class shareholders' meetings. Directors may be reelected indefinitely and on a step-wise basis. Each class of shares appoints a number of Alternate Directors that is equal to or less than the number of regular directors that the class is entitled to elect.

Candidates to serve in the Bank's Board must not be within the scope of the incapacities set forth in Law No. 19,550, Section 264 and in Law No. 21,526 Section 10; they must have prior experience in financial activities and it is only when the Central Bank authorizes it that they can take office.

The Central Bank examines Directors' background information looking for the skills and experience for serving in a Board on the basis of : (i) the nominee's professional history in the financial industry and/or (ii) his professional credentials and track record in the public or private sector in similar matters or areas that are relevant to the institution's commercial profile. In addition, the Central Bank's rules require that at least two thirds of Board members should have proven previous experience in financial activities.

Directors are designated by a majority vote at the shareholders' meetings held by each one of the classes of common stock as follows:

- a) Class A shares elect 2 regular Directors and 2 alternates.
- b) Class B shares elect 1 regular Director and 1 alternate in so far as Class B shares are representative of 2% of the capital stock issued at the time the respective shareholders' meeting was called.
- c) Class C shares elect 1 regular Director and 1 alternate Director in so far as Class C shares are representative of more than 3% of the capital stock issued at the time the respective shareholders' meeting was called.
- d) Class D shares are entitled to appoint the rest of the regular and alternate directors (under no circumstances shall this number be less than 9 regular members and at least its equivalent in alternates). When neither Class B or Class C were, for any reason, entitled to appoint and/or participate in the appointment of, directors, any such share class may cast a vote together with Class D shares at the special Class D shareholders' meeting called to elect directors.

The Directors chosen by special Class A and Class B and C shareholders' meetings (in so far as their political rights are exercised by the Argentine Government) and whose appointments are made by the Argentine Executive Branch, may take office and serve as directors on a "non commission" basis, subject to the Argentine Central Bank handing down a resolution without prejudice to the validity of the actions that they undertake during that fiscal year.

Class A shares are held by the Argentine Government (or of its nominated trustees) who exercises its political rights; class B shares are held by the Employee Stock Ownership Plan (*Programa de Propiedad Participada*, or "PPP") for the Bank's employees, the political rights in these shares were exercised by the Argentine Government until the passage of Decree 2127/12 and Resolution 264/2013 issued by the Ministry of

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Economy and Public Finance (up and until the shares are conferred to the employees, such rights are exercised by the Argentine Government), class C shares are meant to be initially offered to legal entities engaged in the construction of homes or in real estate activities (up and until the shares are sold, the political rights in these shares are exercised by the Argentine Government) and Class D shares, which are transferred in exclusive, perpetual and absolute ownership to private capital. The subscription or acquisition of Class D shares by the Argentine Government, another legal entity run by the State or by the personnel covered by the PPP does not entail a change of class.

To strengthen objective decision making and prevent conflicts of interest, the Board considers it advisable that some of its members should be independent directors. Independent directors must satisfy the requirements imposed by Law No. 19,550, Law 26,831, the CNV's regulations and the Central Bank's rules.

Besides, under the Argentine Companies Law No. 19,550 and the Bank's By-laws, the Bank's Supervisory Committee consists in a committee made up by 5 regular statutory auditors and 5 alternate statutory auditors appointed as follows: 3 regular statutory auditors and 3 alternate statutory auditors are designated by holders of Class D and C shares who cast votes as members of only one class in the class shareholders' meeting held to that end; one regular statutory auditor and one alternate statutory auditor are designated by Class B shares in so far as said Class represents more than 2% of capital stock and 1 regular statutory auditor and 1 alternate statutory auditor are appointed by Class A shares. When Class B shares fall short of representing 2% of capital stock and Class C shares fall short of representing 3% of capital stock, the Company shall reduce the number of statutory auditors to 3 regular statutory auditors and 3 alternate statutory auditors. Two of these regular statutory auditors and two alternate statutory auditors shall be designated by Class B, C and D shares who, to that end, will cast votes as members of an only class in the relevant class shareholders' meeting and one regular statutory auditor and one alternate statutory auditor being appointed by Class A shares. Given that statutory auditors are appointed by classes of shares, in so far as there are classes of shares, the Company will not be required to elect statutory auditors based on cumulative votes. Statutory auditors shall serve for two-year terms and they shall remain in office until they are replaced and may be indefinitely reelected. In addition, the powers and duties of statutory auditors are set forth in the Argentine Companies Law, Section 293.

Board Committees:

The Bank's by-laws provide for the operation of an Executive Committee. Besides, the Board has approved the creation of various committees made up by directors and entrusted with the following missions:

Executive Committee:

Overall, the Executive Committee is responsible for supervising the Bank's day-to-day businesses and it shall be composed of a minimum of 5 and a maximum of 9 directors elected by Class D shareholders and a number of alternate directors of the same class as determined by the Board.

Audit Committee:

The Audit Committee is in charge of overseeing the reasonable operation of the Bank's internal control environment and the Bank's risk management systems.

Committee for Controlling and Preventing Money Laundering and Terrorism Financing:

This Committee has been entrusted with helping the Bank comply with the obligations imposed by the applicable rules and regulations that seek to prevent these crimes.

Information Technology Committee:

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This Committee is responsible for ensuring that the Bank's global IT, informational systems and logical security policies are complied with.

Credit Committee:

This is the committee in charge of establishing the Bank's limits when it comes to credit exposure to its customers.

Personnel Incentives Committee:

This is the committee responsible for making sure that the system of personnel incentives is consistent with the Bank's culture, its objectives, long-term businesses, strategy and control environment as outlined in the applicable policy. Such Committee reports to the Executive Committee.

Risk Management Committee:

The main purpose of this Committee is to monitor the risks to which the entity is exposed, with responsibility, *inter alia*, for: i) monitoring the management of credit, market, liquidity, interest rate and operations risks, taking into account the best risk management practices; and ii) advising the Board of Directors on the design of risk policies and strategies.

Corporate Governance Committee:

Its mission is to supervise the enforcement of the Code of Corporate Governance and adherence to the corporate principles of "full disclosure", "transparency", "efficiency", "investor protection", "equal treatment amongst investors" and "protection of the entity's stability. In addition, it will evaluate the Board's actions, the succession planning schemes in force motion for Senior Management and control compliance with the Bank's internal rules and external regulations.

Ethics Committee:

It has been entrusted with making sure that the Bank relies on the means adequate for the promotion of appropriate decision-making within the framework of its ethical considerations.

Finance Committee:

It is responsible for overseeing compliance with the Bank's solvency and liquidity policies by managing financial risks.

Committee of Social and Institutional Affairs:

This committee has been entrusted with maintaining the Bank's image and positioning in the community at large within the framework of enterprise social responsibility.

Senior Management:

The Bank's General Manager and Senior Management members must have the experience and skills required by financial activities. None of them can be within the scope of the disqualifications and incompatibilities prescribed by Law No. 19,550, Section 264 and by Law No. 21,526, Section 10.

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The Bank's General Manager and Senior Management members are liable for compliance with applicable laws and regulations, in particular with Laws No. 24,855, 24,240, 21,526, 19,550 and 26,831, as amended, regulatory and supplementary decrees, the rules of the Central Bank, the regulations of the CNV and the Bank's by-laws.

Senior Management members must act with the loyalty and diligence expected from a good businessman. Those members who fail to perform their duties shall incur joint, several and unlimited liability for the damages arising from their actions or omissions.

Furthermore, Senior Management is responsible for deploying the strategy, abiding by the policies and employing the practices that the Board has approved for managing risks such as credit, liquidity, market, interest rate and operational risk and for implementing and following written procedures to identify, evaluate, monitor, control and mitigate risks.

2) Basic share structure:

The capital stock is represented by 1,500,000,000 shares of a par value of one peso each, divided into Class A, B, C and D shares according to the percentages set forth in the following table. Class A, B and C shares entitle to one vote per share, Class "D" shares, which are owned by the private sector, entitle to three votes per share so long as the Argentine Government owns more than 42% of the capital stock.

Pursuant to the provisions of the Privatization Law and the Bank's bylaws the majority Class "D" shareholders are entitled to elect nine of the thirteen members of the Board of Directors.

The following table shows the current composition of the capital stock, specifying the classes of shares, par value and equity percentage:

Class	Shares	Face Value	Capital Stock
A	664,818,687	1	664,818,687
B	57,009,279	1	57,009,279
C	75,000,000	1	75,000,000
D	703,172,034	1	703,172,034
	<u>1,500,000,000</u>		<u>1,500,000,000</u>

(a) Under Decree 2127/2012 and Resolution 264/2013 issued by the Ministry of Economy and Public Finance, the *Programa de Propiedad Participada* (Employee Stock Ownership Plan) was implemented. Under this plan, in a first stage, out of a total of 75,000,000, 17,990,721 Class B shares were converted into Class A shares, to be allocated among the employees that have withdrawn from the Bank in accordance with the implementation guidelines. Upon delivery to the former employees, the 17,990,721 shares will become Class D shares. As of the date of closing of these financial statements, this process had not yet fully concluded with the shares allocated to the Bank's current employees being designated as Class B shares, representing the *Programa de Propiedad Participada*.

As of the end of these financial statements, 2014 the principal Class "D" non-governmental shareholders (Tyros S.A., Ritelco S.A., E-Commerce Latina S.A., Palermo Invest S.A., IRSA Inversiones y Representaciones S.A. and Inversora Bolívar S.A. held 75,000,000, 75,000,000, 74,861,691. 71,653,517. 75,000,000

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and 75,000,000 Class D shares, respectively) were holders of an aggregate of 446,515,208 shares representing 29.8% of the Capital Stock.

In addition, the following shareholders are holders of Class D shares: (a) 90,905,000 shares are held by the Option Trustee (relating to non-exercised options, which shall be maintained in the Trust until the disposal thereof pursuant to the instructions received from the Selling Shareholder (National Government). During such period, the political rights attaching thereto shall be exercised by the Trustee of the Trust of the *Fondo Federal de Infraestructura Regional* Assistance Trust (Banco de la Nación Argentina); and (b) 74,037,265 shares are held by ANSES, each of them representing 6.1% and 4.9%, respectively.

3) Organizational Structure:

Law No. 24,855 declared Banco Hipotecario Nacional to be subject to privatization and transformed it into an Argentine corporation (*Sociedad Anónima*). Banco Hipotecario Nacional was a State-run entity founded on November 15, 1886. By virtue of Law No. 24,855 and its regulatory decrees, Decree 677/1997, Decree 924/1997 and Decree 1394/1998, the Central Bank's Resolutions No. 271/2007, 64/1998, 362/2001 and Communication "B" 6444, starting on December 24, 1998 the Bank has been doing business as Banco Hipotecario SA operating as a merchant retail bank. The Bank was admitted to the public offering regime by the CNV and then it was also authorized to have its shares listed on and traded in the Buenos Aires Stock Exchange.

The following is the Bank's organizational chart as of the closing of these financial statements:

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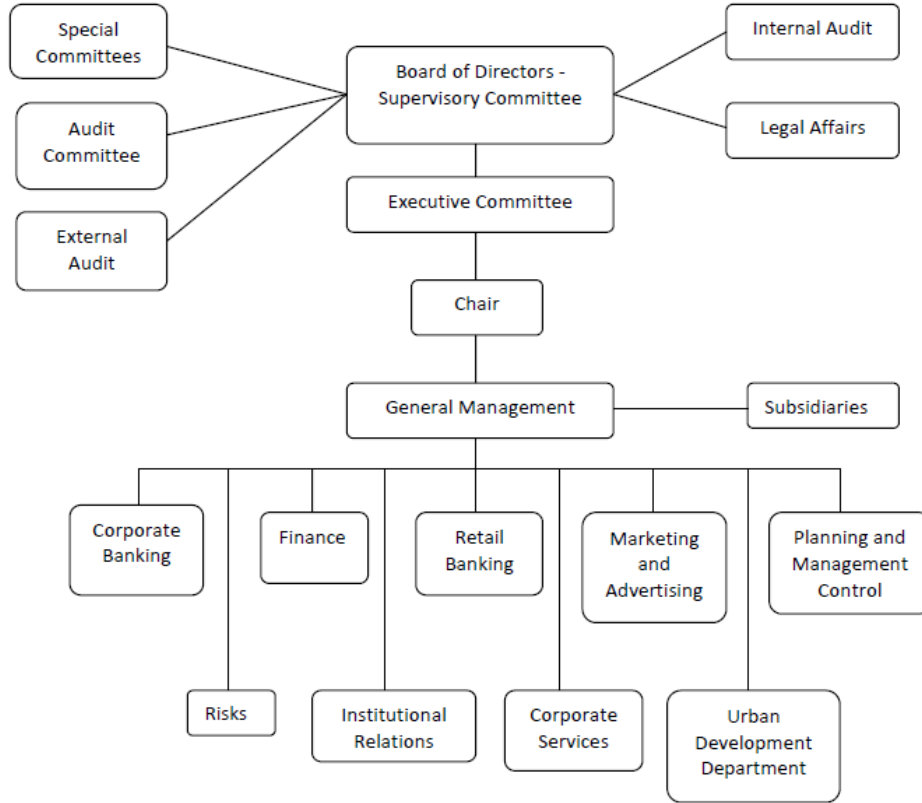
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The Bank controls, either directly or indirectly, the companies comprised in its group of subsidiaries: BHN Sociedad de Inversión SA, engaged in the investment business and responsible for managing ownership interests in other companies; BHN Vida SA, an insurance company that carries life insurance; BHN Seguros Generales SA, which provides insurance against fire and damages to real property; BACS Banco de Crédito y Securitización SA, a non-depository merchant bank, BH Valores SA, engaged in stock brokerage activities, and Tarshop SA, an issuer of credit cards.

4) Information concerning financial incentives to personnel:

1. The Personnel Incentives Committee is made up of 3 Directors and the highest officer in the organizational development area. At least one of the Directors in the Committee must have experience on the subject. The Directors shall remain in the Committee for a term of at least 2 years, always provided that their tenure as Directors does not expire earlier. Such term may be extended in each case only upon express decision of the Board of Directors. The term in such office shall not overlap, so that the Committee is always composed of one Director with experience in the subject. The appointment of the members of the Personnel Incentives Committee, as well as any changes in its membership, whether by reason of resignation, leave of absence, addition or replacement of its members or any other cause, shall be notified by the Company to the BCRA and the CNV within the terms set forth in the applicable laws.

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The Committee's main objective is to monitor the incentive system, and it is responsible for establishing the policies and practices for providing financial incentives to the Bank's 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 current and future potential 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.

2. The Design is based on the principle that all employees should receive a total compensation that is commensurate with tasks performed, whose internal relative value reflects the responsibilities of the position and the employee's performance, and whose external comparative value is competitive with comparable salaries prevailing in the market, ensuring that internal equity and external competitive criteria are satisfied, by reviewing and managing compensation packages so as to obtain a salary structure aligned to the business needs and possibilities, framed in a set of rules that foster individual progress based on each employee's potential and the Bank's possibilities, so as to ensure an environment that fosters individual development and the organization's advancement.

3. Personnel financial incentives are adjusted by directly relating each individual contribution to the Organization's performance, with a view to achieving the targets set by the Company's Board of Directors; and the results obtained through the duties that are being compensated are framed into the risk exposure assumed by the Board of Directors.

4. The Entity measures its performance through indicators associated to its strategic environments: business, sustainability, customers, employees and organizational intelligence.

5. Pursuant to its long-term incentive and performance policy, the Bank establishes a direct relationship between each employee's individual contribution and the Organization's goals, with a view to fulfilling the targets set by the Company's Board of Directors and obtaining sustainable profits, through the following actions, *inter alia*.

- Clearly communicating the corporate targets set by the Board of Directors for the following year and in the long term;
- Strengthening and clarifying the relationship between performance and incentives;
- Aligning incentives with the key factors of success for the Organization and rewarding actions that add value, privileging costs and efficiency;
- Fostering cooperation and team work, and causing the various departments to work hand in hand toward the achievement of common targets consistent with the Organization's strategic plans;
- Rewarding the attainment of quantitative, specific, measurable and controllable objectives;
- Achieving better clarity and objectivity upon measuring individual and group performance.

6. The various variable compensation items are: Commissions, Bonus and Profit. Payments are recorded in the salary receipts and are made in cash. Banco Hipotecario S.A. sets the criteria that regulate the Incentive Policy with a view to integrating individual and group efforts, seeing that internal relative value reflects the responsibilities and risks associated to each employee's position and performance and that its external comparative value is competitive in the salary market. Performance management measures the employees' performance in terms of the results attained with respect to the goals set and the qualifications required for each position.

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The Bank has a system of financial incentives for personnel, consistent with its culture and objectives, which is aligned with the other managing tools in order to achieve a prudent assumption of both current and future risks.

The Committee of Personnel Incentives assesses individual performance in compliance with targets imposed on their functions and the risk assumed by personnel on behalf of the entity, seeing that the total funds allocated to their payment are consistent with the results obtained during the fiscal year to be remunerated.

5) Policy related to business conduct and/or ethics code, as well as the applicable governance policy or structure:

The Bank has internal rules of conduct (Code of Ethics) that enshrine the ethical tenets and principles that govern interaction amongst directors and employees, within a framework of respect for the law and for the rules that govern the banking industry.

Additionally, the Bank adheres to the Code of Banking Practices, which has been prepared with the involvement of all of Argentina's associations in the industry of banking and financial institutions as a self-regulatory initiative that seeks to promote best banking practices in Argentina and, in turn, the Bank adheres to the Investor Protection Code of Mercado Abierto Electrónico and through BH Valores S.A., to the Merval's Investor Protection Code.

The Bank adhered to those Codes in the belief that its adoption will help strengthen the rights of clients and increase transparency in the information provided to them by financial institutions.

The referred Code of Ethics and the Code of Banking Practices are an integral part of the Bank's and its subsidiaries' Corporate Governance systems.

6) Conflicts of Interest:

The decisions and actions of the Bank's members, managers, legal representatives and employees must always aspire to further the Bank's and its customers' best interests and they should never stem from personal considerations. Neither family and friendship relationships nor expectations from current or potential suppliers, contractors, competitors or regulators must affect independence and sound judgment to safeguard the Bank's interests.

7) Complex Structures

In the corporate structure of Banco Hipotecario and its subsidiaries, the controlling company is at the center of the main financial intermediation activities and relies on other economic units for the businesses and supplementary services of non-depository merchant banks, insurance companies, stock brokers and the issuance of Shopping credit cards whilst maintaining and reinforcing any possible synergies amongst its different customers.

None of the group companies has affiliates or subsidiaries abroad, nor are they engaged in off-shore transactions.

The organization does not employ complex structures or trusts disguising the development of certain activities.

The involvement of each company as trustor, trustee or beneficiary is restricted to the sphere of financial trusts whose securities are generally admitted to public offering. The most relevant details

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surrounding these trusts, as well as the investments in their certificates and securities are disclosed in the stand-alone financial statements and in the Bank's consolidated financial statements.

32. INCOME TAX

In accordance with Section 28 of Law 24,855, Banco Hipotecario Sociedad Anónima is subject to income tax, except with respect to housing loan transactions made before October 23, 1997, the date of registration of its bylaws with the Superintendency of Corporations.

The Bank records the charges to income, when applicable, and a provision in its liabilities for the tax applicable to its taxable transactions in the fiscal year to which they refer.

As of December 31, 2016, accumulated tax carryforwards were Ps. 356,663 thousand. As of June 30, 2017 the Bank had not raised provisions on account of having failed to use up the above mentioned tax loss carryforward in this period.

33. MINIMUM NOTIONAL INCOME TAX

Minimum notional income tax was created by Law No. 25063 to be in effect for 10 years as from fiscal year 1998, which term was extended by Law No. 26545 until December 30, 2019. In addition, Law No. 27.260 in its Section 76 set forth that the tax was to be repealed for the fiscal years beginning on January 1, 2019.

This is a tax complementary of income tax. Minimum notional income tax consists of minimum taxation, which assesses certain productive assets at the tax rate of 1%. The ultimate tax obligation will be the higher of minimum notional income tax or income tax. For financial entities, the taxable basis will be 20% of their computable assets. If in a fiscal year, minimum notional income tax obligation exceeds income tax liability, the surplus will be computable as a down payment of any income tax excess over minimum notional income tax through the next ten years.

Given the provisions of Communication "A" 4295, the Bank capitalized the tax credit based on the income for book and tax purposes on the basis of the Business Plan submitted to the Argentine Central Bank as well as estimates of the main macroeconomic variables and the changes in the financial system for the following ten fiscal years.

The following are the Bank's credit balances at the closing of these financial statements:

Year	Credit balance
2012	896,804.31
2016	81,7
	96,395.16
Total	82,693,199.47

34. OVER-THE-COUNTER BROKER

The Bank's minimum shareholders' equity required by the Argentine Central Bank rules is in excess of that required by the National Securities Commission in Technical Pronouncement No. 290, as amended, in order to act as an Over-the-Counter Broker and has been duly paid up at fiscal year end.

35. FINANCIAL STATEMENTS PUBLICATION

In line with the guidelines of Communication "A" 760, the prior involvement of the Argentine Central Bank is not required in order to publish these financial statements.

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The document drafted pursuant to the provisions of Communication “A” 5394 issued by the Argentine Central Bank discloses information on Banco Hipotecario S.A.’s regulatory capital structure and sufficiency, risk exposure and management, on a stand-alone basis and in consolidated form with its subsidiaries.

Pursuant to the law, the referred document is posted on the Bank’s website (<http://www.hipotecario.com.ar>), by accessing the following link “Market Discipline - Minimum Disclosure Requirements”.

36. RESOLUTIONS ISSUED BY THE ARGENTINE CENTRAL BANK

Financing line for production and financial inclusion

Under Communication “A” 6084 dated October 21, 2016, the Argentine Central Bank sets forth the guidelines of the QUOTA in force for the first half of 2017.

The Argentine Central Bank establishes that financial institutions subject to the provisions of this circular shall be required to record, as from 1/1/17 and until 6/30/17, a lending balance under this credit line amounting to at least 18% (during the second half/16 it was 15.5%) of the deposits from the non-financial private sector in pesos, calculated taking into account the monthly average daily balances of November 2016,

At the closing of these financial statements BHSA had recorded an average of Ps. 2,580,642 thousand as principal and interest under Banco Hipotecario S.A.’s assets in connection with this line.

Supplementary services to the financial business

Pursuant to Communication “A” 5700, the Argentine Central Bank included changes in the rules on “Supplementary services to the financial business and permitted activities”, “Consolidated supervision” and “Minimum capitals of financial institutions”. As concerns the scope of the supplementary services, financial institutions are allowed to hold interests in the stock capital of companies engaged in the development of two of the subject activities to the extent that, in the opinion of the SEFyC, both activities are economically related to each other and there are no legal inconsistencies that would prevent them from being developed jointly.

The subject activities include the issuance of credit, debit and similar cards. This notwithstanding, provided that 25% of the total financing amount as of the closing date of each month is not exceeded, loans not subject to the credit card law may be extended to financial services users, in which cases the provisions on “Interest rates applicable to lending transactions” shall be complied with.

On the other hand, with respect to the calculation of the regulatory capital (*responsabilidad patrimonial computable*), a schedule has been established in order to compute ownership interests in companies whose corporate purpose consists in providing financial assistance in the form of leases and document discounts, temporary acquisition of ownership interests in companies, issuance of credit cards, cash withdrawal cards and similar, to name but a few, as items allowed to be deducted from Tier 1 ordinary capital.

Date	Deduction Percentage
Until May 2015	0%
Starting June 2015	25%
Starting June 2016	50%
Starting June 2017	75%
Starting June 2018	100%

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Pursuant to its Communication "A" 6277, on July 14, 2017, the Argentine Central Bank introduced certain changes in the rules that govern the services that supplement financial activities and permitted activities, effective as of July 17, 2017. Among the most relevant changes, there is the suppression of the cap that applies to consumer loans granted by issuers of credit cards, which amounts to 25% of total funding, and the possibility of acquiring companies engaged in the development and supply of services to the financial sector based on technology and/or electronic payment services.

Minimum capital requirements in Financial Institutions – Adaptation to the standards laid down by the Basel Committee on Banking Supervision

Pursuant to Communication "A" 5831, the Argentine Central Bank modified its rules concerning "Minimum capital requirements in Financial Institutions" and adapted several paragraphs to reflect the standards laid down by the Basel Committee on Banking Supervision.

The adaptation spans the computation of monthly stand-alone and consolidated bases, limits on maximum exposure to a single debtor, margin calls, tranche coverage, accounting treatment to be afforded to credit risk hedges, derivatives, etc. In addition, it also lays down the guidelines to manage financial institution risks.

Besides, it adds a schedule to be observed in order to detract investments in instruments computable as regulatory capital in companies that render services ancillary to financial services which are not under consolidated supervision and insurance companies

Date	Percentage to be deducted
Starting December 2015 to December 2016	40%
Starting January 2017	70%
Starting January 2018	100%

Protection of financial services users

Pursuant to its Communication "A" 5928, on March 21, 2016, the Argentine Central Bank broadened the scope of the rules concerning "Protection of financial services users". Now, Section 2 of these rules, "Basic rights of financial services' users", sets forth that effective September 1, 2016, financial institutions shall not be allowed to collect from users any type of commission and/or charge in connection with life insurance over debit balances and must acquire insurance over debit balance with coverage in the event of death or total permanent disability concerning the funding extended to individuals. Alternatively, institutions are allowed to self-insure risks stemming from users' total permanent disability and death and such coverage must totally repay the amounts due.

37. SUMMARY PROCEEDINGS

I. Summary proceedings before administrative authorities:

1. On February 19, 2014, the Bank was notified of Resolution No. 209/13 handed down by the Chairman of the Financial Information Unit (UIF), whereby it ordered to commence summary proceedings against the Bank, its directors (Messrs. Eduardo S. Elsztain; Mario Blejer; Ernesto M. Viñes; Jacobo J. Dreizzen; Edgardo L. Fornero; Carlos B. Písula; Gabriel G. Reznik; Pablo D. Vergara del Carril; Mauricio E. Wior; Saul Zang); the Risk and Controlling Manager, Mr. Gustavo D. Efkhianian and the Manager of the Money Laundering Prevention and

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Control Unit Manager, Mr. Jorge Gimeno. In these proceedings, an investigation is made into the defendants' liability for alleged violation of the provisions of Section 21 of Law 25,246, as amended, and Resolution UIF No. 228/2007 due to certain defaults detected by the BCRA in the inspection of the organization and in internal controls implemented for the prevention of money-laundering derived from illegal activities. On March 25, 2014, the relevant defenses and arguments were filed in support of the Bank and the individuals subject to the summary proceedings. By virtue of a Resolution dated 7.07.16 Gustavo Daniel Efkhianian and Jorge Gimeno were separated from the summary proceedings and the former regular director Marcelo G. Cufre was summoned to appear before the authorities. Then, in a ruling dated January 24, 2017, the Judge in charge of the preliminary criminal investigation summoned former regular directors Clarisa Diana Lifsic de Estol, Federico León Bensaón and Diego Luis Bossio so that they could be notified of the charges against them, file their defenses and offer evidence. All the directors summoned filed their respective defenses.

In the legal counsel's opinion, at the current stage of the proceedings and based on the precedents existing at the UIF in connection with similar cases, it is estimated that there are chances of imposing an administrative penalty. For such reason, the bank has estimated allowances for Ps. 20 thousand.

2. On August 11, 2015, the Bank was notified of Resolution No. 76/15, whereby the President of the Financial Information Unit (FIU) had ordered the start of summary proceedings against Banco Hipotecario S.A., its directors (Eduardo S. Elsztain, Mario Blejer, Jacobo Julio Dreizzen, Carlos B. Písula, Ernesto M. Viñes, Gabriel G. Reznik, Pablo D. Vergara del Carril, Mauricio Wior, Saúl Zang, Edgardo Fornero, Diego Bossio, Mariana Gonzalez and Ada Maza) and its Compliance Officer (Ernesto M. Viñes) in connection with alleged failures to comply with Section 21, a) of Law No. 25,246 and FIU Resolution No. 121/11. According to said resolution, the Bank and its directors had *prima facie* failed to comply with certain customer identification requirements, monitoring standards, the risk matrix definition and the procedures to update its customers' background and profiles, among other things.

On September 23, 2015, the Bank raised depositions and defenses with the FIU along with documentary evidence, and produced informative evidence, IT expert opinions and oral evidence. On April 13, 2016 the production of evidence was ordered, and all evidence was duly produced, including, among them, the report issued by the BCRA on the plan of risk adjustment and mitigation submitted in due time by Banco Hipotecario. At the conclusion of this procedural stage, the attorneys-in-fact of the persons subject to the criminal proceedings filed their closing arguments concerning the evidence produced.

Based on the FIU's background on similar cases, the Bank is likely to be imposed an administrative fine. Therefore, it was deemed reasonable to create an allowance for this contingency amounting to Ps. 20 thousand, which was booked on October 22, 2015.

3. On February 15, 2016, BHSA was notified of Resolution No. 1014 handed down by the Superintendent of Financial and Foreign Exchange Institutions in order to commence summary proceedings in the terms of Section 41 of the Law of Financial Institutions (Summary Proceedings' File No. 1486) against Banco Hipotecario S.A. and its chairman Mr. Eduardo S. Elsztain on grounds of an alleged breach of the rules under Communication "A" 4490 consisting in failure to report -within the term established by the rules and regulations governing the matter- the appointment of new directors resolved by the General Shareholders' Meetings held on March 27 and on April 24, 2013 and in a delay in filing the documentation associated to those directors. It is worth underscoring that in all cases they were regular and alternate directors appointed by the Argentine Government.

On February 29, 2016, BHSA filed its defenses and produced documentary evidence, all of which is being evaluated by the Argentine Central Bank's Department of Contentious Financial Matters.

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In light of the likelihood that the Bank could be imposed an administrative fine, it was deemed reasonable to create an allowance for this contingency amounting to Ps. 560 thousand, which was booked last June 30, 2016.

4. On May 10, 2016, the Bank was notified of Resolution No. 219 dated April 22, 2016, handed down by the Superintendent of Financial and Foreign Exchange Institutions in order to commence summary proceedings (Summary Proceedings' File No. 6845) in the terms of Section 8 of the Foreign Exchange Criminal Regime Law No. 19,359 (as signed into law pursuant to Decree No. 480/95) against Banco Hipotecario S.A., its former Manager Mr. Ricardo José Gonzalez and Mrs. Luciana Sabrina Fusco and Liliana Elisabeth Sabella on grounds of alleged breach of the rules contained in Communication "A" 5318 and 5322, as supplemented, consisting in allegedly selling foreign currency for the amount of US\$ 69,620 agreed upon under a residential mortgage transaction without fulfilling the requirements set forth in the regulations then in effect (Communications "A" 5318, 5322, as supplemented).

On November 18, 2016, the relevant defenses and arguments were filed, including the assertion that the alleged breach is not punishable based on the retroactive application of the most favorable criminal law, and the relevant evidence was offered.

Given the current status of the proceedings, and since there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted, no allowances have been created.

II. Summary Proceedings pending Court Decision

1. On October 31, 2014, BHSA was notified of Resolution No. 685 dated October 29, 2014 handed down by the Superintendent of Financial and Foreign Exchange Institutions in the summary proceedings in financial matters No. 1320 whereby the Bank and its authorities had been charged, on one hand, with the violation of the rules governing financial aid to the Non-Financial Public Sector, with excess over the limits of fractioned exposure to credit risk from the non-financial public sector, with excess in the allocation of assets to guarantee, with failure to satisfy minimum capital requirements and with objections against the accounting treatment afforded to the "Cer Swap Linked to PG08 and External Debt" transaction and on the other hand, with delays in communicating the appointment of new directors and tardiness in the provision of documentation associated to the directors recently elected by the shareholders' meetings.

Resolution No. 685 then fined Banco Hipotecario S.A. with Ps. 4,040 thousand and also fined BHSA's directors (Eduardo S. Elsztain; Jacobo J. Dreizzen; Carlos B. Písula; Edgardo L. Fornero; Gabriel G. Reznik; Pablo D. Vergara del Carril; Ernesto M. Viñes; Saul Zang; Mauricio E. Wior), former directors (Clarisa D. Lifsic de Estol; Federico L. Bensadón; Jorge L. March and Jaime A. Grinberg), statutory auditors (Messrs. Ricardo Flammini; José D. Abelovich; Marcelo H. Fuxman; Alfredo H. Groppo; and Martín E. Scotto), the Area Manager Gustavo D. Efkhanian and former managers (Gabriel G. Saidón and Enrique L. Benitez) for an aggregate amount of Ps. 51,582 thousand. Under this decision, former Statutory Auditor Ms. Silvana M. Gentile was acquitted.

On November 25, 2014, Banco Hipotecario and the other individuals affected by the adverse decision, lodged an appeal under Section 42 of the Financial Institutions Law, that was sent by the BCRA to the National Appellate Court with Federal Jurisdiction over Contentious and Administrative Matters. Therefore, at present the case is being heard by Panel I of such Appellate Court. Moreover, on December 30, 2014, the Bank and the individuals against whom sanctions were imposed requested the levying of separate injunctions by such court against the enforcements pursued by the BCRA for collection of the fines.

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Upon being notified of the resolution handed down on June 30, 2016 by the Appellate Court that denied the motion for injunction filed by the Bank and by the directors, managers and some of the statutory auditors and in order to prevent further conflicts and financial damage that could result from the actions to compel payment of fines, the Bank's Executive Committee decided to apply the indemnity rules regarding directors, high ranking officers and statutory auditors, as an alternative for the amounts not covered by the D&O insurance policy approved by the Bank's Board of Directors at its meetings held on August 2, 2002 and May 8, 2013, and resolved to deposit the amounts of the fines.

Such deposit, including the amount corresponding to the fine imposed on the Bank and the respective legal costs, totaled Ps. 57,672 thousand. Out this amount, Ps. 53,632 thousand were computed as losses for the fiscal year ended December 31, 2015 and Ps. 4,040 were computed as an allowance for the fiscal year ended December 31, 2014.

This notwithstanding, in the brief filed with the court that is hearing the proceedings to compel payment it was sustained that the amounts deposited in the judicial accounts opened to such end were subject to attachment, and a petition was filed for the respective amounts to be invested in automatically renewable term deposits for 180 days in order to ensure the integrity of the funds until the Appellate Court with Federal Jurisdiction over Contentious and Administrative Matters hands down a decision on the appeal lodged against Resolution No. 685/14 of the Argentine Central Bank.

The requests for injunction were rejected and the court made progress in the proceedings for enforcing the fines, against each of the defendants. For such reason, the amounts subject to attachment were applied to the payment of the relevant fines.

2. On September 13, 2013, the Bank was notified of Resolution No. 611 handed down by the Superintendent of Financial and Foreign Exchange Institutions, ordering to commence summary proceedings against the Bank, the Organization and Procedures Manager, Mr. Christian Giummarra, and the former Systems Manager, Ms. Aixa Manelli (Summary Proceedings No. 5469 on Foreign Exchange Matters - File 100,082/08) charging them with alleged violation of the foreign exchange laws in selling foreign currency to persons prohibited from trading foreign currency by the Argentine Central Bank. The cumulative amount derived from the alleged violation in the sale of foreign currency is around US\$ 39.9 thousand and Euro 1.1 thousand. The relevant defenses and arguments have been filed and evidence has been offered in support of all the defendants subject to the summary proceedings. Due to its related subject matter, the record of this case was joined with Summary Proceedings No. 5529 on Foreign Exchange Matters (File 101,327/10). Therefore, its procedural status is described below.

On October 8, 2013, the Bank was notified of Resolution No. 720 handed down by the Superintendent of Financial and Foreign Exchange Institutions, ordering to commence summary proceedings against the Bank and its Organization and Procedures Manager, Mr. Christian Giummarra, and the former Systems Manager, Ms. Aixa Manelli (Summary Proceedings No. 5529 on Foreign Exchange Matters) in accordance with Section 8 of the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*) -as signed into law by Decree 480/95- charging them with alleged violation of the foreign exchange laws in selling foreign currency to persons prohibited from trading foreign currency by the Argentine Central Bank. The cumulative amount derived from the alleged violation in the sale of foreign currency is around US\$ 86 thousand. The relevant defenses and arguments were filed and evidence was offered in support of all the defendants subject to the summary proceedings. The BCRA opened the discovery stage, and evidence was produced in due time. Once the discovery stage came to a conclusion, the attorneys submitted their closing arguments. By mid-September, the BCRA sent the summary proceedings (in which the two causes of action were joined) to the courts with jurisdiction over criminal economic matters for the entry of judgment. The intervening court is Federal Court No. 2 with Jurisdiction over Criminal Economic Matters (in charge of Dr. Pablo Yadarola) - Clerk's Office No. 3 (in charge of Dr. Fernando Stockfisz). At this stage in these proceedings, the court ordered the production of further evidence to hand down a better decision. Before this court, a brief describing the system implemented

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by the Argentine Central Bank to communicate prohibitions against trading foreign exchange was filed. The hearing that must be attended by the defendants contemplated in Section 41 of the Criminal Code was held in court on February 27, 2017 with these individuals in attendance and previous to the passage of judgment.

In the legal counsel's opinion, at the current status of the proceedings, there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted and that therefore, there are low chances that the Bank will be subject to the economic sanctions set forth by the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*). For such reason, no allowances have been created in this regard.

3. On August 26, 2014, the Bank was notified of the Resolution passed by the Superintendent of Financial and Foreign Exchange Institutions No. 416 dated August 7, 2014 ordering the start of Summary Proceedings No. 5843 in the terms of Section 8 of the Foreign Exchange Criminal Regime Law No. 19,359 (as signed into law pursuant to Decree No. 480/95). In the above-mentioned summary proceedings, Banco Hipotecario, its directors (Messrs. Eduardo S. Elsztain; Jacobo J. Dreizen; Edgardo L. Fornero; Carlos B. Písula; Gabriel G. Reznik; Pablo D. Vergara del Carril; Ernesto M. Viñes; Saul Zang; and Mauricio E. Wior) and former directors (Ms. Clarisa D. Lifsic de Estol and Mr. Federico L. Bensadón), and two former managers (Messrs. Gabriel G. Saidón and Enrique L. Benitez), are charged with failure to comply with the rules disclosed by Communication "A" 3471 (paragraphs 2 and 3) and by Communication "A" 4805 (Paragraph 2.2.) due to certain transfers of currency made abroad between August and October 2008 to guarantee the "CER Swap Linked to PG08 and External Debt" swap transaction for a total of US\$ 46 thousand, without the authorization of the Argentine Central Bank. BHSa has been allowed to review the proceedings (case file No. 100.308/10) which are being handled by the Argentine Central Bank's Department of Foreign Exchange Contentious Matters. The relevant defenses and arguments were filed and evidence was offered in support of all the defendants subject to the summary proceedings. The BCRA opened the discovery stage on March 16, 2015. Evidence was produced and the counsels for the defense's allegations were raised in due time. Upon conclusion of the administrative stage of the proceedings, the case file was sent to the Courts with Jurisdiction over Criminal Economic Matters.

After the resolution by the court of the jurisdictional issues that had been raised on November 18, 2015, in November 2016, notice was taken of the fact that the case is now being heard by Federal Court No. 3 with Jurisdiction over Criminal Economic Matters presided by Judge Rafael E. Caputo, Clerk's Office No. 5, which is to rule upon these summary proceedings.

In the legal counsel's opinion, at the current stage of the proceedings, there are legal and factual arguments that generate reasonable expectations that the physical persons named defendants and Banco Hipotecario S.A. will be acquitted and that therefore, there are low chances that the Bank will be subject to the economic sanctions set forth by the Criminal Foreign Exchange Regime Law (*Ley de Régimen Penal Cambiario*). For such reason, no allowances have been created in this regard.

38. FIDUCIARY ACTIVITIES**PROGRAMA CRÉDITO ARGENTINO DEL BICENTENARIO PARA LA VIVIENDA ÚNICA Y FAMILIAR (Pro.Cre.Ar.)**

On June 12, 2012, the Argentine Executive Branch issued Decree No. 902 whereby it ordered the creation of a Public Fiduciary Fund referred to as *Programa Crédito Argentino del Bicentenario para la Vivienda Única Familiar* (Argentine Single Family Housing Program for the Bicentennial) (Pro.Cre.Ar.).

On that same date, the Bank's Board of Directors approved the Bank's role as trustee of the referred fund.

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On July 18, 2012, the Argentine State, as Trustor, and Banco Hipotecario S.A. as Trustee, created the "PROCREAR" Administrative and Financial Trust, and its underlying assets were transferred to it as trust property.

The Trust's sole and irrevocable purpose is as follows: (i) to manage the trust assets with the aim of facilitating the population's access to housing and the generation of job opportunities as economic and social development policies, in compliance with the principles and objectives set forth in Decree No. 902; (ii) the use by the Trustee of the net proceeds of the placement of the Trust Bonds (*Valores Representativos de Deuda* or VRDs) and cash contributions by the Argentine State to originate loans for the construction of houses in accordance with the provisions of Decree No. 902 and the credit lines; and (iii) the repayment of the VRDs in accordance with the terms of the agreement that creates the Trust and the provisions of the Trust Law.

The Trust shall be in effect for a term of thirty (30) years as from the date of execution of the agreement (July 18, 2012).

In addition to the obligations imposed on it under the Trust Law and the Commercial Code, the Trustee is required to:

- Perform the obligations set forth in the Trust Agreement and follow the instructions imparted on it by the Executive Committee;
- Carry out its duties as Trustee with the loyalty, diligence and prudence of a good businessman acting on the basis of the trust placed on him;
- Exercise the powers granted to it under the Agreement, and preserve the Trust Assets;
- Use the Trust Assets for lawful purposes, in accordance with the provisions of the Agreement and following the Executive Committee's instructions;
- Identify the Trust Property and record it in a separate accounting system, segregated from its own assets or the assets of other trusts held by it at present or in the future in the course of its business;
- Prepare the Trust's financial statements, hire the relevant audit firms and comply with the applicable disclosure regulations;
- Insure the Trust Assets against risks that could affect their integrity;
- Invest or reinvest the Trust's funds in accordance with the provisions of the Agreement and following the instructions imparted by the Executive Committee.

According to the balance sheet as of June 30, 2017, the Trust's financial position was as follows:

- Assets: Ps. 91,425,753 thousand.
- Liabilities: Ps. 46,362,420 thousand.
- Shareholders' Equity: Ps. 45,063,333 thousand.

As of June 30, 2017, the PRO.CRE.AR Administrative and Financial trust portfolio was composed of 114,417 mortgage loans for the construction of permanent, single family houses and 79,537 consumer loans. The amount disbursed for construction as of such date was Ps. 44,937,156 thousand and Ps. 7,468,888 thousand, respectively. The committed amounts pending disbursement total Ps. 719,084 thousand.

The conditions of these loans vary based on the family income segment involved.

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39. CAPITALIZATION OF EXPENSES

Given the Bank's role as Trustee of the Pro.Cre.Ar Trust (Notes 2.11 and 38) the Bank has capitalized increased direct expenses incurred in the mortgage loan origination process, which disbursements would not have been incurred by it had it not been for the grant of the related loans.

Capitalized expenses as of June 30, 2017 total Ps. 628,426 thousand. The most significant items capitalized refer to appraisal expenses, temporary staff fees, system development consultation fees, leases, surveillance service and other administrative expenses.

Pursuant to Communication "A" 5392, these expenses are amortized in 60 monthly installments, as follows:

Year 2012 amortizations	332
Year 2013 amortizations	14,786
Year 2014 amortizations	37,318
Year 2015 amortizations	72,209
Year 2016 amortizations	105,392
Year 2017 amortizations	123,385
Year 2018 amortizations	110,836
Year 2019 amortizations	88,346
Year 2020 amortizations	53,554
Year 2021 amortizations	20,329
Year 2022 amortizations	1,938
Total in Ps. thousand	628,426

40. CAPITAL MARKET LAW

On December 27, 2012, the Capital Market Law No. 26,831 was promulgated, considering a comprehensive amendment to the public offering regime set forth by Law No. 17,811.

Insofar as concerns the matters related to the Company's business, this law broadens the regulatory powers of the Argentine Government in connection with the public offering of securities, through the Argentine Securities Commission (CNV), and concentrates in this agency the powers of authorization, supervision and oversight, disciplinary authority and regulation of all capital market players; furthermore, it establishes that intermediary agents willing to deal in a securities market are no longer required to be members thereof, thus allowing the entry of other participants, and delegates to the CNV the power to authorize, register and regulate the various categories of agents.

On August 1, 2013, Decree 1023/2013, partially regulating the Capital Markets Law, and on September 9, 2013, General Resolution No. 622 of the CNV, approving the related regulations, were published in the Official Gazette.

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These regulations implement a register of agents that participate in the capital market. To take part in each of the activities regulated by this resolution, agents had to be entered in that register in such capacity by March 1, 2014.

For those agents who have applied for registration with the final registry before March 1, 2014 to comply with all the requirements, on February 7, 2014, the Argentine Securities Commission (CNV) extended the term until September 30, 2014. On June 23, 2014 we were notified by Mercado Abierto Electrónico S.A. that CNV mandated that the Agents registered with MAE S.A. who have proceedings underway before CNV for registration as Agent in any of the categories authorized by currently applicable rules and regulations may continue to do business normally up and until they start operating in the new Agent category as per the CNV rules (N.T.2013)

In turn, pursuant to CNV Resolution No. 17,392 dated June 26, 2014, the Bank was registered with the Registry of Financial Trustees prescribed by Sections 6 and 7 of Chapter IV, Title V of the Rules, under No. 57. And, on September 19, 2014, pursuant to CNV Resolution No. 2122, the Bank has been registered as Settlement and Clearing Agent and Comprehensive Trading Agent No. 40.

Pursuant to the provisions of Section 45 of Law 26,831 and paragraph a), Section 20, Article VI, Chapter II, Title VII, and subsection j) of Section 7, Article IV, Chapter IV, Title V of Resolution No.622 of the CNV, it is made known that Banco Hipotecario's minimum shareholders' equity composed as required by the rules issued by the Argentine Central Bank exceeds the minimum amount required under such resolution. On the other hand, the Bank's capital was duly paid in as of June 30, 2017 and the liquid balancing account is identified -through BONAR 2024 government security - Government Bond carried at fair market value - See Exhibit "A" to these Financial Statements, as per the following detail:

Date	Amount Ps. As per CNV Matrix	Government Security	Kind CV	Amount	Listing	Valuation
06/30/2017	10,500,000.00	AY24	5458	1,000,000	19,205	19,205,000

On October 22, 2014, the Board of Directors of Mercado de Valores de Buenos Aires S.A. (MERVAL) approved the registration of Banco Hipotecario S.A. in Mercado de Valores de Buenos Aires S.A.'s Registry of Agents as Settlement and Clearing Agent and Trading Agent - Comprehensive (ALyC and AN as per the Spanish acronyms).

On December 23, 2014, Banco Hipotecario S.A. was authorized to operate under the provisions of Merval Communication No. 15594.

On April 12, 2017, the bank was given notice by BYMA (Bolsas y Mercados Argentinos S.A.) on the migration of MERVAL's operating processes to such market, according to the authorization granted by the CNV through Resolution No. 18,424 dated December 26, 2016.

41. QUALITY CERTIFICATION

On November 17, 2014, the Argentine Standardization and Certification Institute (*Instituto Argentino de Normalización y Certificación, IRAM*) has acknowledged that Banco Hipotecario S.A.'s Corporate Audit Area Department has in place a Quality Management System that conforms to the standards set by referential number 13:2013. This referential was developed by the Argentine General Audit Department (*Sindicatura General de la Nación, SIGEN*) and IRAM on a joint basis.

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In this way, Banco Hipotecario S.A.'s Corporate Audit Area Department has become the first internal audit unit in a banking institution to obtain the referred certification.

42. DIVIDEND DISTRIBUTION BY BHN INVERSION S.A.

On March 9, 2016, the Ordinary Shareholders' Meeting of BHN Sociedad de Inversión S.A. approved the payment of dividends in cash and/or government securities for Ps. 650,000 thousand and empowered the Board of Directors to make the relevant distribution as and when they deem it convenient during fiscal year 2016.

On March 30, 2016, BHN Inversión S.A. made the first payment of dividends to Banco Hipotecario S.A. in government securities for Ps. 330,000 thousand and on November 17, 2016, it made the second payment of dividends in government securities for Ps. 320,000 thousand.

At the Board Meeting of BHN Sociedad de Inversión dated November 29, 2016, it was unanimously resolved that, based on the review of the special Financial Statements as of September 30, 2016, as approved by the Board of Directors on November 15, 2016, interim dividends would be paid for Ps. 150,000 thousand against the net income for the current fiscal year. On December 7, 2016, these interim dividends were paid in government securities.

On March 30, 2017, the Shareholders' Meeting approved a payment of dividends in cash and/or government securities for Ps. 900,000 thousand, and ratified the payment of interim dividends for Ps. 150,000 thousand referred to in the preceding paragraph. The Board of Directors was also authorized to distribute the remaining balance within the current year, in the manner and at the time it may deem convenient.

43. PURCHASE OF EDIFICIO DEL PLATA

On April 20, 2016, Banco Hipotecario S.A. purchased the building known as "Edificio del Plata" through a public auction held by the Government of the City of Buenos Aires, with the purpose of setting up a branch and corporate offices.

The purchase price was US Dollars sixty-eight million one hundred and fourteen thousand (68,114,000). The equivalent amount in Pesos was determined at the selling exchange rate as of the close of business of the preceding business day quoted by Banco de la Nación Argentina. The relevant fee payable to Banco de la Ciudad plus VAT must be added to the price mentioned above.

Pursuant to the provisions of Section 3, Decree 208/16, on April 29, 2016, fifteen percent of the price (15%) was paid. The balance was repayable within three hundred and sixty-five days (365) at the time of execution of the relevant notarial deed and delivery of possession.

On April 19, 2017, Banco Hipotecario S.A.'s Executive Committee decided to ratify the purchase of "Edificio del Plata" pursuant to the terms and conditions of the preliminary sales contract, and to authorize the payment of the outstanding balance. This balance, plus expenses, fees and stamp tax, were paid on April 20, 2017. The title deed was executed on April 25, 2017.

44. PERSONAL ASSETS TAX

Law No. 25,585 introduced changes in the treatment afforded to the shareholdings and ownership interests in the capital stock of companies governed by Law No. 19,550, effective since the 2002 tax period. One of these changes was the addition of Section 25.1 to the Personal Assets Law, which levies a tax on the above mentioned shareholdings held by individuals domiciled and undivided estates established in Argentina

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and foreign individuals, undivided estates and legal entities. The Bank is responsible for acting as substitute taxpayer of Personal Assets Tax.

Recently, in the framework of Law No. 27,260, the Bank obtained a benefit on grounds of good tax performance. This benefit exempts shareholdings and ownership interests in the Bank's capital stock from Personal Assets Tax, and it applies to the 2016, 2017 and 2018 tax periods.

45. CNV's General Resolution 629 - ISSUERS - DUTY TO RETAIN DOCUMENTATION

On August 14, 2014, through its General Resolution No. 629, Article 26, Section VII of Chapter IV under Title II of the Technical Rules, Version 2013 as modified, CNV imposed a duty to detail in a note to the financial statements, the address and identity of the person responsible for the warehouse accommodating the supporting documentation for accounting transactions and company management.

To comply with the duty described in the preceding paragraph, Banco Hipotecario S.A. reports that the documentation retained in an off-site location is at the warehouses of the company Bank S.A. located in Carlos Pellegrini 1401 (Avellaneda).

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CONSOLIDATED BALANCE SHEET

For the fiscal period ended 06/30/2017

In comparative format with the previous fiscal year

In thousands of Argentine Pesos

ASSETS	2017	2016
A Cash and cash resources (Note 2.1.)	3,435,303	7,188,279
Cash	896,186	756,704
Financial Institutions and Correspondents	2,539,117	6,431,575
- Argentine Central Bank (B.C.R.A)	2,380,055	5,355,489
- Other domestic institutions	92,332	15,181
- Other foreign institutions	66,730	1,060,905
B Government and corporate securities (Note 2.3.)	8,082,099	4,997,612
Holdings booked at fair market value (Note 9)	3,131,566	2,522,425
Holdings booked at cost plus return	718,323	1,017,085
Investments in listed corporate securities	637,853	352,854
Securities issued by the BCRA	3,606,019	1,116,910
(Allowances)	(11,662)	(11,662)
C Loans (Schedule B and Note 2.4.)	31,167,477	27,163,942
To the non-financial public sector	129,474	153,032
To the financial sector	518,403	636,950
Interfinancial (calls granted)	130,000	50,000
Other loans to domestic financial institutions	364,120	555,726
Accrued interest, adjustments and quotation differences receivable	24,283	31,224
To the non-financial private sector and foreign residents	31,316,146	27,050,101
Overdraft facilities	546,129	290,153
Promissory notes	933,292	687,965
Mortgage loans	3,168,830	2,744,734
Pledge loans	236,800	640,365
Consumer loans	5,784,096	4,611,052
Credit cards	13,178,322	12,663,403
Unallocated collections	(43,274)	(1,166)
Other	7,282,108	5,166,467
Accrued interest and quotation differences receivable	278,622	293,006
Documented interest	(48,779)	(45,878)
Allowances	(796,546)	(676,141)
D Other receivables for financial transactions (Schedule B and Note 2.5.)	7,942,975	9,262,132
Argentine Central Bank	669,786	691,913
Amounts receivable for spot and forward sales to be settled	1,451,567	1,368,657
Securities to be received under spot and forward purchases to be settled	1,404,924	2,503,986
Unlisted negotiable obligations	298,611	322,118
Balances of forward transactions not yet settled without delivery of underlying asset	37,173	169,717
Others not included in the debtor classification regulations	4,064,794	4,097,312
Others included in the debtor classification regulations	23,013	115,509
Accrued interest receivable included in the debtor classification regulations	6,326	7,110
Allowances	(13,219)	(14,190)

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CONSOLIDATED BALANCE SHEET

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	2017	2016
E Receivables for financial leases (Schedule B and Note 2.6.)	164.605	157.409
Receivables for financial leases	163.220	155.775
Accrued interest and adjustments receivable	2.950	3.087
Allowances	(1.565)	(1.453)
F Investments in other companies (Note 2.7.)	103.120	101.020
In financial institutions	-	-
Other	103.120	101.020
G Miscellaneous receivables (Note 2.8.)	2.074.134	1.974.182
Minimum notional income tax - fiscal credit	202.506	97.447
Other	1.879.554	1.886.759
Other accrued interest receivable	2.544	787
Allowances	(10.470)	(10.811)
H Bank premises and equipment (Note 2.9.)	437.640	390.228
I Miscellaneous assets (Note 2.9.)	1.267.042	296.068
J Intangible assets (Note 2.11.)	574.566	567.364
Goodwill	11.648	13.363
Organization and development expenses	562.918	554.001
K Items pending allocation	12.897	9.874
TOTAL ASSETS	55.261.858	52.108.110

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In comparative format with the previous fiscal year

In thousands of Argentine Pesos

	2017	2016
LIABILITIES		
L. Deposits (Note 2.12.)	19,882,975	18,984,992
Non-financial public sector	2,853,776	2,536,836
Financial sector	6,676	6,394
Non-financial private sector and foreign residents	17,022,523	16,441,762
Current accounts	830,078	881,421
Savings accounts	4,099,010	3,329,855
Time deposits	10,542,773	10,613,088
Investment accounts	1,108,741	1,013,895
Other	238,943	318,055
Accrued interest and quotation differences payable	202,978	285,448
M. Other liabilities for financial transactions (Note 2.13.)	25,753,785	24,187,338
Argentine Central Bank	114	56
Other	114	56
Unsubordinated negotiable obligations	18,703,557	16,018,680
Amounts payable under spot and forward purchases to be settled	1,356,764	2,295,724
Securities to be delivered under spot and forward sales to be settled	1,454,200	1,422,674
Loans received from domestic financial institutions	421,046	707,468
Interfinancial loans (calls received)	75,000	265,000
Other financing from local financial institutions	341,511	434,475
Accrued interest payable	4,535	7,993
Balances of forward transactions not yet settled without delivery of underlying asset	34,792	187,108
Other	3,163,038	2,931,778
Accrued interest and quotation differences payable	620,274	623,850
N. Miscellaneous Liabilities (Note 2.14.)	2,242,471	2,220,193
Fees	79,976	55,270
Other	2,158,979	2,154,603
Adjustments and interest payable	3,516	10,320
O. Provisions (Notes 2.10., 2.15., 2.16. and 2.17.)	348,821	325,847
P. Subordinated negotiable obligations	-	136,838
Q. Items pending allocation	52,031	38,967
TOTAL LIABILITIES	48,280,083	45,894,175
R. Minority interest	300,570	157,707
SHAREHOLDERS' EQUITY (Note 2.20.)	6,681,205	6,056,228
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	55,261,858	52,108,110

Notes and Schedules are an integral part of these financial statements.

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CONSOLIDATED STATEMENT OF INCOME

For the fiscal period ended 06/30/2017

In comparative format with the same period of the previous fiscal year

In thousands of Argentine Pesos

	2017	2016
A Financial income	5,331,279	4,743,515
Interest on cash and cash resources	144	46
Interest on loans to the financial sector	49,553	28,517
Interest on overdraft facilities	49,127	126,754
Interest on promissory notes	81,400	58,918
Interest on mortgage loans	251,381	254,149
Interest on pledge loans	58,607	82,756
Interest on credit card loans	2,000,696	1,533,747
Interest on financial leases	20,518	16,117
Interest on other loans	1,480,374	1,060,513
Interest on other receivables for financial transactions	8,861	2,597
Net income from government and corporate securities	966,655	1,269,428
Adjustment from application of CER (coefficient for reference stabilization) clause and CVS (coefficient for salary variation) clause	4,770	8,730
Gold and foreign currency quotation difference	7,420	-
Other	351,773	301,243
B Financial expenses	3,440,399	3,276,656
Interest on checking account deposits	9,777	1
Interest on savings account deposits	2,185	1,484
Interest on time deposits	1,002,058	1,645,178
Interest on interfinancial loans received	4,087	20,960
Interest on other loans from financial institutions	50,185	71,959
Interest on other liabilities resulting from financial transactions	1,489,036	714,068
Interest on subordinated negotiable obligations	4,321	10,623
Other interest	108,231	189,846
Gold and foreign currency quotation difference	18,793	188,601
Adjustment from application of CER (coefficient for reference stabilization) clause and CVS (coefficient for salary variation) clause	29,740	-
Contribution to the deposits security fund	16,297	44,761
Other	705,689	389,175
GROSS INTERMEDIATION MARGIN	1,890,880	1,466,859
C Loan Loss Provision	379,680	200,792
D Income from services	2,922,960	2,258,673
Linked with lending transactions	1,560,601	844,863
Linked with borrowing transactions	115,587	80,735
Other commissions	14,562	9,259
Other	1,232,210	1,323,816
E Expenses for Services	645,011	524,909
Commissions	251,896	187,018
Other	393,115	337,891

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CONSOLIDATED STATEMENT OF INCOME

For the fiscal period ended 06/30/2017

In comparative format with the same period of the previous fiscal year

In thousands of Argentine Pesos

	2017	2016
G Administrative expenses	2.812.407	2.343.889
Personnel expenses	1.635.517	1.358.888
Directors' and syndics' fees	73.472	47.746
Other fees	273.327	268.920
Advertising and publicity	52.326	66.153
Taxes	164.277	124.060
Depreciation of bank premises and equipment	50.301	32.789
Amortization of organization and development expenses	89.481	72.162
Other operating expenses	367.828	287.053
Other	105.878	86.118
NET INCOME FROM FINANCIAL TRANSACTIONS	976.742	655.942
MINORITY INTEREST RESULTS - (loss)/income	(44.892)	2.393
I Miscellaneous Income	339.341	336.400
Result from permanent equity interests	24.081	23.767
Penalty interest	55.139	48.894
Loans recovered and allowances reversed	119.748	168.793
Other	140.373	94.946
J Miscellaneous losses	366.591	367.693
Penalty interest and charges in favor of the BCRA	1.432	228
Loan loss provision for miscellaneous receivables and other provisions	115.913	158.019
Depreciation and loss of miscellaneous assets	1.805	363
Amortization of goodwill	1.714	1.714
Other	245.727	207.369
NET INCOME BEFORE INCOME TAX	904.600	627.042
K Income tax	279.627	251.700
NET INCOME FOR THE FISCAL PERIOD	624.973	375.342

Notes and Schedules are an integral part of these financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS AND CASH EQUIVALENTS

For the fiscal period ended 06/30/2017

In comparative format with the same period of the previous fiscal year

In thousands of Argentine Pesos

	2017	2016
Changes in cash and cash equivalents		
Cash at beginning of fiscal year	7,188,279	6,378,793
Cash at fiscal period end	3,435,303	3,301,840
Net increase in cash (in constant currency)	(3,752,976)	(3,076,953)
Causes of cash changes (in constant currency)		
Operating activities		
Net collection/ (payment) on:		
Government and corporate securities	(3,084,487)	176,763
Loans		
To the Financial Sector	118,547	(118,020)
To the Non-financial Public Sector	23,558	(274,647)
To the Non-Financial Private Sector and Foreign Residents	(4,266,046)	(1,149,284)
Other receivables for financial transactions	2,335,309	(3,100,939)
Deposits		
To the Non-financial Public Sector	316,940	(3,285,089)
To the Financial Sector	-	-
To the non-financial Private Sector and Foreign Residents	(580,761)	688,385
Other (except for liabilities under Financing activities)	(2,025,922)	2,145,930
Collections linked with income from services	2,924,197	2,258,673
Payments linked with expenses for services	(645,011)	(524,909)
Administrative expenses paid	(2,953,426)	(2,448,840)
Collection net of penalty interest	55,139	48,894
Payment of organization and development expenses	(7,202)	(74,536)
Other (payments) linked to miscellaneous profits and losses	138,130	(110,674)
Net (payments) from other operating activities	377,031	(551,630)
Net cash flow (used for) operating activities	(7,274,004)	(6,319,923)
Investment Activities		
Net payments on bank premises, equipment and miscellaneous assets	(1,018,386)	(262,635)
Collection of dividends in other companies	-	-
Net cash flow (used for) investment activities	(1,018,386)	(262,635)
Financing Activities		
Collections on unsubordinated negotiable obligations	2,684,877	2,207,994
Subordinated negotiable obligations	-	10,623
Net cash flow originated from financing activities	2,684,877	2,218,617
Financial gain (loss), and holding of cash and cash equivalents (including interest and monetary results)		
	1,854,537	1,286,988
Net increase in cash	(3,752,976)	(3,076,953)

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Ricardo Flammini
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CONSOLIDATED MEMORANDUM ACCOUNTS

For the fiscal period ended 06/30/2017

In comparative format with the previous fiscal year

In thousands of Argentine Pesos

	2017	2016
DEBIT	203.827.152	224.569.130
Contingencies	19.306.734	16.093.823
Guarantees received	17.386.221	14.201.884
Others not included in the debtor classification regulations	53.263	51.167
Contingent - re. contra items	1.867.250	1.840.772
Control	80.308.403	75.348.415
Loans classified as non-recoverable	1.000.849	1.010.218
Other	78.505.882	73.997.857
Control - re. contra items	801.672	340.340
Derivatives	12.748.603	49.055.406
"Notional" value of forward transactions without delivery of the underlying asset	5.855.241	24.694.412
Interest rate swap	491.875	528.144
Derivatives-re. contra items	6.401.487	23.832.850
Trust activities	91.463.412	84.071.486
Trust Funds	91.463.412	84.071.486
CREDIT	203.827.152	224.569.130
Contingencies	19.306.734	16.093.823
Loans granted (unused balances) included in the debtor classification regulations (Schedule B)	138.171	126.962
Other guarantees granted included in the debtor classification regulations (Schedule B)	109.836	103.040
Other guarantees not included in the debtor classification regulations	38.068	21.869
Contingent - re. contra items	19.020.659	15.841.952
Control	80.308.403	75.348.415
Amounts to be credited	75.066	54.854
Control - re. contra items	80.233.337	75.293.561
Derivatives	12.748.603	49.055.406
"Notional" value of forward transactions without delivery of the underlying asset	6.402.085	23.833.448
Derivatives - re. contra items	6.346.518	25.221.958
Trust activities	91.463.412	84.071.486
Trust accounts re. contra items	91.463.412	84.071.486

Notes and Schedules are an integral part of these financial statements.

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SCHEDULE (B)
**CONSOLIDATED CLASSIFICATION OF FINANCING ACCORDING TO STATUS
AND GUARANTEES RECEIVED**

For the fiscal period ended 06/30/2017
In comparative format with the previous fiscal year
In thousands of Argentine Pesos

<u>COMMERCIAL PORTFOLIO</u>	2017	2016
Normal situation	11.102.379	9.102.607
With "B" preferred collateral and counter-guarantees	1.485.595	1.290.430
Without any preferred collateral or counter-guarantees	9.616.784	7.812.177
Potential risk	38.450	386
With "B" preferred collateral and counter-guarantees	35.751	-
Without any preferred collateral or counter-guarantees	2.699	386
Problematic	517	990
With "B" preferred collateral and counter-guarantees	128	-
Without any preferred collateral or counter-guarantees	389	990
High risk of insolvency	7.723	5.090
With "B" preferred collateral and counter-guarantees	68	1.229
Without any preferred collateral or counter-guarantees	7.655	3.861
Uncollectible	466	16.931
With "B" preferred collateral and counter-guarantees	88	93
Without any preferred collateral or counter-guarantees	378	16.838
TOTAL COMMERCIAL PORTFOLIO	11.149.535	9.126.004

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**CONSOLIDATED CLASSIFICATION OF FINANCING ACCORDING TO STATUS
 AND GUARANTEES RECEIVED**

 For the fiscal period ended 06/30/2017
 In comparative format with the previous fiscal year
 In thousands of Argentine Pesos

<u>CONSUMER AND HOUSING PORTFOLIO</u>	2017	2016
Normal situation	20.016.972	18.332.886
With "B" preferred collateral and counter-guarantees	2.034.150	1.704.073
Without any preferred collateral or counter-guarantees	17.982.822	16.628.813
Low risk	586.878	476.437
With "B" preferred collateral and counter-guarantees	18.209	20.696
Without any preferred collateral or counter-guarantees	568.669	455.741
Mid risk	409.438	276.289
With "B" preferred collateral and counter-guarantees	3.579	3.616
Without any preferred collateral or counter-guarantees	405.859	272.673
High risk	412.392	392.205
With "B" preferred collateral and counter-guarantees	1.964	2.662
Without any preferred collateral or counter-guarantees	410.428	389.543
Uncollectible	130.792	69.598
With "B" preferred collateral and counter-guarantees	812	4.837
Without any preferred collateral or counter-guarantees	129.980	64.761
Uncollectible for technical reasons	143	265
With "B" preferred collateral and counter-guarantees	50	58
Without any preferred collateral or counter-guarantees	93	207
TOTAL CONSUMER AND HOUSING PORTFOLIO	21.556.615	19.547.680
GENERAL TOTAL	32.706.150	28.673.684

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the fiscal period ended June 30, 2017
In comparative format with the previous fiscal year

1. CONSOLIDATION BASIS

These financial statements reflect the consolidated financial condition of Banco Hipotecario Sociedad Anónima, BHN Sociedad de Inversión Sociedad Anónima -consolidated-, BACS Banco de Crédito y Securitización Sociedad Anónima -consolidated-, BH Valores SA and Tarshop SA for the fiscal period ended June 30, 2017 and the fiscal year ended December 31, 2016.

The equity investments held by the Banco Hipotecario Sociedad Anónima in the consolidated companies as of June 30, 2017 are as follows:

- BACS Banco de Crédito y Securitización Sociedad Anónima: 54,687,500 ordinary book-entry shares with a value of \$1 each and entitled to one vote per share, which represent 62.28% of the capital stock. – See Note 12.
- BHN Sociedad de Inversión Sociedad Anónima: 39,131,682 ordinary book-entry shares with a value of \$1 each and entitled to one vote per share, which represent 99.99% of the capital stock.
- BH Valores SA: 1,425,000 ordinary book-entry shares with a value of \$1 each and entitled to one vote per share, which represent 95% of the capital stock.
- Tarshop SA: 195,037,152 ordinary book-entry shares with a value of \$1 each and entitled to one vote per share, which represent 80% of the capital stock.

The procedure followed by the Bank to include the controlled investees BHN Sociedad de Inversión Sociedad Anónima -consolidated- and BACS Banco de Crédito y Securitización Sociedad Anónima -consolidated-, BH Valores SA and Tarshop SA's accounts was as follows:

- 1.1. The Bank's financial statements have been prepared in line with the valuation and disclosure standards laid down by the Central Bank of the Republic of Argentina, including consolidated balances reported in the Balance Sheet, the Statement of Income, Memorandum Accounts, Statement of Cash Flow and Cash Equivalents and Schedule B of the referred companies, in compliance with such standards.
- 1.2. Items resulting from intercompany transactions not disclosed to third parties were deleted from the Balance Sheet, the Statement of Income, Memorandum Accounts, Statement of Cash Flow and Cash equivalents and Schedule B.
- 1.3. The portion of the Shareholders' Equity corresponding to the minority interest has been disclosed in the Consolidated Balance Sheet, in the line captioned "Minority Interest".
- 1.4. The portion of the net income/ (loss) on the minority interest has been disclosed in the Consolidated Statement of income, in the line captioned "Net income / (loss) on Minority Interest".

The information on the consolidated financial statements should be read jointly with the notes to the financial statements of subsidiary companies.

2. BASIS FOR THE PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Banco Hipotecario Sociedad Anónima have been prepared in line with the provisions of Argentine Central Bank Communication "A" 2813 and supplementary rules, as amended, regarding financial reporting requirements for the publication of quarterly and annual financial

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statements and observing the guidelines of Technical Pronouncement No. 21 of the Argentine Federation of Professional Councils of Economic Sciences (F.A.C.P.C.E.).

The consolidated financial statements of BACS Banco de Crédito y Securitización Sociedad Anónima and the individual financial statements of BH Valores SA have been prepared following similar criteria to those applied by Banco Hipotecario Sociedad Anónima.

The consolidated financial statements of BHN Sociedad de Inversión Sociedad Anónima and Tarshop SA's individual financial statements have been prepared in accordance with the professional accounting standards, which differ in certain significant aspects from BCRA's accounting standards. For consolidation purposes, Tarshop SA's financial statements have been adapted by application of accounting criteria similar to the ones applied by the Bank.

As from January 1, 2002, as a result of the application of Communication "A" 3702 which established the repeal of any legal and regulatory rule that did not allow the restatement of the accounting balances at period-end currency values, the Bank has resumed the application of the adjustment for inflation following the restatement method established by the Argentine Central Bank (BCRA).

On March 25, 2003, the Executive Branch issued Decree 664 establishing that the financial statements for years ending as of that date are to be stated in nominal currency. Consequently, in accordance with Communication "A" 3921 of the BCRA, restatement of the financial statements was discontinued as from March 1, 2003.

Pursuant to the Argentine professional accounting standards in effect in the City of Buenos Aires, the financial statements must be stated in constant currency. The restatement method and the need to apply it arise from requirements contained in Technical Pronouncements No. 6 and No. 17 of the Argentine Federation of Professional Councils in Economic Sciences (FACPCE), as amended by Technical Pronouncement No. 39 issued by the referred entity on October 4, 2013 and approved by the Professional Council in Economic Sciences of the City of Buenos Aires on April 16, 2014. These standards provide that when the cumulative inflation rate for three consecutive years is equal to or higher than 100%, as measured by the wholesale domestic price index calculated by the Argentine Institute of Statistics and Census, the inflationary context is such that the financial statements should be restated to reflect the purchasing power at the end of the reporting period.

The principal disclosure and valuation criteria followed for preparing these financial statements is described below:

2.1. Foreign currency assets and liabilities

US dollar assets and liabilities have been valued at the rate of exchange between the peso and the US dollar published by the Argentine Central Bank. Assets and liabilities valued in foreign currencies other than the US dollar were converted into the latter currency using the swap rates communicated by the Argentine Central Bank's operations desk, in force at the close of operations on the last business day of the fiscal period ended June 30, 2017 and the fiscal year ended December 31, 2016.

2.2. Interest accruals and adjustments of principal amounts (UVA, UVI, CER and CVS)

Interest accruals were determined using the exponential method for all lending and certain borrowing transactions in local and foreign currency, and interest accruals for loans overdue more than ninety days were discontinued.

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Adjustments of principal amounts from application of the UVA, UVI, CER and CVS were accrued as established by Argentine Central Bank regulations, and interest accruals on loans overdue more than ninety days were discontinued.

2.3. Government and corporate securities

As of June 30, 2017 and December 31, 2016, the securities classified as "Holdings booked at fair market value", "Investment in listed corporate securities" and "Securities issued by the BCRA" with volatility published by the BCRA have been valued at fiscal period/year-end market quotation, as the case may be.

As of June 30, 2017 and December 31, 2016, the securities classified into "Holdings booked at cost plus return" and "Securities issued by the BCRA" with no volatility published by the BCRA, or with volatility but which the Entity decides to book under the first category, have been valued in accordance with the provisions of Communication "A" 5180, and supplementary rules, at their acquisition cost subject to an exponential increase based on the internal rate of return, net of contra-accounts, if applicable.

The balance and nature of the liquid contra-account BACS Banco de Crédito y Securitización S.A. and BH Valores are required to maintain by the Argentine Securities Commission are included in Note 7.

2.4. Loans

The portfolio of performing loans and loans due ninety days or less has been valued in terms of the principal amounts actually lent, plus capitalized interest, net of principal amortization collected and debt balance refinancing, plus adjustments (from the application of the CER, and CVS where applicable) and accrued interest receivable and less the estimated reserve for loan losses.

Pursuant to the standards set forth by the BCRA (Communication "A" 2729 and supplementary regulations), the Bank set up allowances for uncollectibility risk on its loan portfolio. Said standards set forth certain debtors' classification criteria and minimum guidelines to be applied to the uncollectibility risk provisioning process.

Other loans to the public sector:

- i) As of June 30, 2017 and December 31, 2016, those loans were valued at cost plus return according to point 2.2.6 of Communication "A" 5180, taking as cost their book value as of December 31, 2010.
- ii) Those originally granted in foreign currency have been converted into pesos at the exchange rate of \$1.40 per US dollar, as established by Law 25561, Decree 214 and supplementary rules and amendments. Since February 3, 2002, the CER has been applied to the amount of those loans and maximum rates have been established, in accordance with Decree 1579/02, if those assets were subjected to the Exchange of Provincial Public Debt.

Loans to the non-financial private sector originally granted in foreign currency have been converted into pesos at the exchange rate of \$1.00 per US dollar, as established by Law 25561, Decree 214 and supplementary rules and amendments. Since February 3, 2002, the CER and CVS have been applied to the amount of those loans and maximum rates have been established, depending on the borrower.

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2.5. Other receivables for financial transactions:

The individual mortgage loans the fiduciary ownership of which was transferred by the Bank and recorded in this caption have been valued and converted into pesos following the criterion described in points 2.2. and 2.4.

The rights arising from currency swap transactions have been valued at the quotation of that currency following the criterion described in point 2.1.

The financial trust participation certificates have been valued according to the equity method of accounting, written down to reflect allowances for impairment.

Financial trust debt securities have been stated at cost plus return, index-adjusted by applying the CER to the appropriate instruments.

As of June 30, 2017, Banco Hipotecario S.A. has recorded in memorandum accounts the right to receive the residual value of mortgages registered in financial trusts BHN II, BHN III, BHN IV and BACS as a result of their settlement.

The interest rate swap transactions carried out for the purposes of hedging assets and liabilities with fixed and floating rates has been valued in accordance with the unsettled balances of agreed upon lending and borrowing interests rates.

Unlisted negotiable obligations have been valued at acquisition cost exponentially increased according to the internal rate of return.

The Bank holds negotiable obligations in its own portfolio, measured at their residual value plus interest accrued.

Central Bank Bills and government securities held as collateral for OTC transactions are valued as explained in item 2.3 of this note.

Repo transactions are carried at the value originally agreed upon, plus accrued premiums.

OTC transactions agreed upon through ROFEX that are mainly closed as hedging for the position in foreign currency have been valued in accordance with the unsettled balances of agreed upon lending and borrowing interest rates.

2.6. Receivables for financial leases

Receivables for financial leases are carried at the current value of the periodic installments and the residual value previously agreed upon, calculated as per the conditions set forth in the respective lease agreements, applying the internal rate of return and net of allowances for loan losses.

2.7. Investments in other companies:

This caption includes, for BACS Banco de Crédito y Securitización S.A. and for Banco Hipotecario S.A., among others, the equity investments held in: Mercado Abierto Electrónico Sociedad Anónima, ACH Sociedad Anónima and Mercado de Valores de Buenos Aires Sociedad Anónima, which are recorded at the lower of cost or estimated recoverable value.

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In late 2016, the Argentine Securities Commission (CNV) approved the registration of Bolsas y Mercados Argentinos (BYMA) as a new stock exchange. Such new market replaces the Merval and applies technological and regulatory criteria used in developed countries. Merval shareholders, such as BH Valores S.A., received 250,000 BYMA shares for each Merval share and one VALO share. VALO is Merval's successor. At the closing date of these financial statements, these shareholdings were carried at their listed value.

On January 9, 2012, the Board of Directors of Banco Hipotecario S.A. approved the Bank's involvement as a protecting partner in the mutual guarantee company that is currently in the formation stage and will be called "Confederar NEA S.G.R.". This decision was formalized on June 13, 2013 when the Bank contributed Ps. 12 thousand to the capital of Confederar NEA S.G.R. and on June 25, 2013 when the Bank contributed Ps. 5,000 thousand to this company's risk fund.

On June 13, 2016, Banco Hipotecario entered into an agreement with Confederar NEA S.G.R. mutual guarantee company for contributing Ps. 5,000 thousand (renewal) to the risk fund.

It must be noted that the regulations laid down by the Argentine Central Bank classify the contributions made by financial institutions to mutual guarantee companies in their capacities as protecting partners as services supplementary to financial activities.

TARSHOP, in turn, approved the establishment of SUPER - CARD sociedad anónima and subscribed 12.5% of its capital stock. This ownership interest consists in 12,500 Class "A" shares with right to one vote each. SUPER - CARD sociedad anónima will pursue as its corporate purpose the grant of debit and credit cards to individuals and/or legal entities. TARSHOP shall take on issuance, processing, management and financing functions vis-à-vis these cards.

Through Minutes No. 74 dated October 1, 2003, BACS' Board of Directors resolved to purchase at book value 80 common shares of Ps. 1 par value and entitled to one vote per share in BHN Sociedad de Inversión S.A.

On September 24, 2008, the Bank purchased one share in Mercado Abierto Electrónico (MAE) for Ps. 55 thousand for the purpose of conducting certain transactions that may be carried out exclusively through the MAE.

On December 13, 2013, BACS Banco de Crédito y Securitización consummated its participation as protecting partner in the mutual guarantee company named "Don Mario S.G.R." The transaction was formally executed on December 30, 2013 by contributing Ps. 5 to the company's capital and Ps. 10,000 thousand to such company's risk fund. On December 23, 2014, June 29, 2015, and December 29, 2015, three capital contributions were made to the risk fund for Ps. 10,000 thousand each. The second contribution for Ps. 10,000 thousand was returned on December 23, 2016 and the third one for Ps. 10,000 thousand was returned on June 30, 2017.

As of June 30, 2017, the contribution to the "Don Mario S.G.R." risk fund resulted in a balance of Ps. 10,000 thousand and a yield of Ps. 416 thousand.

On November 12, 2014, BACS Banco de Crédito y Securitización consummated its participation as protecting partner in the mutual guarantee company named "Los Grobo S.G.R." The transaction was formally executed on December 10, 2014 by contributing Ps. 15,000 thousand to the referred company's risk fund. On September 30, 2015 and December 30, 2015, capital contributions were made for Ps. 10,000 thousand and Ps. 7,500 thousand, respectively. On December 13, 2016, the first contribution for Ps. 15,000 thousand was returned.

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As of June 30, 2017, the contribution to the "Los Grobo S.G.R." risk fund resulted in a balance of Ps. 17,500 and a yield of Ps. 2,232 thousand.

On June 30 2015, BACS Banco de Crédito y Securitización consummated its participation as protecting partner in the mutual guarantee company named "Intergarantías S.G.R.". The decision was made effective on June 30, 2015 through a contribution of Ps. 10,000 thousand to the referred company's risk fund. On September 29, 2015, a second capital contribution was made for Ps. 10,000, and on December 28, a third capital contribution was made for Ps. 9,500 thousand.

As of June 30, 2017, the contribution to "Intergarantías S.G.R." risk fund resulted in a balance of Ps. 29,500 thousand and a return of Ps. 484 thousand.

On June 30 2016, BACS Banco de Crédito y Securitización consummated its participation as protecting partner in the mutual guarantee company named "Garantizar S.G.R.". The decision was made effective on June 30, 2016 through a contribution of Ps. 10,000 thousand to the referred company's risk fund.

On June 29, 2016 a second contribution was made for Ps. 9,500 thousand.

As of June 30, 2017, the contribution to "Garantizar S.G.R." risk fund resulted in a balance of Ps. 19,500 thousand and a return of Ps. 406 thousand.

It should be noted that pursuant to the Argentine Central Bank's regulations, interests held by financial institutions in mutual guarantee companies, in the capacity of protecting partner, qualify as supplementary services to the financial business.

On May 4, 2012, BACS Banco de Crédito y Securitización bought 255,000 shares in FCMI Argentina Financial Corporation S.A. S.G.F.C.I. representative of 85% of the capital stock and votes of such company. FCMI Argentina Financial Corporation S.A. S.G.F.C.I. is the company that runs the mutual funds that in turn manage the Toronto Trust and the Toronto Trust Special Opportunities funds. On May 29, 2012, the shareholders' meeting decided to change its corporate name to BACS Administradora de Activos S.A. S.G.F.C.I.

On April 19, 2017, BACS Administradora de Activos S.A. S.G.F.C.I. made the payment of dividends to BACS for Ps. 7,650 thousand.

2.8. Miscellaneous receivables

Miscellaneous receivables have been valued at the amounts actually transacted, plus interest accrued and net of allowances for loan losses or impairment, if applicable.

2.9. Bank premises and equipment and miscellaneous assets

These assets are recorded at cost restated in constant monetary units until February 28, 2003, net of accumulated depreciation calculated following the straight-line method, based on the estimated useful life of the assets. The cost of assets added before December 31, 1994 is restated in uniform currency as of that date, while subsequent transactions are valued in current purchasing power values of the year to which they correspond.

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The Bank records in "Miscellaneous assets – Assets acquired through foreclosures" housing units added to the Bank's assets in repayment of mortgage loans. These housing units have been valued at the lower of market value or the value of the loan, net of allowances.

The net book values of the assets taken as a whole do not exceed their economic value, except for the assets intended for sale, which do not exceed net realizable value.

- 2.10. Housing, life and unemployment insurance premiums in lending and other transactions originated in its capacity of insurer, in accordance with the franchise granted by the privatization law.

The Bank's policy is to recognize the premium income when the corresponding loan installment accrues, except for those loans that are more than ninety days in arrears, and to allocate the expenditures for claims to the net income/(loss) for the year in which they occur.

- 2.11. Intangible assets

These assets represent organization and systems development expenses incurred by Banco Hipotecario S.A. and organization expenses due to the establishment and start-up and implementation of computer software of BHN Sociedad de Inversión Sociedad Anónima and BACS Banco de Crédito y Securitización Sociedad Anónima. These assets have been restated in constant monetary units of February 28, 2003, and are being amortized monthly according to the straight-line method, based on their estimated useful life.

The Goodwill stemming from the purchase of 80% of Tarshop SA's capital stock has been valued at acquisition cost, net of the accumulated amortization that had been calculated pro rata of the estimated useful life months.

Pursuant to Argentine Central Bank Communication "A" 5392, the Bank has capitalized increased direct expenses incurred in the mortgage loan origination process, which disbursements would not have been incurred by it had it not been for the grant of the related loans. Such origination expenses are amortized in 60 monthly installments (Note 8).

- 2.12. Deposits

Deposits have been valued at their placement value, plus adjustments and accrued interest, where applicable. The fixed return on each transaction is accrued on an exponential basis, while the variable return is accrued at the pro rata rate of return agreed upon based on the improvement in the price of the financial asset or financial asset indicator, between the time the transaction is arranged and the end of the month.

- 2.13. Other liabilities for financial transactions

Unsubordinated negotiable obligations have been valued at their residual value plus interest accrued.

Foreign currency-denominated obligations under swap transactions carried out as a hedge have been valued according to the criterion described in point 2.1.

The interest rate swap transactions carried out for the purposes of hedging assets and liabilities with fixed and floating rates has been valued in accordance with the unsettled balances of agreed upon lending and borrowing interests rates. Furthermore, in exercise of a prudent criterion, the Bank creates allowances for these transactions when the value referred to above is higher than the fair value.

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OTC transactions agreed upon through ROFEX that are mainly closed as hedging for the position in foreign currency have been valued in accordance with the balances pending settlement of agreed-upon lending and borrowing interest rates.

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They are valued at the amounts actually transacted, plus interest accrued as of the end of the fiscal year, if applicable.

2.15. Provisions

Banco Hipotecario S.A. estimates contingencies and records them in Provisions, under Liabilities, according to the estimated likelihood of occurrence. These provisions cover various items, such as insurance risk, provisions for lawsuits, provisions for taxes, other contingencies, etc.

In addition, the Bank has created the allowance required under Communication "A" 5689 issued by the Argentine Central Bank in order to provide for the total amount of administrative and/or disciplinary sanctions and criminal penalties supported by first instance rulings, applied or pursued by the Argentine Central Bank, the Financial Information Unit, the Argentine Securities Commission and the Argentine Superintendence of Insurance (See Notes 2.15 and 37 to the financial statements of Banco Hipotecario S.A.).

2.16. Dismissal indemnities

The Bank does not set up any provisions to cover the risk of dismissal indemnities involving the staff. The disbursements in respect thereof are charged to the results for the fiscal year in which they occur.

2.17. Personnel benefits

The Bank has set up provisions for its employees' retirement plans.

2.18. Income Tax

Pursuant to Article 28 of Law 24855, Banco Hipotecario Sociedad Anónima is subject to income tax, except for all the housing loan transactions carried out prior to October 23, 1997, date of registration of its by-laws with the Superintendence of Corporations.

The Bank charges to income and sets up a provision for the income tax determined based on its taxable transactions in the fiscal year in which those transactions are carried out.

2.19. Minimum notional income tax

In view of the option granted by the BCRA by means of Communication "A" 4295, as of December 31, 2015, the Bank capitalized as a minimum notional income tax credit the tax amount paid in fiscal year 2012. Such credit was almost fully recovered upon filing the Income Tax return for fiscal year 2015.

2.20. Shareholders' Equity**a. Capital stock, own treasury shares, non-capitalized contributions, reserves, and capital adjustment:**

The Shareholders' Equity account activity and balances prior to December 31, 1994 have been restated in the currency values prevailing at that date, following the method mentioned in the first paragraph of this Note. The transactions carried out subsequent to that date have been recorded in currency values of the year to which they correspond. The balances of the Shareholders' Equity accounts as of June 30, 2016 have been restated in the currency value of February 28, 2003. The adjustment derived from the restatement of

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the balance of "Capital Stock" was allocated to "Equity Adjustments". The issued treasury shares added due to the termination of Total Return Swap transaction are carried at nominal value.

b. Results:

Income and expenses for the year have been charged, regardless of whether they have been collected or paid.

The preparation of the financial statements requires that the Bank's Board of Directors perform estimates affecting assets and liabilities, the net income/(loss) for the year and the determination of contingent assets and liabilities at the date thereof, such as allowances for loan losses and impairment, the recoverable value of assets and provisions. Since these estimates involve value judgments regarding the probability of occurrence of future events, the actual net income/ (loss) may differ from the estimated amount and thus generate losses or profits affecting subsequent years. All legal and regulatory rules in force at the date of presentation of these financial statements have been considered.

The financial statement figures for the previous period/fiscal year, presented for comparative purposes, include certain reclassifications and adjustments that contemplate specific disclosure criteria so as to present them on a consistent basis with those of the current fiscal period/year.

3. DIFFERENCES BETWEEN ARGENTINE CENTRAL BANK REGULATIONS AND PROFESSIONAL ACCOUNTING STANDARDS

Below is a detail of the main differences between the Argentine Central Bank regulations and professional accounting standards, considering the statement made in Note 2:

3.1. Valuation criteria

a) Accounting for income tax according to the deferred tax method

The Bank determines income tax at the statutory rate applicable to the estimated taxable income, without considering the effect of any timing differences between the accounting and taxable results. Under professional accounting standards, income tax must be recognized according to the deferred tax method.

b) Derivatives

Derivative instruments were valued as described in Note 2.5. The criteria applied to the recognition of the currency and interest rate swaps differ in certain cases from those prescribed by professional accounting standards. As there are no stock exchange quotations available for such instruments, they should have been valued through the application of mathematical models, discounting lending and borrowing cash flows at market rates by currency and by term for comparable transactions as prescribed by FACPCE's Technical Pronouncement No. 18.

c) Receivables and debts stemming from refinancing

Pursuant to Professional Accounting Standards, when certain receivables and debts are replaced by others the terms and conditions thereof are substantially different to the original ones, the existing account shall be closed and a new receivable or debt shall be recorded, the accounting measurement thereof shall be made on the best possible estimate of the amount payable or receivable, discounted at a rate that reflects market valuations on the time value of money and the specific risks of such assets and liabilities. Said transactions are valued under BCRA standards based on the rates contractually

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agreed upon and, as the case may be, the risk is measured pursuant to the classification and provisioning criteria specifically set forth.

d) Financial Trusts

The financial trust participation certificates have been valued according to the equity method of accounting net of allowances, if any. In addition, financial trust debt securities have been stated at cost plus return, index-adjusted by applying the CER to the appropriate instruments, net of reserves, less the negative amount of the Participation Certificates, as the case may be, reported by the Trustee. This criterion differs from professional accounting standards.

e) Commissions, Interest and Costs related to Loans and Credit Cards

Pursuant to accounting standards, certain captions for commissions, fees, charges and costs incurred in, in relation to the granting of loans and credit cards must be capitalized based in future income generation. This criterion is not applied according to the Argentine Central Bank's standards.

f) Intangible assets

The Bank determined the goodwill for the acquisition of 80% of Tarshop SA's capital stock based on the excess of the acquisition cost over the equity value of such ownership interest and made the adjustments called for by the differences between the professional accounting standards applied upon valuing shareholders' equity and the accounting standards imposed by BCRA, such as deferred tax and allowances for loan losses. According to the currently applicable professional accounting standards, Goodwill should reflect the difference between the acquisition cost of said ownership interest and the holding percentage over the amount of the net assets valued at fair value as estimated.

g) Sanctions and summary proceedings against financial institutions

Pursuant to Communication "A" 5689 of the BCRA, beginning in January 2015, financial institutions are required to create allowances for 100% of the administrative and/or disciplinary sanctions and criminal penalties supported by first instance court rulings, applied or pursued by the Argentine Central Bank, the Financial Information Unit, the Argentine Securities Commission and the Argentine Superintendence of Insurance, of which notice has been served to the relevant institution, irrespective of their significance, even if their payment has been suspended by court or administrative measures and notwithstanding the status of the proceedings. In addition, in a note to the financial statements financial institutions must disclose those sanctions, whether quantified or not, and the summary proceedings filed by the BCRA as from the moment notice of process is served on them.

Pursuant to the professional accounting standards in effect in the City of Buenos Aires, such contingencies must be recorded as liabilities when it is highly likely that their effects will occur and it is possible to quantify them adequately in monetary terms, and they must also be disclosed in notes to the financial statements. Contingencies whose likelihood of occurrence is deemed to be remote are not required to be disclosed in the financial statements or their notes, whereas those whose likelihood of occurrence is not deemed to be remote but which do not meet the conditions required for them to be recorded as liabilities, must be disclosed in the notes only.

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3.2. Disclosure issues

a) Earnings per share and business segment

The criterion established by Technical Pronouncement No. 19 for disclosing these items differs from that established by the Argentine Central Bank in its Circular CONAU 1.

It is to be emphasized that the exposure and valuation of the various items that make up these financial statements must be analyzed in the light of each one of the sets of regulations in its entirety, that is, both the accounting standards issued by the Central Bank of Argentina for application by financial institutions and the professional accounting standards because the application of certain valuation and disclosure criteria may have an impact on the application of other criteria.

Had the aforementioned effects on the equity of BACS Banco de Crédito y Securitización been contemplated under professional accounting standards, it would have increased by approximately Ps. 13,607 thousand and by approximately Ps. 13,343 thousand as of June 30, 2017 and December 31, 2016, respectively.

The consolidated effects of the differences between the Argentine Central Bank Regulations and professional accounting standards are detailed in Note 3 to the individual financial statements.

4. RECONCILIATION OF BALANCES TO THE APPLICABLE ACCOUNTING FRAMEWORK FOR CONVERGENCE TOWARDS THE IFRS

The complete text of this Note should be read in Note 4) "Reconciliation of balances to the applicable accounting framework for convergence towards the IFRS" of Banco Hipotecario S.A.'s Financial Statements.

5. RESTRICTED ASSETS OF RELATED COMPANIES

As of June 30, 2017, BHN Sociedad de Inversión Sociedad Anónima did not have any restricted assets.

As of December 31, 2016, the share of Mercado de Valores de Buenos Aires SA belonging to BH Valores SA, is pledged in favor of Chubb Argentina de Seguros SA.

On September 30, 2015, BACS Banco de Crédito y Securitización S.A. applied for a loan from Banco Hipotecario S.A. in the amount of Ps. 24,992 thousand to purchase a new portfolio. This loan was secured by a collateral assignment of the collection rights over its own pledge loan portfolio. On November 19, a new loan from Banco Hipotecario S.A. was requested in the amount of Ps. 14,158 thousand, under the same terms as the previous one, both loans are effective as of June 30, 2017.

As of June 30, 2017 and December 31, 2016, Ps. 14,867 thousand and Ps. 26,572 thousand, respectively, were recorded in memorandum accounts in the financial statements of BACS Banco de Crédito y Securitización S.A., corresponding to principal of and interest on its pledge loans assigned as collateral.

Besides, in connection with the foreign currency forward transactions to be settled in pesos in the ROFEX market and for swap transactions, Ps. 22,325 thousand were allocated as securities and cash guarantees for such transactions.

Tarshop S.A. tendered sums of money to secure lease agreements for the stores hosting Tarshop S.A. branches. These amounts are carried in the caption "Trade receivables and Other receivables - Escrow deposits" and they are Ps. 1,116 thousand. Out of this amount, Ps. 621 thousand are deposits in US Dollars (US\$ 37,410).

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Tarshop set up a commercial pledge over its collection rights under the Series XCI Tarjeta Shopping financial trust agreement (47.23%) for the sum of Ps. 32,205 thousand to secure a loan for Ps. 14,000 thousand granted by Banco de Galicia y Buenos Aires S.A.

The funds for contingencies, expenses and other miscellaneous receivables in connection with financial trusts that as of March 31, 2017 total Ps. 142,729 thousand are restricted availability receivables in accordance with the respective offering memorandums.

Tarshop S.A. pledged a term deposit amounting to Ps. 7,202 thousand associated to the certificate of deposit No. 901440 for the benefit of Banco de Valores S.A. This amount is restricted by the tax obligations arising from financial trusts Series XXIX, XXX, XXXII, XXXVIII to L, and LII to LXXVII. The pledge will remain in force up and until there is a resolution to the potential tax contingencies arising from the above-mentioned financial trusts when it comes to the relevant part.

In October 2015, Industrial and Commercial Bank of China (Argentina) S.A. granted Tarshop S.A. a checking account overdraft facility for up to Ps. 40,000 thousand, which was extended to Ps. 60,000 thousand in June 2016. As security for the performance of its obligations, Tarshop S.A. has assigned and transferred to Banco de Valores S.A., as collateral trustee, fiduciary ownership of the trust receivables, consisting of Ps. 83,307 thousand in equity securities. Such receivables and interest accrual amounts will be held and carried in the Company's books under the caption "Trade receivables and Other receivables - Loan receivables". Therefore, any taxes, duties, rates or similar items that may be imposed under the different tax laws on account of such holdings and results, will be considered and included in the Company's applicable taxable bases, as the Company agreed to bear the costs and expenses arising from the defense and any charges that could be imposed by the tax authorities on the trust and/or the trustee.

As of June 30, 2017, the Company holds loan receivables for Ps. 74,533 thousands in equity securities from Financial Trust Series XCVIII, and Ps. 51,517 thousand in equity securities from Financial Trust Series XCVI, and Ps. 90,896 thousand in equity securities from Financial Trust Series XCIX, whose availability is restricted until the moment when a decision is adopted on whether to place such loan portfolios and transfer them to the trust portfolio or to keep them as its own freely available portfolio, as applicable.

As of June 30, 2017, the Company maintains an escrow deposit in connection with Tarshop/Visa credit card operations for Ps. 27,426 thousand.

Against this framework, in June 2015, the Company raised a second escrow fund, which as of June 30, 2017, is made up by Treasury Bonds (TC20), for a face value of Ps. 1,355 thousand and Argentine Bonds (NF18) for a face value of Ps. 28,095 thousand, Central Bank Bills (15N7) for a face value of Ps. 2,250 thousand and Central Bank Bills (I20S7) for a face value of Ps. 2,200 thousand. These securities are subject to a pledge in favor of Banco Hipotecario S.A. to secure the payments associated to the reconciliation of funds corresponding to credit cards.

6. DERIVATIVE FINANCIAL INSTRUMENTS OF RELATED COMPANIES

The following is a detail of the transactions involving derivative financial instruments entered into by BACS Banco de Crédito y Securitización S.A. in force as of June 30, 2017:

- Forward foreign currency agreement

BACS Banco de Crédito y Securitización S.A. closed forward foreign currency transactions with customers through the ROFEX market whereby it agreed to remunerate these customers or to be remunerated for

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the price difference between the benchmark price of the US Dollar exchange rate as of a given date, compared to the amount agreed upon and based on the face values negotiated in the agreed sale.

As of June 30, 2017 and December 31, 2016, there are Ps. 185,410 thousand and Ps. 211,068 thousand, respectively, carried in memorandum accounts that reflect the face value of the amounts traded.

- Repo transactions

As of June 30, 2017, BACS Banco de Crédito y Securitización S.A. maintains repo transactions with the B.C.R.A. performed with Bills issued by the B.C.R.A. or LEBAC as underlying assets, maturing on January 2, 2017. For these transactions, as of fiscal year-end, Ps. 179,989 thousand and Ps. 179,989 thousand are recorded under "Other receivables for financial transactions - Amounts receivable under spot and forward sales to be settled" and "Other liabilities for financial transactions - Securities to be delivered under spot and forward sales to be settled", respectively.

As of June 30, 2017, the Bank recorded Ps. 168,927 thousand and Ps. 168,927 thousand under "Other receivables for financial transactions - Amounts receivable under spot and forward sales to be settled" and "Other liabilities for financial transactions - Securities to be delivered under spot and forward sales to be settled", respectively.

7. CAPITAL MARKET LAW APPLICABLE TO RELATED COMPANIES

Pursuant to CNV's Resolution No. 17.338 dated April 24, 2014, BACS, Banco de Crédito y Securitización S.A., was registered with the Registry of Financial Trustees prescribed by Sections 6 and 7 of Chapter IV, Title V of the Rules, under No. 55. And, on September 19, 2014, CNV communicated to BACS that in its capacity as Settlement and Clearing Agent - Comprehensive and Trading Agent the Bank has been assigned License No. 25. It must be noted that the composition of BACS's minimum shareholders' equity as of fiscal period-end was correct and that as of June 30, 2017 the liquidity requirement takes the form of BCRA Bills Lebacks for Ps. 14,955 thousand.

In addition, as Settlement and Clearing Agent and Trading Agent- Comprehensive, the Company has been entered in the Registry of Agents kept by Merval under No. 179, following the resolution adopted by Merval's Board of Directors at its meeting dated November 19, 2014. The Company was permitted to operate on April 17, 2015 pursuant to Merval Communication No. 15739 and was admitted as member of ROFEX (Mercado a Término de Rosario S.A. and Argentina Clearing S.A., Communication No. 628).

Through Resolution No. 18381 issued by the CNV on November 24, 2016, BACS was registered in the Registry of Custody Agents of products of Collective Investment of Common Funds under No. 247 under the terms of Section 14 of Law 24,083 and Section 11 of Chapter I Volume V of the CNV Rules.

As of June 30, 2017, BH Valores S.A. is registered with the CNV as a Settlement and Clearing Agent in its own. According to the minimum requirements laid down, BH Valores S.A.'s minimum shareholders' equity exceeds the amount prescribed by CNV's General Resolution No. 622 and its composition is correct as of year-end. As to the liquidity requirements, they have been satisfied through sight account number 300000000366874 of Banco Hipotecario S.A., as discussed in its financial statements, and which as of the closing date of these financial statements, amounts to Ps. 2,996 thousand.

In view of the latest tax, regulatory and operational developments that have modified BH Valores S.A.'s commercial strategy and decreased the competitive advantages of running such a business, at the meeting held on May 6, 2015, the Board of Directors of BH Valores S.A. resolved to substantially diminish the volume of operations with an eye towards suspending the operations of Sociedad BH Valores S.A. in the future to prevent

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two structures that are presently highly similar in terms of their functions and have been rendered redundant within the same conglomerate from overlapping.

8. CAPITALIZATION OF EXPENSES

Given the Bank's role as Trustee of the Pro.Cre.Ar Trust (Notes 2.11 and 38), the Bank has capitalized increased direct expenses incurred in the mortgage loan origination process, which disbursements would not have been incurred by it had it not been for the grant of the related loans.

Capitalized expenses as of June 30, 2017 total Ps. 628,426 thousand. The most significant items capitalized refer to appraisal expenses, temporary staff fees, system development consultation fees, leases, surveillance service and other administrative expenses.

Pursuant to Communication "A" 5392, these expenses are amortized in 60 monthly installments, as follows:

Year 2012 amortizations	332
Year 2013 amortizations	14,786
Year 2014 amortizations	37,318
Year 2015 amortizations	72,209
Year 2016 amortizations	105,392
Year 2017 amortizations	123,385
Year 2018 amortizations	110,836
Year 2019 amortizations	88,346
Year 2020 amortizations	53,554
Year 2021 amortizations	20,329
Year 2022 amortizations	1,938
Total in Ps. thousand	628,426

9. CAPITAL CONTRIBUTION TO TARSHOP S.A.

In order for Tarshop S.A. to have sufficient resources for its operational activities, at its meeting held on September 11, 2015, the Board of Directors of Banco Hipotecario S.A. unanimously resolved that an irrevocable capital contribution be made for Ps. 42,000 thousand within the framework of a total capital contribution of Ps. 52,500 thousand to be made by its shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. (continuing company after Alto Palermo S.A.'s change of corporate name). The disbursement was made by the Bank on September 25, 2015.

Banco Hipotecario S.A.'s Board of Directors unanimously approved at the meeting held on November 4, 2015 a new irrevocable capital contribution of Ps. 42,000 thousand within the framework of a total capital contribution of Ps. 52,500 thousand to be made by its shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. (continuing company after Alto Palermo S.A.'s change of corporate name). The Bank disbursed such funds on November 20, 2015.

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On June 23, 2016, the Board of Directors of Banco Hipotecario S.A. approved an irrevocable capital contribution to Tarshop S.A. in the amount of Ps. 250,000 thousand to be made by shareholders Banco Hipotecario S.A. and IRSA Propiedades Comerciales S.A. (continuing company after Alto Palermo S.A.'s change of corporate name) pro rata of their shareholdings. This contribution was paid by Banco Hipotecario S.A. on June 27, 2016.

According to the rules and regulations established by the Argentine Central Bank, financial institutions are required to rely on BCRA's previous authorization when financial institutions aspire to capitalize irrevocable contributions

Given that the Argentine Central Bank has not yet rendered an opinion on this situation, the Company has applied to CNV for an interruption in the term imposed by Section 3, Chapter III, Title III of the Standards (Technical Standards 2013 as modified).

Pursuant to the "Issuers' Opinion No. 856 dated December 2, 2015, CNV notified Tarshop S.A. that the term described above shall be reinstated as soon as the Company is notified that BCRA has approved the irrevocable contributions.

10. SUPPLEMENTARY SERVICES TO THE FINANCIAL BUSINESS

Pursuant to Communication "A" 5700, the Argentine Central Bank included changes in the rules on "Supplementary services to the financial business and permitted activities", "Consolidated supervision" and "Minimum capitals of financial institutions".

As concerns the scope of the supplementary services, it is allowed to hold interests in the stock capital of companies engaged in the development of two of the subject activities to the extent that, in the opinion of the SEFYC, both activities are economically related to each other and there are no legal inconsistencies that would prevent them from being developed jointly.

The subject activities include the issuance of credit, debit and similar cards. This notwithstanding, provided that 25% of the total financing amount as of the closing date of each month is not exceeded, loans not subject to the credit card law may be extended to financial services users, in which cases the provisions on "Interest rates applicable to lending transactions" shall be complied with.

On the other hand, changes are introduced in the calculation of the regulatory capital (*responsabilidad patrimonial computable*) to reflect the impact of these amendments.

As a result of such Communication, on March 16, 2015, Tarshop SA's General Extraordinary Shareholders' Meeting approved an amendment to its corporate purpose. According to such amendment, the company may grant and market consumer loans and consumer credits and financing for users of financial services pursuant to the Argentine Central Bank's rules and regulations, handle the collection of utility bills, credits and similar items, render payroll and supplier payment and revenue collection services.

In such regard, on June 3, 2016, the Argentine Central Bank awarded the Company a Provisional Authorization Code in the Register of Other Non-Financial Credit Providers, and thus allowed it to start granting consumer loans, in line with the amendment to the corporate purpose recorded with the General Superintendency of Corporations on January 8, 2016 under number 437, book 77 of Corporations, and authorized by the Argentine Securities Commission under Resolution No. 17,930 dated December 21, 2015.

11. SUMMARY PROCEEDINGS PENDING AT CRIMINAL COURTS - RELATED COMPANIES

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C.P.C.E.C.A.B.A. Volume 1 Page 17

Eduardo S. Elsztain
Chairman
BANCO HIPOTECARIO S.A.

Ricardo Flammini
For the Supervisory
Committee

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal period ended June 30, 2017

In comparative format with the previous fiscal year

1. Financial Summary Proceedings No. 1406/201. File 100,553/12

BACS Banco de Crédito y Securitización S.A. has been notified of Resolution No. 401 dated September 7, 2012 handed down by the BCRA's Superintendent of Financial and Exchange Institutions, ordering to start summary proceedings against the Bank and its Chairman, due to the late filing of documentation related to the appointment of the Bank's authorities. On October 9, 2012, the defenses in support of the Bank's rights were filed. Afterwards, the Bank was notified of Resolution No. 729 dated October 23, 2013, whereby a warning was made to the Bank and its Chairman, pursuant to Section 41, subsection 1 of the Financial Institutions Law.

Pursuant to the above-mentioned Resolution, a fine of Ps. 320 thousand was imposed on the Bank and individuals fines amounting to Ps. 393 thousand were imposed to its directors (Eduardo S. Elsztain and Ernesto M. Viñes).

Such amounts were booked as a loss of the previous fiscal year.

BACS and the Directors filed an appeal against Resolution No. 690 in due course. The appeals are pending resolution by Panel IV of the National Court of Appeals in Federal Administrative Contentious Matters in the action styled "BACS BANCO DE CRÉDITO Y SECURITIZACIÓN S.A. ET AL V. BANCO CENTRAL DE LA REPÚBLICA ARGENTINA, in re. Financial Institutions Law No. 21,526, Section 42, Direct Appeal" (Case File No. 51,471/2015). On November 8, 2016, the National Court of Appeals dismissed the appeals raised by defendants and awarded legal costs against the losing parties.

2. Filing of Summary Proceedings by the Financial Information Unit

On November 25, 2014, Tarshop S.A. was notified by the Financial Information Unit that summary proceedings had been filed, identified under Resolution No. 234/14, for potential formal violations derived from the alleged non-compliance with Section 21, paragraph a) of Law 25,246 and UIF Resolutions No. 27/11 and 2/12. Summonses were sent to the Company (Tarshop S.A.), its Compliance Officer (Mauricio Elías Wior) and the Directors then in office (Messrs. Eduardo Sergio Elsztain, Saúl Zang, Marcelo Gustavo Cufre and Fernando Sergio Rubín) for them to file their defenses. In the legal counsel's opinion, at the current stage of the proceedings and based on the precedents existing at the UIF in similar cases, it is likely that a penalty be imposed under the scope of the administrative proceedings. For such reason, allowances have been recorded in this regard for Ps. 360 thousand during the previous fiscal year.

12. BACS - ISSUANCE OF CONVERTIBLE SUBORDINATED NEGOTIABLE OBLIGATIONS

At the Extraordinary General Shareholders' Meeting of BACS Banco de Crédito y Securitización S.A., dated December 12, 2013, the issuance of Convertible Subordinated Negotiable Obligations through private offering was approved for an amount of up to Ps. 100,000,000 (Pesos one hundred million).

On June 22, 2015, BACS issued negotiable obligations that are convertible into the Company's ordinary and book-entry shares for a principal amount of Ps. 100,000 thousand.

The private offering of the convertible negotiable obligations was solely addressed to the Company's shareholders. As of December 31, 2016, IRSA Inversiones y Representaciones Sociedad Anónima subscribed all the convertible negotiable obligations.

On June 21, 2016, the Entity was notified by Inversiones y Representaciones S.A. (I.R.S.A.) about the decision to exercise its conversion rights over the Subordinated Negotiable Obligations Convertible into Common Shares and the filings made before the Argentine Central Bank (the "BCRA") and the Argentine Securities Commission (the "CNV").

Guillermo C. Martinez
General Accounting
Manager
BANCO HIPOTECARIO S.A.

Manuel J.L. Herrera Grazioli
General Manager
BANCO HIPOTECARIO S.A.

See our report dated
August 9, 2017
PRICE WATERHOUSE & Co. S.R.L.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the fiscal period ended June 30, 2017

In comparative format with the previous fiscal year

On February 10, 2017, BACS took notice of BCRA's Resolution No. 63, dated February 7, 2017, granting its unqualified authorization for the conversion of the Notes Convertible into Common Shares in favor of IRSA, representing 26.989% of its stock capital.

BACS Banco de Crédito y Securitización S.A.'s board meeting held on February 21, 2017 resolved BACS' capital increase for Ps. 87,813 thousand and the issuance of 25,313,251 book-entry common shares with a face value of (\$1) and one voting right each in favor of IRSA Inversiones y Representaciones S.A.

13. DIVIDEND DISTRIBUTION BY BHN INVERSIÓN S.A.

On March 9, 2016, the Ordinary Shareholders' Meeting of BHN Sociedad de Inversión S.A. approved the payment of dividends in cash and/or government securities for Ps. 650,000 thousand and empowered the Board of Directors to make the relevant distribution as and when they deem it convenient during fiscal year 2016.

On March 30, 2016, BHN Inversión S.A. made the first payment of dividends to Banco Hipotecario S.A. in government securities for Ps. 330,000 thousand, and on November 17, 2016, it made the second payment of dividends in government securities for Ps. 320,000 thousand.

At the Board Meeting of BHN Sociedad de Inversión dated November 29, 2016, it was unanimously resolved that, based on the review of the special Financial Statements as of September 30, 2016, as approved by the Board of Directors on November 15, 2016, interim dividends would be paid for Ps. 150,000 thousand against the net income for the current fiscal year. On December 7, 2016, these interim dividends were paid in government securities.

On March 30, 2017, the Shareholders' Meeting approved a payment of dividends in cash and/or government securities for Ps. 900,000 thousand, and ratified the payment of interim dividends for Ps. 150,000 thousand referred to in the preceding paragraph. The Board of Directors was also authorized to distribute the remaining balance within the current year, in the manner and at the time it may deem convenient.

14. BACS - AUTHORIZATION OF THE ARGENTINE CENTRAL BANK FOR THE ENTITY TO BE ALLOWED TO DO BUSINESS AS A FIRST-TIER COMMERCIAL BANK

At the General Extraordinary Shareholders' Meeting of BACS Banco de Crédito y Securitización S.A. held on October 20, 2015, the following actions were unanimously approved by the shareholders:

- a) delegating broadest powers to the Board of Directors in order for it to conduct all such proceedings and acts and make all such filings with the Argentine Central Bank as necessary to secure the authorization to act as a first-tier commercial bank, as well as to prepare, approve, secure and execute all such documentation - whether as public or private instruments - as required by the Argentine Central Bank for the purposes of said authorization; and
- b) empowering the Board to sub-delegate the abovementioned powers to one or several of its members or managers of the Bank.

On March 14, 2017, BACS' Board of Directors was served notice of a resolution passed by the Board of Directors of the Argentine Central Bank on March 3, 2017, pursuant to which BACS was expressly allowed, under the terms of Article 7 of the Financial Institutions Law, to do business as a first-tier commercial bank.

15. ACQUISITION OF INTEREST IN "COMPARAENCASA.COM" BY BHN INVERSION

On December 19, 2016, the Board of Directors of BHN Sociedad de Inversión S.A. approved the acquisition of a 12.5% interest in Comparaencasa Ltd., controlling company of Comparaencasa S.A., which operates under

Guillermo C. Martinez
General Accounting
Manager
BANCO HIPOTECARIO S.A.

Manuel J.L. Herrera Grazioli
General Manager
BANCO HIPOTECARIO S.A.

See our report dated
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the fiscal period ended June 30, 2017
In comparative format with the previous fiscal year

the name of "comparaencasa.com" by making an investment of U.S. Dollars 1,000,000. The transaction includes the issuance by Comparaencasa Ltd. of warrants that grant the company the right (but not the obligation) to subscribe for shares in future investment rounds for up to U.S. Dollars 3,000,000.

Guillermo C. Martinez
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Manager
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Ricardo Flammini
For the Supervisory
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ADDITIONAL INFORMATION REQUIRED BY CHAPTER III, TITLE IV, SECTION 12 OF CNV
RULES (GENERAL RESOLUTION No. 622/13)

I. BHSA's business: General Aspects

1. Significant specific legal regimes that confer benefits which are contingently forfeited and/or granted.

There are none.

2. Significant changes in the Company's businesses or in other similar circumstances occurred in the periods covered by the financial statements and apt to affect their comparability with those presented in previous fiscal years or comparability with financial statements to be presented in the future.

There are none.

3. Classification of receivables (extensions of credit) and payables (deposits and obligations) according to their maturity dates.

See Schedule "D" – Breakdown of financing according to maturity dates and Schedule "I" – Breakdown of Deposits, Other Liabilities for Financial Transactions and Subordinated Negotiable Obligations According to Maturity Date in Banco Hipotecario S.A.'s stand-alone financial statements.

4. Classification of receivables (lending) and payables (deposits and obligations) so as to disclose the financial effects stemming from their maintenance.

See Note 2.1, Schedule "D" – Breakdown of financing according to maturity dates and Schedule "I" – Breakdown of Deposits, Other Liabilities for Financial Transactions and Subordinated Negotiable Obligations According to Maturity Date and Schedule "L" – Foreign Currency Balances in Banco Hipotecario S.A.'s stand-alone financial statements.

5. Detail of the ownership interest percentages in the companies governed by Law No. 19,550, Section 33 in the capital stock and in total votes and debit and/or credit balances by company.

See Schedule "E" – Breakdown of Investments in Other Companies and Note 27 Intercompany Transactions Section 33 Law No. 19,550 in Banco Hipotecario S.A.'s stand-alone financial statements.

6. Trade receivables or loans held against directors, supervisory committee members, surveillance committee members and their relatives up to, and including, the second degree.

As of June 30, 2017, loans to directors, supervisory committee members, surveillance committee members and their relatives up to, and including, the second degree, amount to Pesos 21,649 thousand with the highest amount lent as of that date being Pesos 21,649 thousand. Credit extended to directors, supervisory committee members and their related parties complies with the limits and conditions established in this respect by Section 28, Sub-section d) of the Financial Institutions Law and BCRA's rules (Communications "A" 2140 and supplementary).

ADDITIONAL INFORMATION REQUIRED BY CHAPTER III, TITLE IV, SECTION 12 OF CNV
RULES (GENERAL RESOLUTION No. 622/13)II. Physical count of inventories

7. Periodicity and scope of physical counts on inventories.

Given the Company's corporate purpose, this does not apply.

III. Current values

8. Current values used to measure inventories, bank premises and equipment and other significant assets.

The Bank abides by BCRA's rules in force for the valuation of bank premises and equipment and miscellaneous assets. See Note 2.9 and Schedule "F" – Banks premises and equipment and miscellaneous assets in Banco Hipotecario S.A.'s stand-alone financial statements.

Bank premises and equipment

9. Bank premises and equipment that have been technically re-measured

The Bank abides by BCRA's rules in force for the valuation of bank premises and equipment and miscellaneous assets. See Note 2.9 and Schedule "F" - Bank premises and equipment and miscellaneous assets in Banco Hipotecario S.A.'s stand-alone financial statements.

10. Bank premises and equipment –unused on grounds of obsolescence

The Bank abides by BCRA's rules in force for the valuation of bank premises and equipment and miscellaneous assets. See Note 2.9 and Schedule "F" - Bank premises and equipment and miscellaneous assets in Banco Hipotecario S.A.'s stand-alone financial statements.

IV. Ownership interests in other companies

11. Ownership interests in other companies in excess of what has been admitted by Section 31 of Law No. 19,550 and plans to regularize the situation.

There are none.

V. Recoverable values

12. Criteria applied to determine all significant "recoverable values" for inventories, bank premises and equipment and other assets, used as limits on their respective book values.

The Bank abides by BCRA's rules in force for the valuation of bank premises and equipment and miscellaneous assets. See Note 2.9 and Schedule "F" - Bank premises and equipment and miscellaneous assets in Banco Hipotecario S.A.'s stand-alone financial statements.

ADDITIONAL INFORMATION REQUIRED BY CHAPTER III, TITLE IV, SECTION 12 OF CNV
RULES (GENERAL RESOLUTION No. 622/13)

VI. Insurance

13. Insurance that covers tangible assets.

Insured Property				
Type of Insurance	Coverage	Risk	Policy No.	Insurance Company
Banking Comprehensive	Cash, checks and valuables	Fraud, theft, safety box and valuables in transit	621629 (Effective term 10/31/16 to 10/31/17)	ACE
All Operating Risk	Building, machinery, equipment, furniture, fixtures and works of art	Fire, looting and earthquake	1195445 (Effective term 10/31/16 to 10/31/17)	FEDERACIÓN PATRONAL (42%)
			16001/624702 (Effective term 10/31/16 to 10/31/17)	ALLIANZ (58%)
Banking Comprehensive (Excess)	Cash, checks and valuables	Fraud, theft, safety box and valuables in transit	982184-4 (Effective term 10/31/16 to 10/31/17)	LA HOLANDO
Motor Vehicles	Vehicles	Comprehensive risk and third parties with deductibles	AUT 1-01-036561 (Effective term 06/08/17 to 06/08/18)	QBE

VII. Positive and negative contingencies

14. Elements considered to calculate the loan losses whose balances, considered individually or in the aggregate, are in excess of two per cent (2%) of equity.
15. The Bank abides by BCRA's rules for loan loss provisions. See Schedule "J", Note 5 ("Debtors classification and provisioning") and Notes 2.15 and 16 ("Provisions -under Liabilities"), in Banco Hipotecario S.A.'s stand-alone financial statements.
16. Situations that are contingent as of the date of the financial statements, whose likelihood of occurrence is not remote and whose financial effects have not been accounted for, with an indication as to whether they have not been accounted for based on their probability of occurrence or on difficulties in quantifying their effects.

There are none.

VIII. Irrevocable advances on account of future subscriptions

17. Status of procedures aimed at capitalization.

There are none.

18. Unpaid cumulative dividends on preferred shares.

There are none.

ADDITIONAL INFORMATION REQUIRED BY CHAPTER III, TITLE IV, SECTION 12 OF CNV
RULES (GENERAL RESOLUTION No. 622/13)

19. Conditions, circumstances or terms for restrictions on the distribution of unappropriated retained earnings to be lifted.

See Note 25 - Distribution of Profits in Banco Hipotecario S.A.'s stand-alone financial statements.

LIMITED REVIEW REPORT BY THE INDEPENDENT AUDITOR

To the Shareholders and Directors of
Banco Hipotecario SA
Registered office: Reconquista 151
Autonomous City of Buenos Aires
CUIT – 30-50001107-2

Introduction

We have reviewed the interim financial statements of Banco Hipotecario S.A. (hereinafter, “the Entity”) that comprise the Balance sheet as of June 30, 2017, the related Statements of income, of Changes in shareholders' equity and of Cash flows and cash equivalents for the six-month period ended on June 30, 2017, as well as a summary of the significant accounting policies and other explanatory information included in the Notes and Exhibits that supplement them. In addition, we have reviewed the entity's interim financial statements as consolidated with its controlled companies for the six-month period ended on June 30, 2017, which are presented as supplementary information.

The balances and other information for fiscal year 2016 and interim periods are an integral part of the above-mentioned financial statements and should therefore be considered in connection with these financial statements.

The Board's responsibility

The Entity's Board of Directors is responsible for preparing and presenting the accompanying interim financial statements in conformity with the accounting framework laid down by the Argentine Central Bank (BCRA).

Scope of our review

Our review was limited to the application of the review procedures established by Technical Pronouncements No. 37 of the Argentine Federation of Professional Councils in Economic Sciences (FACPCE) to review interim financial statements and the audit standards issued by the Argentine Central Bank (BCRA) for limited reviews. The review of interim financial statements consists in posing enquiries to the Entity's personnel in charge of preparing the information included in the interim financial statements and applying analytical procedures and other reviews. The scope of this review is substantially narrower than that of an audit examination conducted in accordance with Argentine audit standards. Therefore, a review will not allow us to obtain assurance that we will gain knowledge into all the significant issues that could be identified in an audit. Therefore, we do not issue an audit opinion on the Entity's balance sheet, the results of its operations, changes in its equity nor the Entity's flows of cash and cash equivalents.

Conclusion

On the basis of our review, there has been nothing that could have led us to believe that the interim financial statements and the consolidated financial statements mentioned in the first paragraph of this report have not been prepared in all their significant aspects in accordance with the accounting standards of the Argentine Central Bank.

Emphasis paragraphs

Basis of Accounting

As provided in Note 2, the attached financial statements have been prepared in conformity with the accounting framework laid down by the Argentine Central Bank. These standards differ, in some aspects, from the professional accounting standards currently in force. In said note, the Entity has identified and quantified the effect on the financial statements exerted by the different valuation and presentation criteria.

Supplementary information on IFRS

As provided in Note 24 to the attached financial statements, the Bank is in the process of adopting the International Financial Reporting Standards (IFRS), which shall be applicable for the fiscal year ended December 31, 2018. The items and figures in the reconciliations included in such note, are subject to changes and may only be considered final when the relevant annual financial statements for the fiscal year in which IFRS are to be applied for the first time are prepared.

Report on compliance with currently applicable rules and regulations

In compliance with the regulations in force, we report that:

- a) Banco Hipotecario S.A.'s financial statements and its consolidated financial statements as of June 30, 2017, have been transcribed into the "Inventory and Balance Sheet" book and, insofar as concerns our field of competence, are in compliance with the provisions of the Argentine Business Companies and the relevant resolutions issued by the Argentine Central Bank and the Argentine Securities Commission (CNV).
- b) the company's financial statements arise from accounting records which, in their formal aspects, are kept in accordance with statutory provisions;
- c) We have read the Company's Management Discussion and Analysis as well as the additional information to the notes to the financial statements as required under Section 12, Chapter III, Title IV, as restated, of the rules issued by the Argentine Securities Commission on which we have no comments to make as concerns our field of competence;
- d) As of June 30, 2017, the amounts accrued in favor of the Company's Argentine Comprehensive Social Security System according to the Company's accounting records amounted to \$47,243,494, with no amounts being due and enforceable at that date;
- e) We have read the information provided in Note 40 to the stand-alone financial statements as of June 30, 2017 in connection with the minimum requirements imposed by the Argentine Securities Commission in terms of Minimum Shareholders' Equity and Counterbalancing entry on which we have no comments to make as concerns our field of competence.

Autonomous City of Buenos Aires, August 9, 2017.

PRICE WATERHOUSE & CO. S.R.L.

(Partner)

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Dr. Diego Sisto
Public Accountant (UCA)
C.P.C.E.C.A.B.A.
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REPORT OF THE SUPERVISORY COMMITTEE

To the Directors and Shareholders of
BANCO HIPOTECARIO S.A.
Reconquista 151
Autonomous City of Buenos Aires

1. **Introduction**

We have made a review of the attached interim financial statements of BANCO HIPOTECARIO S.A. (hereinafter “the Bank”), which includes the Balance sheet as of June 30, 2017, the respective Statement of income, Statement of changes in shareholders' equity and Statement of cash flows and cash equivalents for the six-month period ended on June 30, 2017, as well as a summary of the significant accounting policies and other explanatory information included in supplementary notes and schedules. We have also made a review of the consolidated interim financial statements of the Bank with its subsidiaries for the six-month period ended on June 30, 2017, presented herein as supplementary information.

The balances and other information for fiscal year 2016 and its interim periods are an integral part of the above-mentioned financial statements and should therefore be considered in connection with those financial statements.

2. **The Board's Responsibility**

The Bank's Board of Directors is responsible for the preparation and issuance of the attached interim financial statements in accordance with the accounting framework set forth by the Argentine Central Bank (BCRA).

3. **Scope of our audit**

Our work was performed in accordance with standards applicable to statutory auditors currently in force. These standards require statutory auditors to examine the accounting documents detailed in section 1 in accordance with auditing standards in force for limited review of financial statements for interim periods and include verifying the reasonableness of the significant information contained in the examined documents and whether they are consistent with the remaining information concerning corporate decisions of which we became aware, disclosed in the minutes of the meetings of the Board of Directors and the Shareholders' Meetings, and evaluating the conformity of those decisions with the law and the by-laws insofar as concerns formal and documentary aspects.

For purposes of our professional work involving the accounting documents detailed in section 1., we reviewed the work performed by the Independent Auditor Price Waterhouse & Co S.R.L., in accordance with the auditing standards currently applicable to the limited review of financial statements for interim periods, in conformity with professional accounting standards and the minimum standards on independent audits issued by the Argentine Central Bank. Said review included verifying the planning of the work, as well as the nature, scope and timing of the procedures applied and the results of the limited review performed by said firm of professional services. A limited review mainly consists in applying analytical procedures to the accounting information and make inquiries to those in charge of accounting and financial matters. This review is performed in a substantially lesser extent than an audit of financial statements, the purpose of which is to render an opinion on the financial statements taken as a whole. Therefore, not all the procedures necessary to render an opinion on the financial statements mentioned in 1 were applied. The independent auditors issued their Report on August 9, 2017, the content of which we share. Given that it is not the Supervisory Committee duty to perform management controls, the examination did not span the business criteria and decisions of the Company's various areas, as these matters are solely within the purview of the Board of Directors.

4. **Conclusion**

On the basis of our review, there has been nothing that could have led us to believe that the interim financial statements and the consolidated financial statements mentioned in the first paragraph of this report have not been prepared in all their significant aspects in accordance with the accounting standards of the Argentine Central Bank.

5. **Emphasis Paragraph**

Basis of Accounting

As stated in Note 2, the attached financial statements have been prepared in accordance with the accounting framework set forth by the Argentine Central Bank. Said regulations differ, in

certain aspects, from the professional accounting standards in force. The impact on said financial statements as a result of the different valuation and presentation criteria has been identified and quantified by the Bank in said notes.

Supplementary information on IFRS

As provided in Note 24 to the attached financial statements, the Bank is in the process of adopting the International Financial Reporting Standards (IFRS), which shall be applicable for the fiscal year ended December 31, 2018. The items and figures in the reconciliations included in such note, are subject to changes and may only be considered final when the relevant annual financial statements for the fiscal year in which IFRS are to be applied for the first time are prepared.

6. **Report on compliance with currently applicable rules and regulations**

In compliance with the regulations in force, we report that:

- a) The financial statements of BANCO HIPOTECARIO S.A. as of June 30, 2017 detailed in item 1, prepared in accordance with the rules set forth by the Argentine Central Bank and considering the observations made in item 5, with the accounting rules in force in the City of Buenos Aires, consider all material events and circumstances of which we are aware and that, in connection thereto, there are no observations to make.
- b) The comparative information included in the balance sheet and the Notes and supplementary schedules included in the financial statements attached hereto, derives from the Bank's financial statements as of December 31, 2016.
- c) We have read the Information Summary and the information additional to the notes to the financial statements required by Section 12, Chapter III, Title IV, as amended by the Argentina Securities Commission (NT 2013), upon which, insofar as concerns our field of competence, there are no observations to make.
- d) We have read the information included in Note 40 to the individual financial statements as of June 30, 2017 in relation to the requirements of the Argentine Securities Commission regarding Minimum Capital and its Balancing Account, upon which, insofar as concerns our field of competence, there are no material observations to make.
- e) The Bank's financial statements and its consolidated financial statements as of June 30, 2017, appear on the "Inventory and Balance Sheet" book and comply, insofar as concerns our field of competence, with the provisions of the Argentine Companies Act and in the pertinent resolutions of the BCRA and the Argentine Securities Committee.
- f) The Bank has complied with the provisions of Section 294, Law No. 19,550.

In addition, any member of the Supervisory Committee is authorized to sign this report on behalf of the entire body.

City of Buenos Aires, August 9, 2017.

For the Supervisory Committee

Ricardo Flammini
Statutory Auditor