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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 20-F**

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(Mark One)

☐ Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

or

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2018

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the transition period from \_\_\_\_\_ to \_\_\_\_\_

or

☐ Shell Company Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of the event requiring this shell company report.

Commission file number: 001-32827

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**BANCO MACRO S.A.**

(Exact Name of Registrant as Specified in its Charter)

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**Macro Bank, Inc.**

(Translation of registrant's name into English)

**Argentina**

(Jurisdiction of incorporation or organization)

**Avenida Eduardo Madero 1182, City of Buenos Aires, Argentina**

(Address of registrant's principal executive offices)

**Jorge Francisco Scarinci**

**Chief Financial Officer**

**Banco Macro S.A.**

**Avenida Eduardo Madero 1172, 24<sup>th</sup> Floor**

**City of Buenos Aires, Argentina, C1106ACY Telephone: (+54-11-5222-6730)**

**Email: ([jorgescarinci@macro.com.ar](mailto:jorgescarinci@macro.com.ar))**

(Name, telephone, e-mail and/or facsimile member and address of company contact person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Trading Symbol(s)	Name of Each Exchange On Which Registered
<b>American Depositary Shares</b>	<b>BMA</b>	<b>New York Stock Exchange</b>
<b>Class B ordinary shares, par value Ps.1.00 per share</b>	<b>BMA</b>	<b>New York Stock Exchange(*)</b>

(\*) Ordinary shares of Banco Macro S.A. are not listed for trading but only in connection with the registration of American Depositary Shares which are evidenced by American Depositary Receipts.

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**11,235,670 Class A ordinary shares, par value Ps.1.00 per share**

**658,427,351 Class B ordinary shares, par value Ps.1.00 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "large accelerated filer, accelerated filer and emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financial Reporting  
Standards as issued by the International  
Accounting Standards Board ☒

Other ☐

If "Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)  
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 23 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court.

Yes ☐ No ☐

*Please send copies of notices and communications from the Securities and Exchange Commission to:*

**Hugo N. L. Bruzone**  
**Bruchou, Fernández Madero & Lombardi**  
**Ing. Butty 275, 12<sup>th</sup> Floor**  
**C1001AFA - Buenos Aires, Argentina**

**Jeffrey Cohen**  
**Linklaters LLP**  
**1345 Avenue of the Americas**  
**New York, NY 10105**

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## Certain defined terms

In this annual report, we use the terms “the registrant,” “we,” “us,” “our” the “Bank” and “Banco Macro” to refer to Banco Macro S.A. and its subsidiaries, on a consolidated basis. References to “Banco Macro” refer to Banco Macro S.A. on an individual basis. References to “Class B shares” refer to shares of our Class B common stock and references to “ADSs” refer to American depositary shares representing our Class B shares, except where otherwise indicated by the context.

The term “Argentina” refers to the Republic of Argentina. The terms “Argentine government” or the “government” or the “Federal government” refer to the federal government of Argentina, the term “Argentine Congress” refers to the Argentine National Congress, the legislative branch of the government of Argentina, the term “Central Bank” refers to the *Banco Central de la República Argentina*, or the Argentine Central Bank, the term “Superintendency” refers to the *Superintendencia de Entidades Financieras y Cambiarias* or the Superintendency of Financial and Exchange Entities, the term “CNV” refers to the *Comisión Nacional de Valores*, or the Argentine Securities Commission, the term “BYMA” refers to *Bolsas y Mercados Argentinos S.A.*, or the Buenos Aires Stock Exchange, the term “MAE” refers to *Mercado Abierto Electrónico*, the term “NYSE” refers to the New York Stock Exchange, the term “IGJ” refers to the *Inspección General de Justicia*, or Public Registry of Commerce of Buenos Aires and the term “ANSES” refers to the *Administración Nacional de la Seguridad Social* or National Social Security Agency.

The term “Brazil” refers to the Federative Republic of Brazil.

The terms “U.S. dollar” and “U.S. dollars” and the symbol “U.S.\$” refer to the legal currency of the United States. The terms “Peso” and “Pesos” and the symbol “Ps.” refer to the legal currency of Argentina. “Billion” refers to the number 1,000,000,000. “Central Bank Rules” refers to the accounting and other regulations of the Central Bank. “IFRS” refers to the International Financial Reporting Standards as issued by the International Accounting Standards Board (“IASB”).

The term “GDP” refers to gross domestic product and all references in this annual report to GDP growth are to real GDP growth. The term “INDEC” refers to the National Statistics Institute (*Instituto Nacional de Estadísticas y Censos*). The term “CER,” or benchmark stabilization coefficient, is an index issued by the Argentine government which is used to adjust value of credits and deposits. Pursuant to Resolution No. 203/2016 from the former Ministry of Economy and Finance, as of June 2016, the Consumer Price Index (*Índice de Precios al Consumidor*) currently in force and used to adjust the CER. The term “UVA”, means Unidad de Valor Adquisitivo, and the term “UVI” means Unidad de Vivienda.

## Presentation of certain financial and other information

Our consolidated financial statements included in this annual report have been prepared in accordance with IFRS issued by the IASB. These are our first annual consolidated financial statements prepared in accordance with IFRS.

As mentioned in Note 3 of the accompanying consolidated financial statements, up to the fiscal year ended December 31, 2017, the Bank prepared its financial statements in accordance with Central Bank Rules. The effects of the changes between the standards applied at the end of the fiscal year ended December 31, 2017 and IFRS, are explained in the reconciliations included under the title “First-time Adoption of IFRS” of that note.

The consolidated financial statements as of and for the year ended December 31, 2018 and the corresponding figures for the previous fiscal year have been restated for the changes in the general purchasing power of the functional currency of the Bank as established by IAS 29. As a result, those consolidated financial statements are stated in terms of pesos adjusted for inflation at the end of the reporting period (December 31, 2018). Solely for the convenience of the reader, the reference exchange rate for U.S. dollars as of December 31, 2018, as reported by the Central Bank was Ps.37.8083 to U.S.\$1.00.

The accompanying consolidated financial statements include the financial statements, as of December 31, 2018, of the Bank and the following subsidiaries.

- Banco del Tucumán S.A. (“Banco del Tucumán”);
- Macro Bank Limited (an entity organized under the laws of Bahamas);
- Macro Securities S.A. (“Macro Securities”);
- Macro Fiducia S.A.; and
- Macro Fondos S.G.F.C.I. S.A.

IFRS differs in certain significant respects from Central Bank Rules. As a result, our financial information presented under IFRS is not directly comparable to our financial information presented under Central Bank Rules. Accordingly, readers should exercise caution when making any comparison.

Following our adoption of IFRS, we are no longer required to reconcile our financial statements to U.S. GAAP.

### **Rounding**

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

### **Market and Central Bank Data**

We make statements in this annual report about our competitive position and market share in, and the market size of, the Argentine banking industry. We have made these statements on the basis of statistics and other information from third-party sources that we believe are reliable. Although we have no reason to believe any of this information or these reports are inaccurate in any material respect, we have not independently verified the competitive position, market share and market size or market growth data provided by third parties or by industry or general publications.

Information provided by the Central Bank of Argentina has been prepared with a methodology that may not necessarily follow that used by us in the preparation of our consolidated financial statements (e.g. it has not been adjusted for inflation), and as a result may not be directly comparable.

### **Our internet site is not part of this Annual Report**

We maintain our website at [www.macro.com.ar](http://www.macro.com.ar). Information contained in or otherwise accessible through this website is not a part of this annual report. All references in this annual report to this internet site are inactive textual references to this URL, or “uniform resource locator” and are for informational reference only.

### **Cautionary statement concerning forward-looking statements**

This annual report contains certain statements that we consider to be “forward-looking statements.” We have based these forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. Many important factors, in addition to those discussed elsewhere in this annual report, could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

- changes in economic, business, political, legal, social or other conditions in Argentina and worldwide;
- governmental intervention and regulation (including banking and tax regulations);
- developments in the global financial markets;
- deterioration in the Argentine financial system or regional business and economic conditions;
- inflation;
- fluctuations and declines in the exchange rate of the Peso;
- changes in interest rates which may adversely affect financial margins;
- adverse legal or regulatory disputes or proceedings;
- credit and other risks of lending, such as increases in defaults by borrowers and other delinquencies;
- increase in the provisions for loan losses;
- fluctuations and declines in the value of Argentine public debt;
- decrease in deposits, customer loss and revenue loss;
- competition in banking, financial services and related industries and the loss of market share;
- cost and availability of funding;
- the integration of any acquisitions and the failure to realize expected synergies; and
- the risk factors discussed under Item 3.D “Risk Factors.”

The words “believe”, “may”, “will”, “aim”, “estimate”, “continue”, “anticipate”, “intend”, “expect”, “forecast” and similar words are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulations and the effects of competition. Forward-looking statements speak only as of the date they were made, and we will not, and disclaim any obligation to update publicly or to revise any forward-looking statements after we distribute this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and are not guarantees of future performance.

Sections of this annual report that by their nature contain forward-looking statements include, but are not limited to, Item 3. “Key Information,” Item 4. “Information on the Bank,” Item 5. “Operating and Financial Review and Prospects” and Item 11. “Quantitative and Qualitative Disclosure About Market Risk.”

## PART I

### Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

### Item 2. Offer Statistics and Expected Timetable

Not applicable.

### Item 3. Key Information

#### A. Selected Financial Data

The following financial information for the years ended December 31, 2018 and 2017 and the selected consolidated financial information as of December 31, 2018 and 2017 has been prepared in accordance with IFRS as issued by the IASB and derived from our audited consolidated financial statements included elsewhere in this annual report.

The consolidated financial statements and the financial information included in this annual report for all periods reported are in Argentine pesos stated in terms of the measuring unit current at the end of the reporting period (December 31, 2018). Due to the high inflationary level that has prevailed in Argentina in the recent past, our management has analyzed the conditions established by IAS 29 paragraph 3 for an economy to be considered as hyperinflationary. Based on such analysis, our management considers that there is evidence to determinate Argentina’s economy as “hyperinflationary” under IAS 29 for accounting periods ending after July 1, 2018. See “—Risk factors—Risk Related to Argentina— An increase in inflation could have a material adverse effect on Argentina’s economic prospects”, “Item 5—Operating and Financial Review and Prospects—Macroeconomic Environment” and note 3 “Basis for the preparation of these financial statements and applicable accounting standards” to our audited consolidated financial statements as of December 31, 2018 and 2017.

Our consolidated financial statements have been prepared in accordance with IFRS as of and for the years ended December 31, 2018 and 2017. Prior to January 1, 2018 the Bank prepared its consolidated financial statements in accordance with Central Bank Rules. Reconciliations and description of the transition to IFRS, and the effects on equity and net income are presented under the title “First-time Adoption of IFRS” of note 3 to our consolidated financial statements.

<u>Selected Consolidated Statement of Income Data</u>	<u>Year Ended December 31,</u>	
	<u>2017 (1)</u>	<u>2018</u>
	<i>(in thousands of Pesos, except for number of shares, net income per share and dividends per share)</i>	
Interest income	55,826,695	74,733,441
Interest expense	(16,971,578)	(29,563,908)
<b>Net Interest Income</b>	<b>38,855,117</b>	<b>45,169,533</b>
Commissions income	14,987,879	14,474,765
Commissions expense	(1,113,684)	(930,045)
<b>Net Commissions income</b>	<b>13,874,195</b>	<b>13,544,720</b>
<b>Subtotal (Net Interests income + Net Commissions income)</b>	<b>52,729,312</b>	<b>58,714,253</b>
Net Income from measurement of financial instruments at fair value through profit or loss	944,908	1,261,206
Profit/ (Loss) from sold assets at amortized cost	18,885	(6,129)
Difference in quoted prices of gold and foreign currency	2,252,700	(1,750,282)
Other operating income	2,605,384	3,347,241
Credit loss expense on financial assets	(2,613,724)	(2,900,048)
<b>Net Operating Income</b>	<b>55,937,465</b>	<b>58,666,241</b>
Total Operating Expenses	(32,580,603)	(34,617,063)
<b>Net Operating Income after expenses, depreciation and amortization</b>	<b>23,356,862</b>	<b>24,049,178</b>
Income from associates and joint arrangements	290,303	266,302
Loss on net monetary position	(9,218,751)	(15,722,476)
<b>Income before tax on continuing operations</b>	<b>14,428,414</b>	<b>8,593,004</b>
Income tax on continuing operations	(8,408,808)	(9,327,117)

**Selected Consolidated Statement of Income Data**

	<b>Year Ended December 31,</b>	
	<b>2017 (1)</b>	<b>2018</b>
	<i>(in thousands of Pesos, except for number of shares, net income per share and dividends per share)</i>	
<b>Net Income/(loss) from continuing operations</b>	<b>6,019,606</b>	<b>(734,113)</b>
<b>Net Income/(loss) for the fiscal year</b>	<b>6,019,606</b>	<b>(734,113)</b>
Net Income/(loss) for the fiscal year attributable to the owners of the Parent Company	5,938,807	(701,220)
Net Income/ (loss) for the fiscal year attributable to non-controlling interests	80,799	(32,893)
<b>Other Comprehensive Loss</b>	<b>(80,960)</b>	<b>(71,025)</b>
Foreign currency translation differences in financial statements conversion	(63,151)	382,728
Losses for financial instruments measured at fair value through other comprehensive income	(17,809)	(453,753)
<b>Total Comprehensive Income/(loss) for the fiscal year</b>	<b>5,938,646</b>	<b>(805,138)</b>
Total Comprehensive Income/(loss) attributable to the owners of the parent Company	5,858,588	(772,243)
Total Comprehensive Income/(loss) attributable to non-controlling interests	80,058	(32,895)
Net income/(loss) per share (2)	9.43	(1.06)
Dividends per share approved by the shareholders' meeting (3)	5.00	10.00
Dividends per share in U.S.\$ approved by the shareholders' meeting	0.27	0.26
Weighted average number of outstanding shares (in thousands)	629,531	661,141

- (1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See “*Presentation of certain financial and other information*”.
- (2) Net income/(loss) for the fiscal year attributable to the owners of the Parent Company divided by weighted average number of outstanding shares.
- (3) Not adjusted for inflation.

**Selected Consolidated Statement of Financial Position Data**

	<b>As of January 1,</b>	<b>As of December 31,</b>	
	<b>2017 (1)</b>	<b>2017 (1)</b>	<b>2018</b>
	<i>(in thousands of Pesos)</i>		
<b>ASSETS</b>			
Cash and Deposits in Banks	66,306,368	52,505,097	74,766,039
Investments in Debt Securities and Equity Instruments	38,942,057	53,259,386	67,271,524
Derivative Financial Instruments	17,911	12,149	17,293
Repo Transactions	35,237	2,096,284	—
Loans and other financing	162,864,366	195,864,678	179,166,463
Other Financial Assets	8,837,262	14,633,198	9,755,804
Investment in associates and joint arrangements	228,970	323,265	108,823
Property, Plant and Equipment	13,953,683	15,205,782	15,544,258
Intangible Assets	1,506,292	1,626,253	2,120,595
Deferred Income Tax Assets	—	1,249	—
Other Non-financial Assets	2,161,137	2,174,196	985,435
Non-current assets held for sale	174,283	368,329	1,496,757



**Selected Consolidated Statement of Financial Position Data**

	As of January 1,	As of December 31,	
	2017 (1)	2017 (1)	2018
	<i>(in thousands of Pesos)</i>		
<b>TOTAL ASSETS</b>	<b>295,027,566</b>	<b>338,069,866</b>	<b>351,232,991</b>
Average Assets	—	322,289,580	344,724,767
<b>LIABILITIES</b>			
Deposits	206,113,028	212,800,371	237,954,419
Liabilities at fair value through profit or loss	—	9,523	—
Derivative Financial Instruments	—	34,116	1,369
Repo Transactions	2,018,763	3,968,851	164,469
Other Financial Liabilities	11,684,864	15,593,151	15,318,513
Financing received from the Central Bank of Argentina and other financial entities	479,907	1,733,524	2,998,010
Issued Debt instruments	14,853,131	18,127,888	21,665,701
Current Income Tax Liabilities	3,224,097	5,869,385	2,946,479
Provisions	617,268	1,026,017	1,056,624
Deferred Income Tax Liabilities	2,917,369	1,875,636	2,341,456
Other Non-financial Liabilities	5,830,128	5,279,810	5,875,117
<b>TOTAL LIABILITIES</b>	<b>247,738,555</b>	<b>266,318,272</b>	<b>290,322,157</b>
<b>SHAREHOLDERS' EQUITY</b>			
Net Shareholders' Equity attributable to the owners of parent company	46,901,837	71,441,599	60,908,329
Net Shareholders' Equity attributable to non-controlling interests	387,174	309,995	2,505
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>47,289,011</b>	<b>71,751,594</b>	<b>60,910,834</b>
Average Shareholders' Equity	—	64,798,700	69,654,177

- (1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See “*Presentation of certain financial and other information*”.

**Selected consolidated ratios**

	As of and for the year ended December 31.	
	2017	2018
<b>Profitability and performance</b>		
Net interest margin (%) (1)	16.55%	17.94%
Fee income ratio (%) (2)	27.84%	24.27%

Selected consolidated ratios	As of and for the year ended December 31,	
	2017	2018
Efficiency ratio (%) (3)	40.68%	40.08%
Fee income as a percentage of administrative expense (%)	56.05%	52.66%
Return on average equity (%)	9.29%	(1.05)%
Return on average assets (%)	1.87%	(0.21)%
<b>Liquidity</b>		
Loans as a percentage of total deposits (%)	93.22%	76.53%
Liquid assets as a percentage of total deposits (%) (4)	50.20%	57.10%
<b>Capital</b>		
Total equity as a percentage of total assets (%)	21.22%	17.34%
Regulatory capital as a percentage of risk-weighted assets (%)	28.10%	26.47%
<b>Asset Quality</b>		
Non-performing loans as a percentage of total loans (%) (5)	1.08%	1.88%
Allowances for loan losses as a percentage of total loans	1.98%	2.12%
Allowances for loan losses as a percentage of non-performing loans (%) (5)	183.28%	112.40%
<b>Operations</b>		
Number of branches	445	471
Number of employees (6)	8,774	9,028

- (1) Net interest income divided by average interest earning assets.
- (2) Commissions income divided by the sum of net interest income.
- (3) The efficiency ratio is equal to operating expenses over operating income. Operating expenses includes employee benefits, administrative expenses and depreciation of property, plant and equipment and intangibles. Operating income includes net interest income, net commissions income, net income from measurement of financial instruments at fair value through profit or loss, difference in quoted prices of gold and foreign currency net and other operating income.
- (4) Liquid assets include cash, cash collateral, reverse repos, instruments issued by Central Bank and interfinancing loans.
- (5) As of December 31, 2017, non-performing loans are calculated using the classification system of the Central Bank and include all loans to borrowers classified as “3-troubled/medium risk”. “4-with high risk of insolvency/high risk”. “5-irrecoverable” and “6-irrecoverable according to Central Bank’s Rules”. As of December 31, 2018, non-performing loans are calculated according to our internal credit rating grades disclosed in note 50.1 to our consolidated financial statements.
- (6) Were workers performing their duties pursuant to the “*Acciones de entrenamiento para el trabajo*” program of the Ministry of Labor, Employment and Social Security and other casual workers included, the number of employees of the Bank would have been 8,826, and 9,113 for 2017 and 2018, respectively. We do not account for such workers as employees, as we do not remunerate them for their services, which are paid directly by the Argentine province where they work.

## B. Capitalization and Indebtedness

Not applicable.

### C. Reasons for the Offer and Use of Proceeds

Not applicable.

### D. Risk Factors

*You should carefully consider the risks described below with all of the other information included in this annual report before deciding to invest in our Class B shares or our ADSs. If any of the following risks actually occurs, it may materially harm our business and our financial condition and results of operations. As a result, the market price of our Class B shares, our ADSs could decline and you could lose part or all of your investment.*

*Investors should carefully read this annual report in its entirety. They should also take into account and evaluate, among other things, their own financial circumstances, their investment goals, and the following risk factors.*

*Information provided by the Central Bank of Argentina and/or the INDEC and the information included in this section has been prepared in accordance with a methodology that may not necessarily follow the methodology used for the preparation of our consolidated financial statements (e.g. it has not been adjusted for inflation), as a result of the aforementioned may not be comparable.*

#### Risks relating to Argentina

***The Argentine economy remains vulnerable and a significant decline could adversely affect our financial condition.***

Presidential and congressional elections in Argentina took place on October 25, 2015, and a runoff election (*ballotage*) between the two leading presidential candidates was held on November 22, 2015, which resulted in Mr. Mauricio Macri being elected President of Argentina. The Macri administration assumed office on December 10, 2015, and announced several significant economic and policy reforms, including:

- *Agreement with holdout creditors.* The Macri administration has settled the substantial majority of outstanding claims brought by holdout creditors and has issued sovereign bonds in the international financial markets. Argentina's ability to obtain financing from international markets is limited, which may impair its ability to implement reforms and foster economic growth.
- *Foreign exchange reforms.* The Macri administration eliminated a significant portion of foreign exchange restrictions, including currency controls that were imposed by the previous administration. With the aim of providing more flexibility to the foreign exchange system and promoting competition, allowing the entrance of new participants to the system, the free-floating exchange market (the "Exchange Market") was created by virtue of Decree No. 27/2018 published on January 11, 2018. Furthermore, on August 8, 2016, the Central Bank introduced material changes to the foreign exchange regime and established a new framework by means of Communication "A" 6037 and Communication "A" 6244, which significantly eased the access to the Exchange Market. In addition, on December 26, 2017, by virtue of Communication "A" 6401, the Central Bank replaced the reporting regimes set forth by Communications "A" 3602 and "A" 4237 with a unified regime applicable for information as of December 31, 2017. The unified reporting regime involves an annual mandatory statement filing for every person whose total flow of funds or balance of assets and liabilities is or exceeds U.S.\$1 million during the previous calendar year. Moreover, by virtue of Communication "A" 6443, which came into effect as of March 1, 2018, any company from any sector, which usually operates through the Exchange Market can act as an exchange agency merely by registering in the exchange operators' registry. See "*—Significant devaluation of the Peso against the U.S. dollar may adversely affect the Argentine economy*" and Item 10.D "*Exchange Controls.*"
- *Foreign trade reforms.* The Macri administration reduced the export duties applicable to several agricultural products and eliminated the export duties applicable to most exports of industrial and mining products. On January 2, 2017, the Argentine government enacted a further reduction of the export duties rate set for soybean and soybean products, setting a monthly 0.5% cut on the export duties rate beginning on January 2018 and until December 2019. In addition, importers were offered short-term debt securities issued by the Argentine government to repay outstanding commercial debt for the import of goods. Notwithstanding this and as part of the reform package aimed at reducing the fiscal deficit, the Argentine Executive Branch published Decree No. 793/2018, which established a 12% duty on all exported consumption products included in the Mercosur Common Nomenclature (*Nomenclatura Común del Mercosur*) (the "NCM" per its initials in Spanish) which will remain in effect until December 31, 2020. Decree No. 793/2018 caps the rate for export duties on most products at Ps.4.00/U.S.\$1.00 based on the taxable base or free on-board value, depending on the product. However, the exchange rate cap for certain products (mainly manufactured goods) is Ps.3.00/U.S.\$1.00 of the taxable base or free on-board value, depending on the product. As an additional measure, Decree No. 793/2018 reduced export duties on soybean by-products to 18%, 16% or 11%, depending on type of by the product.

- *Correction of monetary imbalances and changes in monetary policy.* The Central Bank aims to ensure that, in the period from October 2018 until June 2019, the monetary base will register a zero growth (based on a monthly average), through the Monetary Aggregates Regime (*Agregados Monetarios*) pursuant the 2018 IMF Agreement (as defined herein below), which was approved by the Monetary Policy Committee of the Central Bank. This monetary goal would be achieved through the daily sales of LELIQS, which began on October 1, 2018. LELIQS are seven-day peso-denominated securities that can be purchased exclusively by banks. The Central Bank is expected to continue to perform daily operations of LELIQS until the zero percent goal is achieved. See “—*Fluctuations in the value of the Peso could adversely affect the Argentine economy*,” and “—*Negotiations with the IMF*” below.
- *Domestic capital markets.* On May 9, 2018, the Law No. 27,440 (the “Productive Financing Law”) was enacted. The Productive Financing Law seeks, among other things, to broaden the base of investors and companies that take part in the capital markets, promoting financing especially for micro, small and medium-sized companies (“MiPyMEs”), seeking to create a framework that eases access to financing for such companies. The Productive Financing Law also introduces new regulations to local markets, to the private banking activity, and include substantial changes to preemptive rights of stockholders and price measures applicable to the tender offer regime (See Item 10. “*Additional information—Tender offer regime.*”). Furthermore, the Productive Financing Law eliminates certain controversial sections of the previous Capital Markets Law No.26,831, as amended and supplemented (the “Capital Markets Law”) which gave the CNV the authority to intervene in the management of publicly traded companies, among others.
- *Corporate Criminal Liability Law (Ley de Responsabilidad Penal Empresarial):* On November 8, 2017, the Lower House of the Argentine Congress approved the Law No.27,401 (the “Corporate Criminal Liability Law”) providing for the criminal liability of corporate entities for criminal offences against public administration and transnational bribery committed by, among others, its attorneys-in-fact, directors, managers, employees, or representatives. According to the law, a company may be held liable if such offences were committed, directly or indirectly, in its name, behalf or interest, the company obtained or may have obtained a benefit therefrom, and the offence resulted from a company’s ineffective control. Companies found liable under this law may be subject to various sanctions, including, among others, fines ranging from two to five times of the undue benefit obtained, total or partial suspension of commercial activities, suspension to participate in bidding processes or activity linked to the National State, dissolution and liquidation of legal status, loss or suspension of benefits or government subsidies that they may have and the publication of the conviction sentence for two days, in a national newspaper.
- *Social security reform bill.* On December 19, 2017, the Argentine Congress passed the social security reform bill which, among other amendments, modified the adjustment formula in the retirement system with a view to supplying the necessary funds of ANSES to guarantee that retirees who earn the minimum pension receive 82% of the minimum salary. Social security payments shall be subject to an updated formula to be applied every year in March, June, September and December, 70% of the calculation will come from the CPI published by INDEC and 30% from the *Remuneración Imponible Promedio de los Trabajadores Estables* (“RIPE” per its initials in Spanish) variation, an indicator published by the Ministry of Labor which measures the evolution of public sector salaries. Moreover, instead of the biannual increase, a quarterly increase will be applied. After the passing of the draft bill, on December 20, 2017, Decree No. 1058 was published and, with the aim of avoiding divergence with the application of the previous formula, established a one-time compensatory bonus for retirees, pensioners and beneficiaries of the universal insurance per child (*asignación universal por hijo*).
- *Electricity and gas reforms.* The Argentine government has also declared a state of emergency with respect to the national electrical system, which remained in effect until December 31, 2017. Under this state of emergency, the Argentine government was permitted to take actions designed to guarantee the supply of electricity. In this context, subsidy policies were reexamined, and new electricity tariffs went into effect on February 1, 2016 with varying increases depending on geographical location and consumption levels. Following the tariff increases, preliminary injunctions requesting a suspension of tariff increases were filed by customers, politicians and non-governmental organizations that defend customers’ rights, which were granted by Argentine courts. The new gas tariff schedule was published on October, 2016 with an increase between 300% and 500%. On October 11, 2016, the Ministry of Energy and Mining (a) expanded the number of eligible beneficiaries of social tariffs to include retirees and pensioners that receive pensions equal to up to two minimum salaries, certain war veterans and medically dependent customers, and (b) decreed that institutions that perform activities of public interest would be entitled to residential rates. The year-on-year increase in the price of energy in the wholesale electricity market for end-users, which excludes transportation and distribution costs and accounts for approximately 45% of the tariff to end-users in the City of Buenos Aires, totaled 233% (from Ps.96/MWh to Ps.320/MWh on average), while the increase in the price of natural gas for end-users was 68% (from Ps.37/MMBtu to Ps.62/MMBtu on average). On March 10, 2017, a public hearing was held in order to discuss the increase in gas rates as of April 2017. On March 31, 2017, the new gas tariff for small and medium enterprises (“PyME”) scheme was published by the Macri administration with an increase of 30% in February and 18% in March. In addition, to further address the potential impact of the new tariff scheme during the 2018 winter peak season of natural gas consumption by retail customers, an optional program was implemented through Resolution No. 97/2018 issued by the Argentine Gas Regulator (*Ente Nacional Regulador del Gas*) under which consumers are able to finance the payment of up to 25% of natural gas monthly bills for the 2018 winter peak season.

- *Public Private Participation Law.* On November 16, 2016, the Public Private Participation Law was passed by Congress, and has been regulated by Decree No.118/2017. This new regime seeks to replace existing regulatory frameworks (Decrees Nos.1299/00 and 967/05) and supports the use of public price participation schemes for a large variety of purposes including the design, construction, extension, improvement, provision, exploitation and/or operation and financing of infrastructure development, provision of services or other activities, provision of services productive, investments, applied research, technological innovation and associated services. The Public Participation Law also includes protection mechanisms in favor of the private sector (contractors and lenders) in order to promote the development of these associative schemes.
- *Fiscal consensus.* In addition, on November 16, 2017, the Argentine government, the governors of the majority of Argentine provinces, including the Province of Buenos Aires, and the Head of Government of the City of Buenos Aires entered into an agreement pursuant to which some guidelines were established in order to harmonize the tax structures of the different provinces and the City of Buenos Aires. Among other commitments, the provinces and the City of Buenos Aires agreed to gradually reduce the tax rates applicable to stamp tax and turnover tax within a five-year period and withdraw their judicial claims against the Argentine government in connection with the federal co-participation regime. In exchange for this, the Argentine government, among other commitments, agreed to (i) compensate the provinces and the City of Buenos Aires (provided they enter into the agreement) for the effective reduction of its resources in 2018, resulting from the proposed elimination of section 104 of Law No. 20,628 and amendments (the “Income Tax Law”), quarterly updating such compensation in the following years, and (ii) issue a 11-year bond where funds generate services for Ps.5,000 million in 2018 and Ps.12,000 every year starting from 2019, to be distributed among all the provinces, with the exception of the Province of Buenos Aires and the City of Buenos Aires, according to the effective distribution coefficients resulting from the federal co-participation regime. This agreement shall only be effective in those provinces where the respective legislative branches have passed it. In this sense, on December 22, 2017, the Argentine Congress passed the projects on fiscal consensus and fiscal liability (“*Consenso Fiscal*” and “*Responsabilidad Fiscal*,” respectively), with some amendments. All of the Argentine provinces and the City of Buenos Aires, except for the provinces of San Luis and La Pampa, have already entered into this agreement.
- *Increase in public transportation tariffs.* As a part of a comprehensive program aimed at reducing applicable subsidies for public transportation in the greater area of Buenos Aires, during 2018, the Argentine Government implemented several increases in the public transportation tariff, as well as a new multi-disciplinary system for riders using multiple public transport platforms.
- *IMF Agreement.* On June 7, 2018, Argentina and the IMF announced that a technical agreement on a U.S.\$50 billion three-year stand-by agreement had been reached, which was approved on June 20, 2018, by the IMF’s Executive Board (the “IMF Agreement”). Notwithstanding the foregoing, on September 26, 2018, Argentina announced that a revised technical agreement with the IMF was reached, which underpinned the IMF Agreement. The revised agreement with the IMF was approved by the IMF’s Executive Board on October 26, 2018 (the “Revised Agreement” and together with the IMF Agreement, the “2018 IMF Agreement”), which includes an increase in the IMF’s available funds for disbursement by U.S.\$19 billion through the end of 2019 and brings the total available amount under the program for disbursement to U.S.\$57.1 billion through 2021. In addition, the funds available under the 2018 IMF Agreement will no longer be treated as precautionary, as the authorities have indicated that they intend to use IMF financing for budget support. In return, the Argentine government agreed to work towards achieving fiscal balance by 2019, achieving a primary balance in that year and a primary surplus of 1% in 2020 and, in turn, the Central Bank will not be able to increase the monetary base until June 2019. Furthermore, in order to mitigate exchange rate volatility, intervention zones were defined when the dollar exceeds Ps. 44 or falls below Ps. 34 (range adjusted daily at a monthly rate of 3% until December 2018, and the first quarter of 2019, is adjusted daily at a monthly rate of 2%), considering the zone between these limits as a “non-intervention zone.” In April, 2019, among a set of measures designed to soften the impact of Argentina’s economic situation, the Central Bank fixed the “non-intervention zone” between Ps.39.75 and Ps. 51.45 until December 2019 and eliminated the monthly adjustment. On April 29, 2019, the Monetary Policy Counsel of the Central Bank (“COPOM”) decided to introduce new changes to the monetary policy, in order to reduce volatility in the foreign exchange market. According to this new scheme: (i) the Central Bank may intervene, subject to market conditions, in the foreign exchange market and sell Dollars in the market, even in case that the exchange rate is below Ps. 51.488 and (ii) if the exchange rate climbs above Ps. 51.488, the Central Bank will sell foreign currency for up to U.S.\$250 million daily. Also, the Central Bank could decide to perform additional interventions. The Pesos resulting of such sales will be discounted from the monetary base. The COPOM also confirmed that the Central Bank will not intervene in the foreign exchange market if the exchange rate decrease below Ps. 39.755.

- *Tax Reform.* On December 27, 2017, the Argentine Congress approved a tax reform that was published on December 29, 2017 as Law No. 27,430 (the “Tax Reform”). The Tax Reform is intended to eliminate certain inefficiencies in the Argentine tax regime, diminish tax evasion, broaden income taxes to cover more individuals and encourage investment, with the long-term goal of restoring fiscal balance. The main aspects of the Tax Reform include among others: (i) capital gains realized by individuals that are Argentine tax residents on sales of real estate (subject to certain exceptions, including a primary residence exemption) acquired after January 1, 2018 will be subject to tax at the rate of 15%, calculated on the difference between the transfer price and the acquisition cost adjusted for inflation; (ii) income obtained from currently exempt bank deposits and sales of securities (including government securities) by individuals that are Argentine tax residents, will be subject to tax at the rate of (a) 5% in the case of those denominated in Pesos, subject to fixed interest rate and not indexed, and (b) 15% for those denominated in a foreign currency or indexed; (iii) income obtained from the sales of shares made on an Argentine stock exchange on market will be exempt, subject to compliance with certain requirements; (iv) corporate income tax rate will initially decline to 30% for fiscal periods starting after January 1, 2018 and up to December 31, 2019 and to 25% for fiscal periods starting after January 1, 2020; (v) social security contributions will be gradually increased to 19.5% starting in 2022, in lieu of the differential scales currently in effect; and (iv) the percentage of tax debits and credits that can be credited towards income tax will be gradually increased over a five year period. In addition, on April 9, 2018, Decree No. 279/2018 was published in the Official Gazette and General Resolution AFIP No. 4227/2018 was published on April 12, 2018 regulating the Tax Reform Law relating to, among other aspects, the income tax applicable to Foreign Beneficiaries derived from financial transactions. Decree No. 1170/2018 was published on December 27, 2018 introducing the implementing regulations of the Tax Reform. For further information, see “Item 10.E. Taxation—Material Argentine Tax Considerations” below.
- *Asset Seizure Decree:* On January 22, 2019, the Macri administration published this Decree No.62/2019 related to asset seizure (*Extinción de Dominio*), which allows courts to seize assets found related to acts of corruption or drug smuggling, whether the defendant has been found guilty or not before a criminal court. This Decree also includes provisions for the creation of a special Ombudsman’s Office to monitor future asset seizures. Such decree has been submitted to the Argentine Congress for its approval. As of the date of this annual report, no approval or rejection has been issued.
- *Recent Governmental Measures:* Recently, the Argentine government announced a wide range of measures to stabilize financial volatility and the current economic situation of the country, which includes among others, price agreements for the main products of the consumer basket, a revised public services and transport tariff increase scheme, social benefits and support for SMEs, notwithstanding the foregoing, as of the date of this annual report, certain of the aforementioned measures have not been instrumented yet, consequently, we cannot measure the impact in the Argentine economy of the aforementioned reforms. In addition, on April 29, 2019, the Monetary Policy Committee (*Comité de Política Monetaria*) of the Central Bank (the “COPOM”) decided to introduce changes to the monetary policy, with an aim to reducing volatility in the foreign exchange market. According to the new scheme: (i) if the exchange rate is between Ps.39.755 and Ps.51.488, the Central Bank may intervene, subject to market conditions, in the foreign exchange market and sell U.S. dollars in the market, and (ii) if the exchange rate is above Ps.51.488, the Central Bank will sell foreign currency for up to U.S.\$250 million (from U.S.\$150 million). Also, the Central Bank could decide to perform additional interventions in the exchange market. The Argentine pesos resulting from such sales will be discounted from the monetary base. The COPOM also confirmed that the Central Bank will not intervene until June 2019 in the foreign exchange market if the exchange rate decreases below Ps.39.755.

Furthermore, congressional elections were held on October 22, 2017 and Mauricio Macri’s governing coalition obtained the largest share of votes at the national level. However, even when the number of coalition members in Congress increased (holding in the aggregate 107 of a total of 257 seats in the House of Representatives and 24 of a total of 72 seats in the Senate), the coalition still lacks a majority in either chamber of the Argentine Congress and, as a result, some or all of the required changes and improvement to the economy and investment environment (including the reduction of the fiscal deficit, reduction of the inflation rate and fiscal and labor reforms, among others) may not be implemented, which would adversely affect the continued improvement of the economy and investment environment.

In addition, Argentine presidential elections are scheduled to take place in October 2019. The impact that the presidential elections could have on Argentine politics and the economy is uncertain, and include uncertainty as to whether the newly elected Argentine government will implement changes in the policy or regulation or that will maintain the current policies or regulation. Argentina’s president and its Congress, each have considerable power to determine governmental policies and actions that relate to the Argentine economy. As a result, we can offer no assurances that the policies that may be implemented by the government after the elections will not adversely affect our business, results of operations or financial condition.

A less favorable international economic environment, lack of stability, competitiveness of the Peso against other foreign currencies, lowered levels of confidence among consumers and foreign and domestic investors, a higher inflation rate and future political uncertainties, among other factors, should they occur, may affect the development of the Argentine economy and cause volatility in the local capital markets.

A substantial part of our operations, properties and customers are located in Argentina. As a result, our business is, to a very large extent, dependent upon the economic, social and political conditions prevailing in Argentina. No assurance can be given that future economic, social and political developments in Argentina, over which we have no control, will not have a material adverse effect on our business, financial condition and results of operations.

***The Argentine economy could be adversely affected by economic developments in the global markets.***

Financial and securities markets in Argentina are influenced by economic and market conditions in other markets worldwide. The international scenario shows contradictory signals of global growth, as well as high financial and exchange uncertainty. The global financial crisis that commenced in the last quarter of 2008, negatively affected the economies of numerous countries around the world, including Argentina and certain of its trading partners.

Moreover, emerging markets have been affected by the change in U.S. monetary policy, resulting in the sharp unwinding of speculative asset positions, depreciations and increased volatility in the value of their currencies and higher interest rates. When interest rates rise significantly in developed economies, including the United States, it may be more difficult and burdensome for emerging market economies, including Argentina, to borrow capital and refinance their current debt, which could affect in a negative way its economic growth. The general appreciation of the U.S. dollar resulting from a more restrictive U.S. monetary policy contributed to the fall of the international price of raw materials, further increasing the difficulties of emerging countries which are exporters of these products.

In addition, on June 23, 2016 the United Kingdom (the “UK”) voted in favor of its departure from the European Union (the “EU” and the “Brexit”, respectively). The British Government has announced preliminary measures to be implemented to facilitate the UK’s exit from the EU and on March 29, 2017 initiated the formal process, which is expected to be completed by mid-2019. The results of the UK referendum have caused and are anticipated to continue to cause, volatility in financial markets, which in turn could have a material adverse effect on our business, financial condition and results of operations. The UK was due to leave the EU on March 29, 2019 but on March 20, 2019, the UK requested to the EU a three-month extension. Brexit could lead to additional political, legal and economic instability in the EU and produce a negative impact on the commercial exchange of Argentina with such region.

On November 8, 2016, Donald Trump was elected as the President of the United States. During the election campaign, Mr. Trump showed a vested interest in implementing greater controls on free trade and limiting immigration. Changes in social, political, regulatory and economic conditions in the United States and in the legislation and policies governing international trade have generate uncertainty in international markets and may have a negative effect on emerging markets, such as Argentina, which could adversely affect our operations. Even though President Trump’s protectionist measures are not, for the time being, aimed at Argentina, we cannot predict how they will evolve, nor will the effect that the same or any other measure taken by the Trump administration could cause on global economic conditions and the stability of global financial markets. Furthermore, the United States and China are currently engaged in a trade war, as each country continues to dispute tariffs placed on goods traded between them, which may have a potential impact in trade-dependent countries such as Argentina.

During August 2018, an increase in inflation and a sustained deficit in current accounts, as well as the protectionist measures taken by the United States, doubling the tariffs on steel and aluminum from Turkey, caused a collapse of the Turkish lira against the Dollar, which triggered a wave of sales of assets from emerging markets and a significant fall in the prices of shares from these markets, generating a contagion effect in international markets and several stock exchanges in the world, including Argentina.

Although economic conditions vary from country to country, investors’ perceptions of events occurring in other countries have, and may continue to, substantially affect capital flows into and investments in securities from issuers in other countries, including Argentina. A prolonged slowdown in economic activity in Argentina or negative effects on the Argentine financial system or the securities markets would adversely affect our business, financial condition and results of operations.

***Argentina’s economy contracted in 2018 and may contract in the future due to international and domestic conditions which may adversely affect our operations.***

The Argentine economy has experienced significant volatility during recent decades, characterized by periods of low or negative GDP growth, high and variable levels of inflation and currency depreciation and devaluation. Argentina’s economy contracted during 2018 and the country’s economy remains unstable notwithstanding efforts by the Argentine government to address inflation and foreign exchange instability. All of our operations, properties and customers are located in Argentina, and, as a result, our business is, to a large extent, dependent upon economic and legal conditions prevailing in Argentina. If economic conditions in Argentina were to deteriorate, they could have an adverse effect on our results of operations, financial condition and cash flows.

Global economic and financial crisis, and the general weakness of the global economy typically, negatively affect emerging economies like Argentina’s economy. Global financial instability or increasing interest rates in the United States and other developed countries may impact the Argentine economy and cause a slowdown in Argentina’s growth rate or could lead to a recession with consequences in the trade and fiscal balances and in the unemployment level.

Moreover, Argentine economic growth might be negatively affected by several domestic factors such as an appreciation of the real exchange rate which could affect its competitiveness, reductions and even reversion of a positive trade balance, which, combined with capital outflows could reduce the levels of consumption and investment resulting in greater exchange rate pressure. Additionally, abrupt changes in monetary and fiscal policies or foreign exchange regime could rapidly affect local economic output, while lack of appropriate levels of investment in certain economy sectors could reduce long-term growth. Access to the international financial markets could be limited. Consequently, an increase in public spending not correlated with an increase in public revenues could affect the Argentina's fiscal results and generate uncertainties that might affect the economy's growth level.

In recent years, several trading partners of Argentina (such as Brazil, Europe and China) have experienced significant slowdowns or recession periods in their economies in recent years. If such slowdowns or recessions were to recur, this may impact the demand for products coming from Argentina and hence affect its economy.

During 2018, the Argentine economy was adversely affected by some of aforementioned factors. If international and domestic conditions for Argentina were to worsen, the Argentine economy could be negatively affected as a result of lower international demand and lower prices for its products and services, higher international interest rates, lower capital inflows and higher risk aversion, which may also adversely affect our business, results of operations, financial condition and cash flows.

***Argentina's ability to obtain financing from international markets is limited, which may impair its ability to implement reforms and public policies and foster economic growth.***

In 2005 and 2010, Argentina conducted exchange offers to restructure part of its sovereign debt that had been in default since the end of 2001. As a result of these exchange offers, Argentina restructured over 92% of its eligible defaulted debt. In April 2016, the Argentine government settled U.S.\$9.3 billion of outstanding principal debt held by creditors who had not participated in the 2005 and 2010 restructurings.

In 2012, plaintiffs in different actions in New York obtained a U.S. district court order enjoining Argentina from making interest payments in full on the bonds issued pursuant to the 2005 and 2010 exchange offers unless Argentina paid the plaintiffs in full, under the theory that the former payments violated the *pari passu* clause in the 1994 Fiscal Agency Agreement governing those non-performing bonds. The Second Circuit Court of Appeals affirmed the so-called *pari passu* injunctions, and on June 16, 2014, the U.S. Supreme Court denied Argentina's petition for a writ of certiorari and the stay of the *pari passu* injunctions was vacated on June 18, 2014. In February 2016, the Argentine government entered into an agreement in principle to settle claims with certain holders of defaulted debt and put forward a proposal to other holders of defaulted debt, including those with pending claims in U.S. courts. On March 2, 2016, the U.S. district court agreed to vacate the *pari passu* injunctions, subject to certain conditions. In April 2016, the Argentine government settled claims with holders of U.S.\$9.2 billion outstanding principal amount of untendered debt, and upon satisfaction of its conditions, the U.S. district court ordered the *vacatur* of all *pari passu* injunctions.

The Argentine government has reached settlement agreements with holders of a significant portion of the defaulted bonds and has repaid the majority of the holdout creditors with the proceeds of a U.S.\$16.5 billion international offering of 3-year, 5-year, 10-year and 30-year bonds on April 22, 2016.

As of the date of this annual report, litigation initiated by bondholders that have not accepted Argentina's settlement offer continues in several jurisdictions, although the size of the claims involved has decreased significantly.

Not all creditors have agreed to the terms of Argentina's settlement offer. The continuation and outcome of the litigation may prevent Argentina from obtaining favorable terms or interest rates upon access to the international capital market. Litigation initiated by holders of defaulted bonds or other parties may result in rulings against the Argentine government and may result in restrictions or injunctions on Argentinean assets that may adversely affect the ability to obtain financing for the country and private companies, which could have a material adverse effect on Argentina's economy, and consequently, our business, financial condition and results of operations.

***Argentina is subject to litigation by foreign shareholders of Argentine companies and holders of Argentina's defaulted bonds, which have resulted and may result in adverse judgments or injunctions against Argentina's assets and limit its financial resources.***

In response to the emergency measures implemented by the Argentine government during the 2001-2002 economic crisis, a number of claims were filed before the International Centre for Settlement of Investment Disputes ("ICSID") against Argentina. Claimants allege that the emergency measures were inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties by which Argentina was bound at the time. Claimants have also filed claims before arbitral tribunals under the rules of the United Nations Commission on International Trade Law ("UNCITRAL") and under the rules of the International Chamber of Commerce ("ICC"). Several awards have been issued against Argentina and several cases are still ongoing.



Litigation, as well as ICSID and UNCITRAL claims against the Argentine government, have resulted in material judgments and may result in further material judgments, and could result in attachment of or injunctions relating to assets of Argentina that the government intended for other uses. As a result, the Argentine government may not have all the necessary financial resources to honor its obligations, implement reforms and foster growth, which could have a material adverse effect on Argentina's economy, and consequently, our business, financial condition and results of operations.

In July 2017, in a split decision, an ICSID tribunal ruled that Argentina had breached the terms of a bilateral investment treaty with Spain, alleging the unlawful expropriation by the Argentine Government of Aerolíneas Argentinas and affiliates (including Optar, Jet Paq and Austral, among others). The ICSID tribunal fined Argentina approximately U.S.\$328.8 million, awarding plaintiffs about 20% of the U.S.\$1.59 billion they had initially claimed.

Furthermore, during the 2005 and 2010 debt restructurings, Argentina issued debt securities providing for contingent additional payments based on the performance of the Argentine economy through 2035 (the "GDP Warrants"). On January 15, 2019, Aurelius Capital Master, Ltd. ("Aurelius") filed a lawsuit against Argentina, arguing that the GDP was purposefully miscalculated with a view to avoid making the promised contingent payments to investors. If Aurelius' claim were to be successful and other investors followed these proceedings, the estimated cost for Argentina could amount to approximately U.S.\$1.8 billion.

Future transactions may be affected as litigation with holdout bondholders as well as ICSID and other claims against the Argentine government continues, which in turn could affect the Argentine government's ability to access international credit markets and limit economic growth, adversely affecting our business, financial condition and results of operations.

***Government measures could adversely affect the Argentine economy.***

Substantially all our operations, properties and customers are located in Argentina. As a result, our business is, to a very large extent, dependent upon the political, social and economic conditions prevailing in Argentina. In recent years, the Argentine government has increased its direct intervention in the economy and in private sector operations and companies, limiting certain aspects of private sector businesses.

In December 2012 and August 2013, the National Congress established new regulations related to domestic capital markets that, in general, establish greater intervention in the capital markets by the national government, authorizing, for example, the CNV, to designate inspectors with the ability to veto, under certain circumstances, the decisions of the board of companies that are listed in authorized markets and suspend the board for a period of up to 180 days. On November 17, 2016, the Macri government presented a bill to the National Congress to amend the Capital Markets Law, which could, among other significant changes, eliminate these powers to designate inspectors. On May 9, 2018, the Argentine Congress approved the Argentine Productive Financing Law No. 27,440, which amended the Capital Markets Law, the Mutual Funds Law No. 24,083 and the Negotiable Obligations Law, among other regulations and introduced substantial changes to regulations governing markets, stock exchanges and the various agents operating in capital markets, as well as certain amendments to the CNV's powers.

In May 2013, the Argentine Congress passed a law providing for the expropriation of 51% of the share capital of YPF (*Yacimientos Petrolíferos Fiscales S.A.*), the principal Argentine oil company, which shares were owned by Repsol, S.A. and its affiliates. In February 2015, the Argentine government sent a bill to the Argentine Congress in order to revoke certain train concessions, return the national rail network to state control and provide authority to review all concessions currently in effect. The bill was enacted on May 20, 2015 as Law No. 27,132.

In addition, on September 23, 2015 the Argentine Congress passed Law No. 27,181, which limits the sale of the Argentine government's shares held in Argentine companies without prior approval of two-thirds of the members of the Argentine Congress, with the exception of the Argentine government's shareholding in YPF. That law has been abrogated by the new Administration through Law No. 27,260, the "*Ley de Sinceramiento Fiscal y Reparación Histórica a los Jubilados*", dated May 26, 2016.

Moreover, the Argentine government has in the past enacted laws and regulations requiring private sector companies to maintain certain salary levels and provide their employees with additional benefits. Employers, both in the public and private sector, have also been experiencing intense pressures from their personnel, or from the labor unions representing them, demanding salary increases and certain benefits for the workers, given the high inflation rates.

Actions taken by the Argentine government concerning the economy, including decisions with respect to interest rates, taxes, price controls, salary increases, provision of additional employee benefits, foreign exchange controls and potential changes in the foreign exchange market, have had and could continue to have a material adverse effect on Argentina's economic growth and in turn affect our business, financial condition and results of operations. In addition, any additional Argentine government policies to preempt, or in response to, social unrest could adversely and materially affect the economy, and thereby our business.

Furthermore, financial institutions operate in a highly regulated environment. As of the date of this annual report, several different bills to amend various aspects of the Financial Institutions Law No. 21,526 (the “Financial Institution Law”) have been put forth for review in the Argentine Congress. A thorough amendment of the Financial Institutions Law could have a substantial effect on the banking system as a whole. See “—*The amendment of the Central Bank’s Charter and the Convertibility Law may adversely affect the Argentine economy*” and “—*Governmental measures and regulatory framework affecting financial entities could have a material adverse effect on the operations of financial entities.*”

***Exchange controls and capital inflow and outflow restrictions have limited, and could continue to limit, the availability of international credit and may impair our ability to make payments on our obligations.***

Since 2011 until President Macri took office in December 2015, the Argentine government increased controls on the sale of foreign currency and the acquisition of foreign assets by local residents, limiting the possibility to transfer funds abroad. Together with the regulations established in 2012 that subjected certain operations exchange rates to the prior approval by the Argentine tax authorities or the Central Bank, the measures adopted by the previous government significantly reduced natural persons and entities of the private sector, the access to the foreign exchange market.

The numerous exchange controls introduced under the former administration gave rise to an unofficial U.S. dollar trading market, and the Peso/U.S. dollar exchange rate in such market differed substantially from the official Peso/U.S. dollar exchange rate. Certain relevant foreign exchange restrictions were lifted in December 2015 and, as a result, the spread between the official and unofficial Peso/U.S. dollar exchange rates had substantially decreased. For more information, see Item 10.D “*Exchange Controls.*”

Since taking office, the Macri administration has implemented significant reforms related to exchange rate restrictions, notably the elimination of certain exchange controls that had been imposed during the previous administration, in order to provide more flexibility and access to the MULC. On August 8, 2016, the Central Bank introduced substantial reforms to the exchange regime through Communication “A” 6037 and Communication “A” 6244, which significantly eases the access to the exchange market. With the aim of providing more flexibility to the foreign exchange system and promoting competition, allowing the entrance of new player to the system, the Exchange Market was created by virtue of Decree No. 27/2018 published on January 11, 2018. Moreover, by virtue of Communication “A” 6443, which came into effect as of March 1, 2018, any company from any sector that usually operates through the Exchange Market can act as an exchange agency merely by registering in the exchange operators’ registry.

Despite the measures adopted by the Macri administration, in the future, the Argentine government could impose further exchange controls, transfer restrictions, required repatriation through the free floating foreign exchange market (the “MELI”) of proceeds raised through capital markets transactions conducted abroad or restrictions on the movement of capital and/or take other measures in response to capital flight or a significant depreciation of the Peso, which could limit our ability to access the international capital markets. Such measures could lead to political and social tensions and undermine the Argentine government’s public finances, as has occurred in the past, which could adversely affect Argentina’s economy and prospects for economic growth, which, in turn, could adversely affect our business, financial condition and results of operations.

Additional controls may adversely affect Argentine entities’ ability to access the international capital markets for credit. Furthermore, the imposition of any future restrictions on the transfer of funds abroad may impede our ability to transfer dividends to ADS holders or interest or principal payments to the holders of our notes.

Additionally, the level of international reserves deposited with the Central Bank significantly decreased from U.S.\$47.4 billion as of November 1, 2011 to U.S.\$25.6 billion, as of December 31, 2015, resulting in a reduced capacity of the Argentine government to intervene in the foreign exchange market and to provide access to such markets to private sector entities. International reserves deposited with the Central Bank have grown to U.S.\$65.8 billion as of December 31, 2018. Notwithstanding the measures adopted by the Macri administration in the future, the Argentine government could otherwise reduce the level of international reserves deposited with the Central Bank, which could lead to political and social tensions and undermine the Argentine government’s public finances, as has occurred in the past, which could adversely affect Argentina’s economy and prospects for economic growth.

***Severe or sustained declines in the international prices for Argentina’s main commodity exports or the occurrence of a climate disaster could have an adverse effect on Argentina’s economic growth.***

High commodity prices have in the past contributed significantly to increases in Argentine exports as well as in governmental revenues from export taxes (withholdings). Argentina’s reliance on the export of certain commodities, such as soy, has made the Argentine economy more vulnerable to fluctuations in their prices.

Recently, commodity prices have suffered declines. If international commodity prices were to further decline or experience sustained declines, the Argentine government's revenues could continue to decrease significantly, affecting Argentina's economic activity, which in turn could produce a negative effect on our business, financial condition and results of operations.

From the end of 2017 until April 2018, rain below average for several months plunged Argentina into a severe drought that is presumed to be the worst in the country in the last 50 years. The effects of the drought in agriculture caused significant economic problems in the country, with a fall in the soybean harvest of 31% over the previous year, and maize by 20%, which implied losses of U.S.\$6 million.

In addition, adverse weather conditions can affect production of commodities in the agricultural sector, which account for a significant portion of Argentina's export revenues. These circumstances could have a negative effect on government revenues, availability of foreign exchange and the government's ability to service its sovereign debt, and could either generate recessionary or inflationary pressures, depending on the government's reaction. The occurrence of any of the above could adversely affect Argentina's economic growth and, therefore, our business, financial condition and results of operations.

***An increase in inflation could have a material adverse effect on Argentina's economic prospects.***

In January 2016, the new INDEC authorities appointed by the Macri administration announced the discontinuance of the methodology used by the previous administration to calculate national statistics and declared a state of administrative emergency, suspending the publication of all indices by the INDEC until the INDEC was able to calculate such indices based on accurate official data. During this period the INDEC continued to publish the inflation rate based on data provided by the province of San Luis and the City of Buenos Aires.

After implementing the announced reforms, on June 16, 2016 the INDEC began to publish official measurements of its main inflation indicator, the Consumers Price Index "the CPI" (*Índice de Precios al Consumidor*, or IPC, per its initials in Spanish), reporting an inflation rate of 4.2% for May 2016. The INDEC also reported monthly inflation rates of 3.1% and 2.0% for the months of June and July of 2016, respectively. The CPI was 24.8% during 2017, 47.6% for 2018, the highest rate since 1991, and 2.9% for the month of January 2019.

During 2013, 2014 and 2015, the former administration promoted price agreements over certain products goods and services of the consumer basket to control inflation. The new administration has stated its intention to keep these price controls in effect, and as a consequence, has announced modifications to the previous price agreements including the recent introduction of the "Precios Esenciales" program.

In the past, inflation has materially undermined the Argentine economy and Argentina's ability to create conditions that would permit growth. High inflation may also undermine Argentina's competitiveness abroad and lead to a decline in private consumption which, in turn, could also affect employment levels, salaries and interest rates. Moreover, a high inflation rate could undermine confidence in the Argentine financial system, reducing the Peso deposit base and negatively affecting long-term credit markets.

There can be no assurance that inflation rates will not continue to escalate in the future or that the measures adopted or that may be adopted by the Argentine government to control inflation will be effective or successful. Inflation remains a challenge for Argentina. Significant inflation could have a material adverse effect on Argentina's economy and in turn could increase our costs of operation, in particular labor costs, and may negatively affect our business, financial condition and results of operations.

***Significant devaluation of the Peso against the U.S. dollar may adversely affect the Argentine economy.***

Despite the positive effects of the real depreciation of the Peso on the competitiveness of certain sectors of the Argentine economy, it also had a far-reaching negative effect on the Argentine economy and on the financial condition of businesses and individuals. The devaluation of the Peso, during 2002, had a negative effect on the ability of Argentine businesses to honor their foreign currency-denominated debt, led to very high inflation initially, significantly reduced real wages, had a negative effect on businesses that depend on domestic market demand for their success, such as utilities, and the financial industry and significantly affected the government's ability to cancel its external debt obligations.

After several years of moderate variations in the nominal exchange rate, the stock of the international reserves of the Central Bank started to decrease and, in order to contain the fall in reserves, the Central Bank accelerated the rate of nominal devaluation of the Peso. During 2013 the Peso lost more than 30% of its value with respect to the U.S. dollar and the same occurred during 2014. During 2015, 2016, 2017 and 2018 the Peso lost approximately 34%, 17.5%, 16% and 50% of its value with respect to the U.S. dollar, respectively. Additionally, the stock of international reserves deposited in the Central Bank was reduced significantly from U.S.\$ 47.7 billion as of November 1, 2011 to U.S.\$ 25.6 billion as of December 31, 2015, increasing to U.S.\$39.3 billion as of December 31, 2016, to U.S.\$55.1 billion as of December 31, 2017 and to U.S.\$65.8 billion as of December 31, 2018.

As a result of the greater volatility of the Argentine peso, the Argentine government announced several measures to restore market's confidence and stabilize the value of the Argentine peso. Among them, two agreements with the IMF were negotiated, interest rates were increased, Central Bank reserves were sold, among others. More recently, and by virtue of the last agreement with the IMF, a new regime was established. This regime sets forth a strict control of the local monetary base, which cannot be raised until June 2019, in an attempt to reduce the amount of Pesos available in the market, what is understood presses the demand for foreign currency. At the same time, it was established that the BCRA could intervene selling dollars when the exchange rate exceeds Ps.44 per dollar and buying when the exchange rate falls below Ps.34 per dollar (range that was adjusted daily at a rate of 3% per year until December of 2018, and for the first quarter of 2019, is adjusted daily at a rate of 2% per year), considering the intermediate zone, as a "non-intervention zone". On April 16, 2019, among a set of measures designed to soften the impact of Argentina's economic situation, the Central Bank fixed the "non-intervention zone" between Ps.39.75 and Ps. 51.45 until December 2019 and eliminated the monthly adjustment. On April 29, 2019, the Monetary Policy Counsel of the Central Bank decided to introduce new changes to the monetary policy, in order to reduce volatility in the foreign exchange market. According to this new scheme: (i) the Central Bank may intervene, subject to market conditions, in the foreign exchange market and sell Dollars in the market, even in case that the exchange rate is below Ps. 51.488 and (ii) if the exchange rate climbs above Ps. 51.488, the Central Bank will sell foreign currency for up to 250 million dollars daily. Also, the Central Bank could decide to perform additional interventions. The Pesos resulting of such sales will be discounted from the monetary base. The COPOM also confirmed that the Central Bank will not intervene in the foreign exchange market if the exchange rate decrease below Ps. 39.755.

The Argentine macroeconomic environment, in which we operate, was affected by such devaluation which had an effect on our financial and economic position. If the Peso devalues significantly, all of the negative effects on the Argentine economy related to such devaluation could recur, with adverse consequences to our business, financial condition and results of operations.

***High public expenditure could result in long lasting adverse consequences for the Argentine economy.***

During the last few years, the Argentine government has substantially increased public expenditure and has resorted to the Central Bank and to ANSES to source part of its funding requirements.

The Argentine government has commenced revision of its subsidy policies, particularly those related to energy, electricity and gas, water and public transportation. Accordingly, in September 2016, the Supreme Court of Argentina issued a ruling in favor of increasing electricity rates. The Macri administration has also ordered an increase in gas tariffs for PyMEs and businesses. These measures reduce public expenditure but impact on prices, substantially affecting the consumption and economy.

We cannot assure you that the government will not seek to finance its deficit by gaining access to the liquidity available in the local financial institutions. In that case, government initiatives that increase the exposure of local financial institutions to the public sector could affect our liquidity and assets quality and have a negative effect on clients' confidence.

In addition, further deterioration in fiscal accounts could negatively affect the Argentine government's ability to access the international financing markets and could result in increased pressure on the Argentine private sector to cover the Argentine government's financial needs. This could adversely affect the Argentine economy and our business, financial condition and results of operations.

***The amendment of the Central Bank's Charter and the Convertibility Law may adversely affect the Argentine economy.***

On March 22, 2012, the Argentine Congress passed Law No. 26,739, which amended the charter of the Central Bank (the "Central Bank Charter") and Law No. 23,298, as amended and supplemented (the "Convertibility Law"). This law amended the principal objectives of the Central Bank and removed certain provisions previously in force. Pursuant to the amendment, the Central Bank focuses on promoting monetary and financial stability as well as development with social equity.

The key components of the amendment to the Central Bank Charter related to the use of international reserves and the implementation of policies by the Central Bank in order to interfere in the fixing of interest rates and terms of loans to financial institutions. Pursuant to the amendment, Central Bank reserves may be made available to the Argentine government for the repayment of debt or to finance public expenses.

The use of Central Bank reserves for such expanded purposes may result in Argentina being more vulnerable to inflation or external shocks, affecting Argentina's capacity to overcome the effects of an external crisis, which in turn could negatively affect our business, financial condition and results of operations.

***Failure to adequately address actual and perceived risks of institutional deterioration and corruption may adversely affect Argentina's economy and financial condition, which in turn could adversely affect our business, financial condition and results of operations.***

A lack of a solid institutional framework and corruption have been identified as, and continue to be a significant problem for Argentina. In Transparency International's 2017 Corruption Perceptions Index survey of 180 countries, Argentina was ranked 85, improving from the previous survey in 2016. In the World Bank's Doing Business 2018 report, Argentina ranked 117 out of 190 countries, down from 116 in 2017.

Recognizing that the failure to address these issues could increase the risk of political instability, distort decision-making processes and adversely affect Argentina's international reputation and ability to attract foreign investment, the Macri administration has announced several measures aimed at strengthening Argentina's institutions and reducing corruption. These measures include the reduction of criminal sentences in exchange for cooperation with the government in corruption investigations, increased access to public information, the seizing of assets from corrupt officials, increasing the powers of the Anticorruption Office (*Oficina Anticorrupción*) and the passing of a new public ethics law, among others. The Argentine government's ability to implement these initiatives is uncertain as it would require the involvement of the judicial branch, which is independent, as well as legislative support from opposing parties.

***The ongoing economic uncertainty and political instability in Argentina may adversely affect the Argentine economy.***

Argentina's political environment has historically influenced, and continues to influence, the performance of the country's economy. Political crisis have affected and continue to affect the confidence of investors and the general public, which have historically resulted in economic deceleration and heightened volatility in the securities with underlying Argentine risk. The recent economic instability in Argentina has contributed to a decline in market confidence in the Argentine economy as well as to a deteriorating political environment. Weak macroeconomic conditions in Argentina have continued in 2018 and may be accentuated in 2019 as a result of the upcoming presidential elections.

In addition, various ongoing investigations into allegations of money laundering and corruption being conducted by the Office of the Argentine Federal Prosecutor, including the largest such investigation, known as "*Los Cuadernos de las Coimas*," or "the Chauffeur's Books" have negatively impacted the Argentine economy and political environment. Numerous members of different agencies of the Argentine government as well as senior officers of companies holding government contracts or concessions have faced or are currently facing allegations of corruption and money laundering as a result of these investigations. These individuals are alleged to have accepted bribes by means of kickbacks on contracts granted by the government to several infrastructure, energy and construction companies. The proceeds from these kickbacks allegedly financed the political campaigns of political parties forming the previous government that was led by former President Cristina Fernandez de Kirchner. These funds were unaccounted for or not publicly disclosed and were allegedly used to personally enrich of certain individuals. Several senior politicians, including members of Congress, and high-ranking executives and officers of major companies in Argentina (i) have been arrested on account of various charges relating to corruption, (ii) entered into plea agreements with prosecutors and (iii) have resigned or been removed from their positions. The potential outcome of the Chauffeur's Books as well as other ongoing corruption-related investigations is uncertain, but they have already had an adverse impact on the image and reputation of those companies that have been implicated, as well as on the general market perception of the economy, political environment and the capital markets in Argentina. We have no control over and cannot predict whether such investigations or allegations will lead to further political and economic instability. In addition, we cannot predict the outcome of any such allegations nor their effect on the Argentine economy.

**Risks relating to the Argentine financial system**

***The health of Argentina's financial system depends on the growth of the long-term credit market.***

In recent years, the loan portfolio of the Argentine financial system has grown significantly. Loans to the private sector (in nominal value without adjusting for inflation) grew by approximately, 33% in 2016, 52% in 2017 and 36% in 2018, for the financial system as a whole. In the past, the pace of growth of long-term loans was slower than that of the rest of the loan portfolio, however in the last two years there has been a significant increase in mortgage loans, which grew by 244% as compared to 2016.

Since most deposits are short-term deposits, a substantial portion of the loans have the same or similar maturities, and there is a small portion of long-term credit lines.

The uncertainty of the level of inflation in future years is a principal obstacle to a faster recovery of Argentina's private sector long-term lending. This uncertainty has had and may continue to have a significant effect on both the supply of and demand for long-term loans, as borrowers try to hedge against inflation risk by borrowing at fixed rates while lenders hedge against inflation risk by offering loans at floating rates.

If longer-term financial intermediation activity does not grow, the ability of financial institutions, including us, to generate profits will be negatively affected.

***The health of the financial system depends upon the ability of financial institutions, including us, to retain the confidence of depositors.***

The measures implemented by the Argentine government by the end of 2001 and early 2002, particularly the restrictions imposed on depositors in relation to the possibility of freely withdrawing funds from banks and pesification and restructuring of their deposits, caused losses to many depositors and weakened the confidence in the Argentine financial system.

As a consequence of the 2008 global economic crisis, the banking industry in Argentina suffered a significant slowdown. This trend was reversed by the end of 2009. Total deposits with the financial system increased by 45% in 2016, 24% in 2017 and 67% in 2018, but the ratio of total financial system deposits to GDP is still low when compared to international levels and lower than the periods prior to the crisis.

The Argentine financial system growth, depends heavily on deposit levels, due to the small size of its capital market and the absence of foreign investments in previous years. Recently, numerous local financial institutions, including the Bank, have had access to global financial markets to obtain financing through the placement of debt securities, in satisfactory conditions, but this trend may not last and there is uncertainty about whether the current availability of funds in international markets will continue in the coming years.

Although liquidity levels are currently reasonable, it is not possible to offer any guarantee that these levels will not decrease in the future due to adverse economic conditions that could negatively affect the Bank's business.

In spite of the positive trend in previous years, the deposit base of the Argentine financial system, including ours, may be affected in the future by adverse economic, social and political events. If there were a loss of confidence due to such economic, social and political events causing depositors to withdraw significant holdings from banks, there could be a substantial negative effect on the manner in which financial institutions, including us, conduct their business and on their ability to operate as financial intermediaries. International loss of confidence in the financial institutions may also affect the behavior of Argentine depositors which could have a negative impact on our business, financial condition and results of operations.

***Our asset quality and that of other financial institutions may deteriorate if the Argentine private sector is affected by economic events in Argentina or international macroeconomic conditions.***

The capacity of many Argentine private sector debtors to repay their loans has in the past deteriorated as a result of certain economic events in Argentina or macroeconomic conditions, materially affecting the asset quality of financial institutions, including us.

From 2009 to 2011, the ratio of non-performing private sector lending declined overall, with a record minimum ratio of 1.4% as of December 31, 2011 for the financial system as a whole. The improvement was reflected in both the consumer loan portfolio and the commercial portfolio. From 2012, the ratio of non-performing private sector lending increased, reaching 2.0% as of December 31, 2014. During 2015, the ratio of non-performing private sector lending decreased to 1.7% and during 2016 reached 1.8%, which remained in 2017 for the financial system as a whole. As of December 31, 2018, the ratio of non-performing private sector lending reached 3%, calculated pursuant to Central Bank Rules.

We experienced similar non-performing loan rates, with a maximum of 1.9% in 2014 and an improvement from 2015 until they reached 1.1% in 2016. The non-performing loan rate reached 1.9%, with a coverage ratio of 118% as of December 31, 2018, calculated pursuant to Central Bank Rules.

Despite the quality of our portfolio, we may not succeed in recovering substantial portions of outstanding loans. If Argentina's economic growth slows or the financial condition of the private sector deteriorates, the financial system, including us, could experience an increase in the incidence of non-performing loans.

***Limitations on enforcement of creditors' rights in Argentina may adversely affect financial institutions.***

To protect debtors affected by the economic crisis, beginning in 2002, the Argentine government adopted measures that temporarily suspended proceedings to enforce creditors' rights, including mortgage foreclosures and bankruptcy petitions. Such limitations have restricted creditors' ability to collect defaulted loans.

Despite the fact that most of these measures have been rescinded, we cannot assure you that in an adverse economic environment the government will not adopt new measures in the future, restricting the ability of creditors to enforce their rights, which could have a material adverse effect on the financial system and our business.

***The application of the Consumer Protection Law may prevent or limit the collection of payments with respect to services rendered by us.***

Law No. 24,240 as amended and supplemented from time to time (the “Consumer Protection Law”) sets forth certain rules and principles designed to protect consumers, which include our customers. The Consumer Protection Law, contains specific rules regarding financial activities and also general rules that may be used to support its application, pursuant to legal precedents. Additionally, the National Civil and Commercial Code has incorporated the principles of Consumers Protection Law and has established its application to banking sector contracts.

Moreover, Law No. 25,065 (as amended and supplemented from time to time by Law No. 26,010 and Law No. 26,361, the “Credit Card Law”) also sets forth several mandatory regulations designed to protect credit card holders.

Both the involvement of the applicable administrative authorities at the federal, provincial and local levels, and the enforcement of the Consumer Protection Law and the Credit Card Law by the courts are increasing. This trend has increased general consumer protection levels. In such context, Central Bank Communication “A” 5460, provides a wide protection to clients of financial services institutions, limiting the fees and charges that such institutions can charge to their clients. Likewise, the Supreme Court of Justice issued the case law No. 32/2014, by which created the Public Registry of Collective Trials to orderly inscribe all collective processes (class actions) filed in courts. In the event of we are found responsible for violating the provisions of the Consumer Protection Law or the Credit Card Law, potential penalties may limit our ability to collect payments owed for services and credits which may, in turn. And therefore, may adversely affect the financial results of our operations.

Furthermore, the rules that govern the credit card business provide for variable caps on the interest rates that financial entities may charge clients and the fees that they may charge merchants. Moreover, general legal provisions exist pursuant to which courts could decrease the interest rates and fees agreed upon by the parties on the grounds that they are excessively high. On the other hand, the Central Bank has also established certain rules that grant broad protections for consumers of financial services that offer greater control over the relationship between them and their clients. The Central Bank regulations provide: (i) that prior authorization is required to implement new fees for new products and/or services offered and to increase existing commissions or fees for products that are considered commodities and (ii) the ability of financial institutions to receive remuneration for any insurance product that the client is forced to purchase as a condition of access to financial services. A change in applicable law or the handing down of court decisions that lower the cap on interest rates and fees that clients and merchants may be charged could reduce our revenues and therefore negatively affect our results of operations.

In December 2018, a preliminary draft for a new Consumer Protection Law (the “CPL Draft”) was submitted by the Ministry of Justice and Human Rights and the Ministry of Production and Labor of Argentina which sets forth certain rules and principles designed to protect consumers, which include our consumers. The CPL Draft, proposes a broad perspective that contemplates the business practices of the sector with the aim of formalizing links between credit providers and consumers, establishing, for example, that the costs of financing or loans that are in breach to the law, will be borne in whole or in part by credit providers or intermediaries. It also enshrines a catalogue of *iuris tantum* legal presumptions, of the existence of consumer credit contracts that may affect the enforceability of those credits. The concept of “hyper-vulnerable consumers” is also introduced, thus placing them at a presumed disadvantage in the contractual negotiation and the potential factors that could affect their consumer relationship.

Moreover, the CPL Draft creates the “principle of responsible lending” (*Principio de préstamo responsable*) which imposes certain duties over credit or financing providers like us. This principle could reduce the number of consumers who would be able to access and negotiate credits. It also establishes that the prevention of consumers’ overindebtedness must become central policies guaranteed by public authorities. This could impose limits to the granting and advertising of consumer loans. Finally, it grants the consumer the right to make payments in advance, among others. This CPL Draft has not been passed by the Argentine Congress, however, any of these reforms may adversely affect the result of our operations.

***Class actions against financial entities for an indeterminate amount may adversely affect the profitability of the financial system.***

Certain public and private organizations have initiated class actions against financial institutions in Argentina, including us, some of which have been favorable contested while others were duly appealed by the Bank. The Argentine National Constitution and the Consumer Protection Law contain certain provisions regarding class actions. However, their guidance with respect to procedural rules for instituting and trying class action cases are limited. Nevertheless, by means of an *ad hoc* doctrine construction, Argentine courts have admitted class actions in some cases, including various lawsuits against financial entities related to “collective interests” such as alleged overcharging on products, applied interest rates and advice in the sale of public securities, among others. If class action plaintiffs were to prevail against financial institutions, their success could have an adverse effect on the financial industry and on our business.

***Governmental measures and regulatory framework affecting financial entities could have a material adverse effect on the operations of financial entities.***

The Argentine government has historically exercised significant influence over the economy. Financial institutions, in particular, have operated in a highly regulated environment. The Central Bank could penalize us in case of non-compliance with the applicable regulations. Similarly, the CNV may impose penalties on us, our Board of Directors, our Management and our supervisory committee for violation of corporate governance regulations. The Financial Information Unit (“UIF”, per its initials in Spanish) regulates matters related to money laundering and has the power to supervise regulatory compliance by financial entities and, eventually, impose sanctions. Such regulatory agencies could initiate actions against us, our shareholders or directors and, consequently, impose sanctions on us or our subsidiaries.

Between 2001 and 2015, a series of new regulations were issued, mainly regulating the foreign exchange market, capital and minimum cash requirements, lending activity, interest rate limits and dividend distribution for financial institutions. In addition, various international developments such as the adoption in Argentina of risk-based capital, leverage and liquidity standards by the Basel Committee on Banking Supervision in December 2010 known as “Basel III” will likely continue to impact us in the coming years.

Moreover, the Central Bank imposed new restrictions on the distribution of dividends, including a limitation on the maximum distributable amount of dividends. In addition, since January 2016, pursuant to Central Bank Communication “A” 5827, additional capital margin requirements have to be complied with, including a capital conservation margin and a counter-cycle margin. The capital conservation margin shall be 2.5% of the amount of capital risk weighted assets (“RWA”), in the case of entities considered systemically important (“D-SIB”), like us, the margin will be increased to 3.5% of the amount of capital RWA. The counter-cycle margin shall be within a range of 0% to 2.5% of RWA, but Communication “A” 5938 as amended by Communication “A” 6013, among others, of the Central Bank, established countercyclical margin in 0% since April 1, 2016. This margin can be reduced or cancelled by the Central Bank when it considers that the systematic risk has been diminished. By Communication “A” 6013, the Central Bank also eliminated the requirement to maintain a certain threshold of regulatory capital after the distribution of dividends by financial institutions and according to Communication “A” 6244 effective as of July 1, 2017, financial institutions can freely determine the level and use of their general exchange position, allowing them to manage their currency positions, both in terms of the composition of their assets and the possibility of managing the incoming and outgoing cash flow in foreign currency.

Since June 2012, the Central Bank had in place a regime to finance productive investment, by which certain financial entities, including us, had to allocate a certain amount of the deposits held by the non-financial private sector, at a fixed interest rate in Pesos determined by the Central Bank, to fund investment projects for the acquisition of capital goods, the construction of plants, the marketing of goods or the acquisition of property (subject in this case to certain additional requirements). However, since 2017 this regime was being phased out until December 2018, at which time the allocation was 0%.

The Central Bank has also established limitations to the net positive global position in foreign currency to prevent the reduction of the Central Bank’s foreign exchange reserves. Due to the reduction of the limits carried out by the previous government, financial entities, including the Bank, were forced to sell part of their position in dollars to comply with aforementioned regulation. As of the date of this annual report, the positive net global position in foreign currency cannot exceed 5% of the RPC or the liquid funds of the Bank prior to the relevant month while the negative net global position in foreign currency cannot exceed 30% of the RCP for the month prior to the relevant month.

Moreover, any insolvency proceeding against financial institutions would be subject to the powers of and intervention by the Central Bank, which may limit remedies otherwise available and extend the duration of the proceedings. Finally, special rules that govern the subordination of debt of financial institutions in Argentina, granting priority to depositors with respect to most other creditors, may negatively affect other shareholders in the event of our judicial liquidation or bankruptcy.

In addition, the Civil and Commercial Code also modifies the applicable regime for contractual provisions regarding payment obligations in foreign currency, stating that such obligations can be settled in Pesos. This modifies the legal regime, under which debtors could only cancel such obligations by making the payment in the specific currency agreed in their contracts. Even though in general, courts have admitted the possibility of waiving such provision, it is important to take into account that the previous Argentine Civil Code and the previous Argentine Commercial Code, were in effect in Argentina for approximately 150 years and as of the date hereof, the existing case law on the provisions of the Civil and Commercial Code is scarce. Thus, it is not clear as to how the provisions of this Civil and Commercial Code will be construed and applied by Argentine courts.



Even though the Macri administration has adopted measures to increase the flexibility for the regulatory framework of financial institutions, eliminating several restrictions imposed by the previous government, it is not possible to offer any guarantee that new stricter regulations will not be implemented in the future that may generate uncertainty and adversely affect future financial activities and the results of the Bank's operations. Such changes in the regulatory framework and further changes in the future could limit the ability of financial institutions, including us, to make long-term decisions, such as asset allocation decisions, which could cause uncertainty with respect to our future financial condition and results of operations. We cannot assure that laws and regulations currently governing the economy, or the financial sector will not continue to change in the future or that any changes will not adversely affect our business, financial condition and results of operations. For more information, see Item 4.B "*Argentine Banking Regulation*".

***Argentina's insufficient or incorrect implementation of certain anti-money laundering and combating the financing of terrorism ("AML/CFT") recommendations may result in difficulties to obtain international financing and attract direct foreign investments.***

In October 2010, the Financial Action Task Force ("FATF") issued a Mutual Evaluation Report (the "Mutual Report") on AML and CFT in Argentina. The Mutual Report stated that, since the prior evaluation in 2004, Argentina had not made adequate progress in addressing a number of deficiencies identified at that time, and the FATF subsequently placed Argentina under enhanced monitoring.

In June 2011, Argentina made a high-level political commitment to work with the FATF to address its strategic AML/CFT deficiencies. In compliance with recommendations made by the FATF on money laundering prevention, on June 1, 2011 the Argentine Congress enacted Law No. 26,683. Under this law, money laundering is now a crime per se, and self-laundering money is also considered a crime.

In June 2012, the plenary meeting of the FATF held in Rome highlighted the progress made by Argentina but also urged the Argentine government to make further progress regarding its AML/CFT deficiencies. Notwithstanding the improvements that Argentina made, in October 2012 the FATF determined that certain strategic AML/CFT deficiencies continued, and that Argentina would be subject to continued monitoring.

Since October 2013, Argentina has taken steps towards improving its AML/CFT regime, including the issuance of new regulations strengthening suspicious transaction reporting requirements and the financial sector regulator's existing powers to apply sanctions for AML/CFT deficiencies. Such progress has been recognized by the FATF. In this regard, in June 2014 the FATF stated that Argentina had made significant progress in addressing the deficiencies in its AML/CFT measures as identified in the Mutual Report, and that subsequent to the adoption of such measures, Argentina had strengthened its legal and regulatory framework, citing certain specific examples. As a result of such progress, the FATF plenary decided that Argentina had taken sufficient steps in addressing technical compliance with the core and key recommendations, such that Argentina could be removed from the compliance monitoring process. In addition, on October 24, 2014 the FATF welcomed Argentina's significant progress in improving its AML/CFT regime and stated that Argentina would work with the FATF and the Financial Action Task Force of Latin America (*Grupo de Acción Financiera de América del Sur*) as it continued to address the full range of AML/CFT issues identified in its Mutual Report. On June, 2017 Argentina was unanimous elected to preside the FATF.

Although Argentina has made significant improvements in its AML/CFT regulations, and is no longer subject to the FATF's ongoing global AML/CFT compliance process, no assurance can be given that Argentina will continue to comply with AML/CFT international standards, or that Argentina will not be subject to the FATF's ongoing global AML/CFT compliance process in the future, circumstances which could adversely affect Argentina's ability to obtain financing from international markets and attract foreign investments and which could in turn, negatively affect our business.

***Certain changes to services and commissions charged by financial entities on debit and credit card sales may affect our result of operations.***

We receive income from the commissions we charge merchants on debit and credit card transactions. A change in applicable law that place limits on the fees that merchants may be charged may adversely reduce our revenues. On September 8, 2016, one of the chambers of the Argentine Congress approved a draft bill that aims to reduce credit card sales commissions from 3% to 1.5%, and debit card sales commissions from 1.5% to 0%. The draft bill was not approved by the Argentine Congress in 2016. Nevertheless, on March 31, 2017, the Central Bank issued Communication "A" 6212, effective as of April 1, 2017, which reduces credit card and debit card sales commissions on a gradual annual plan. Pursuant to Communication "A" 6212, the maximum credit card sales commission rate for 2017 is 2.0% and for 2018, 2019, 2020 and 2021 and after, will be 1.85%, 1.65%, 1.50% and 1.30%, respectively. The maximum debit card sales commissions for 2017 is 1.0% and for 2018, 2019, 2020 and 2021 and after, will be 0.90%, 0.80%, 0.70% and 0.60%, respectively.

The application of the limits set by the Central Bank and any further reductions on credit and debit cards sales commissions could adversely affect our profitability, financial condition and results of operations.

***Changes in the laws and regulations may negatively affect us.***

Argentine financial institutions are subject to extensive regulation and supervision by the Argentine Government, particularly by the Central Bank, the UIF and the CNV. We have no control over governmental regulations or the rules governing all aspects of our operations, including:

- minimum capital requirements;
- mandatory reserve requirements;
- requirements for investments in fixed rate assets;
- lending limits and other credit restrictions, including mandatory allocations;
- limits and other restrictions on fees;
- reduction of the period for the financial institutions to deposit the amount of sales made with credit cards in the corresponding accounts of the sellers;
- limits on the amount of interest banks can charge or pay, or on the period for capitalizing interest;
- accounting and statistical requirements;
- restrictions on dividends;
- limits on market share;
- reporting or controlling regimes as agents or legally bound reporting parties; and
- changes in the deposit insurance regime.

***Increased operating costs may affect our results of operations.***

We face the risk of potential claims initiated by individual workers or unions, and possible strikes or general strikes, in the context of negotiations relating to salary increases, benefits and/or compensation. The occurrence of any of the above could increase our operating costs, which could in turn have a negative impact on our business, financial position and results of operations.

**Risks relating to us**

***Our target market may be the most adversely affected by economic recessions.***

Our business strategy is to increase fee income and loan origination in one of our principal target markets; low- and middle-income individuals and PyMEs.

This target market is particularly vulnerable to economic recessions and, in the event of a recession, growth in our target market may slow and consequently adversely affect our business. The Argentine economy as a whole, and our target market in particular, have not stabilized enough for us to be certain that demand will continue to grow. Therefore, we cannot assure you that our business strategy will ultimately be successful without undue delay or at all.

***Significant shareholders have the ability to direct our business and their interests could conflict with yours.***

As of December 31, 2018, our significant shareholders, Jorge Horacio Brito and Delfin Jorge Ezequiel Carballo, directly or beneficially own 5,366,621 Class A shares and 105,727,603 Class B shares and 4,895,574 Class A shares and 106,805,523 Class B shares, respectively.

Although there is no agreement among them, if voting together, they could control all decisions made by shareholders with respect to us. They may, without the concurrence of the remaining shareholders, elect a majority of our directors, effect or prevent a merger, sale of assets or other business acquisition or disposition, cause us to issue additional equity securities, effect a related party transaction and determine the timing and amounts of dividends, if any.

***We will continue to consider acquisition opportunities, which may not be successful.***

We have historically expanded our business primarily through acquisitions. We will continue to consider attractive acquisition opportunities that we believe may offer additional value and are consistent with our business strategy. We cannot assure you, however, that we will be able to identify suitable acquisition candidates or that we will be able to acquire promising target financial institutions on favorable terms or that the Central Bank will approve any such transaction without undue delay or at all. Additionally, our ability to obtain the desired effects of any such acquisitions will depend in part on our ability to successfully complete the integration of those businesses and capture expected synergies, of which there can be no assurance. The integration of acquired businesses entails significant risks, including customer retention, integration, valuation adjustments and liability assumption risks. Any integration process gives rise to costs and uncertainties and may strain management resources and business functions. The occurrence of any of the above may have a material adverse effect on our business, results of operations, cash flow or financial condition.

***Reduced spreads between interest rates received on loans and those paid on deposits, without corresponding increases in lending volumes, could adversely affect our profitability.***

The spread for Argentina's financial system between the interest rates on loans and deposits could be affected as a result of increased competition in the banking sector and the Argentine government's tightening of monetary policy in response to inflation concerns.

Since 2009, the interest rate spreads throughout the financial system have increased. This increase was sustained by a steady demand for consumer loans in recent years. During 2014, the Central Bank established new limits on borrowing and lending rates. However, the net interest margin of the financial system remained stable due to a substantial growth both in loan and deposit portfolios. As of December 17, 2015, these limits were removed by the Macri administration.

We cannot guarantee that interest rate spreads will remain attractive unless increases in our volume of lending or additional cost-cutting takes place. A reversal of this trend could adversely affect our profitability.

***Our estimates and established reserves for credit risk and potential credit losses may prove to be inaccurate and/or insufficient, which may materially and adversely affect our financial condition and results of operations.***

A number of our products expose us to credit risk, including consumer loans, commercial loans and other receivables. Changes in the income levels of our borrowers, increases in the inflation rate or an increase in interest rates could have a negative effect on the quality of our loan portfolio, causing us to increase provisions for loan losses and resulting in reduced profits or in losses.

We estimate and establish reserves for credit risk and potential credit losses. This process involves subjective and complex judgments, including projections of economic conditions and assumptions on the ability of our borrowers to repay their loans. We may not be able to timely detect these risks before they occur, or due to limited resources or availability of tools, our employees may not be able to effectively implement our credit risk management system, which may increase our exposure to credit risk.

Overall, if we are unable to effectively control the level of non-performing or poor credit quality loans in the future, or if our loan loss reserves are insufficient to cover future loan losses, our financial condition and results of operations may be materially and adversely affected.

***Changes in market conditions, and any risks associated therewith, could materially and adversely affect our financial condition and results of operations.***

We are directly and indirectly affected by changes in market conditions. Market risk, or the risk that values of assets and liabilities or revenues will be adversely affected by variation in market conditions, is inherent in the products and instruments associated with our operations, including loans, deposits, securities, bonds, long-term debt and short-term borrowings. Changes in market conditions that may affect our financial condition and results of operations include fluctuations in interest and currency exchange rates, securities prices, changes in the implied volatility of interest rates and foreign exchange rates, among others.

***Cybersecurity events could negatively affect our reputation, our financial condition and our results of operations.***

We depend on the efficient and uninterrupted operation of internet-based data processing, communication and information exchange platforms and networks, including those systems related to the operation of our automatic teller machine ("ATM") network. We have access to large amounts of confidential financial information and control substantial financial assets belonging to our customers as well as to us. In addition, we provide our customers with continuous remote access to their accounts and the possibility of transferring substantial financial assets by electronic means. Accordingly, cybersecurity is a material risk for us. Cybersecurity incidents, such as computer break-ins, phishing, identity theft and other disruptions could negatively affect the security of information stored in and transmitted through our computer systems and network infrastructure and may cause existing and potential customers to refrain from doing business with us.

In addition, contingency plans in place may not be sufficient to cover liabilities associated with any such events and, therefore, applicable insurance coverage may be deemed inadequate, preventing us from receiving full compensation for the losses sustained as a result of such a disruption.

Although we intend to continue to implement security technology devices and establish operational procedures to prevent such damage, we cannot assure you that all of our systems are entirely free from vulnerability and these security measures will be successful. If any of these events occur, it could damage our reputation, entail serious costs and affect our transactions, as well as our results of operations and financial condition.

***Our business is highly dependent on properly functioning information technology systems and improvements to such systems.***

Our business is highly dependent on the ability of our information technology systems and the third party managers of such systems to effectively manage and process a large number of transactions across numerous and diverse markets and products in a timely manner. In addition, we provide our customers with continuous remote access to their accounts and the possibility of transferring substantial financial assets by electronic means. The proper functioning of our financial control, risk management, accounting, customer service and other data processing systems is critical to our business and our ability to compete effectively. Our business activities may be materially disrupted if there were a partial or complete failure of any of our information technology systems communication networks. Such failures could be caused by, among other things, software bugs, computer virus attacks or intrusions, phishing, identity theft or conversion errors due to system upgrading. In addition, any security breach caused by unauthorized access to information or systems, or intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, could have a material adverse effect on our business, results of operations and financial condition.

Our ability to remain competitive and achieve further growth will depend in part on our ability to upgrade our information technology systems and increase our capacity on a timely and cost effective basis. Any substantial failure to improve or upgrade information technology systems effectively or on a timely basis could materially affect us.

***An increase in fraud or transactions errors may adversely affect us.***

Given the number of transactions that take place in a financial institution, although we have implemented numerous controls to avoid the occurrence of inefficient or fraudulent operations, errors can occur and aggravate even before being detected and corrected. In addition, some of our transactions are not fully automatic, which may increase the risk of human error or manipulation, and it may be difficult to detect losses quickly. Likewise, cybersecurity is a significant risk to us. Cybersecurity incidents or personal and confidential information may adversely affect the security of information stored and transmitted through the Issuer's computer systems and may cause existing and potential customers to refrain from doing business with us.

As with other financial institutions, we are susceptible to, among other things, fraud by employees or outsiders, unauthorized transactions by employees and other operational errors (including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems). Given the high volume of transactions that may occur at a financial institution, errors could be repeated or compounded before they are discovered and remedied. In addition, some of our transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult to detect quickly or at all. Losses from fraud by employees or outsiders, unauthorized transactions by employees and other operational errors could have a material adverse effect on us.

***Liquidity issues could arise.***

We are mostly a wholesale bank, and a large portion of our funding derives from corporate, rather than individual, accounts. Any significant changes in the liquidity conditions prevailing in the market arising from material adverse effects on the Argentine economy, on the financial system, and on us, could affect our regular performance of business and, in particular, our funding sources.

We have, and we expect that we will continue to have, significant liquidity and capital resource requirements to finance our business. However, our current and future potential indebtedness could have significant consequences, including the limitation on our ability to refinance existing debt or to borrow money to finance working capital, acquisitions and capital expenditures and the need to allocate a significant part of our cash flow to repay principal and interest, adversely affecting our ability to make dividend payments on our shares and the ADSs.

We cannot assure that changes in the liquidity conditions of the Argentine financial system, either at present or in the future, will not have an adverse effect on our business. If so, our financial, economic or other condition, our results, operations, business, and/or our general repayment ability could be significantly and adversely affected.

***Adoption of IFRS (which includes adjustment for inflation) affects the presentation of our financial information, which had been historically prepared under Argentine Central Banking GAAP.***

On January 1, 2018, we began preparing our financial statements in accordance with IFRS as issued by the IASB. Prior to and including the year ended December 31, 2017, we prepared our financial statements in accordance with Central Bank Rules. Because IFRS differ in certain significant respects from Central Bank Rules, our financial information prepared and presented in previous annual reports under Central Bank Rules is not directly comparable to IFRS financial data. The lack of comparability of the Bank's recent and historical financial data may make it difficult to gain a full and accurate understanding of its operations and financial condition. Our transition to IFRS as of January 1, 2018 affects the comparability of our financial information for periods prior to January 1, 2017.

In addition, as of July 1, 2018, the peso qualifies as a currency of a hyperinflationary economy, and in connection with IFRS, we are required to apply inflationary adjustments to our financial statements pursuant to International Accounting Standard (“IAS”) 29 (Financial Reporting in Hyperinflationary Economies).

IAS 29 does not prescribe when hyperinflation arises, but includes several characteristics of hyperinflation. The IASB does not identify specific hyperinflationary jurisdictions. However, in June 2018, the International Practices Task Force of the Centre for Quality (“IPTF”), which monitors “highly inflationary countries” categorized Argentina as a country with a projected three-year cumulative inflation rate greater than 100%. Additionally, some of the other qualitative factors of IAS 29 were present, providing *prima facie* evidence that the Argentine economy is hyperinflationary for purposes of IAS 29. Therefore, Argentine companies using IFRS as issued by the IASB are required to apply IAS 29 to their financial statements for periods ending on and after July 1, 2018. See Item 5B, “Critical accounting policies” and note 3 to our audited consolidated financial statements as of December 31, 2018 and 2017.

Adjustments to reflect inflation, such as those required by IAS 29, were prohibited by law No.23,928 (the “Law 23,928”). Additionally, Decree No.664/03, issued by the Argentine government (“Decree 664”), instructed regulatory authorities, such as Public Registries of Commerce, the Superintendence of Corporations of the City of Buenos Aires and the CNV, to accept only financial statements that comply with the prohibition set forth in Law 23,928. However, on December 4, 2018, Law No.27,468 abrogated Decree 664/03 and amended Law 23,928 indicating that the prohibition of indexation no longer applies for financial statements. Notwithstanding the foregoing, pursuant to the Central Bank Rules, the Bank cannot perform inflation adjustment in its financial statements for fiscal year 2018 nor any other previous periods. Pursuant to Communication “A” 6651, entities under the supervision of the Central Bank are required to apply the provisions of IAS 29 in full for fiscal years that starting on January 1, 2020.

Consequently, due to the adoption of IFRS and adjustment for inflation our results differ significantly from the results determined on a nominal basis (historical results) by the application of such methodology, applicable mainly, as a result of the composition of the accounting monetary positions and the evolution of the rates, the inflation and other components of the results, which could adversely affect our financial statements, results of operations and financial condition.

In addition to the differences generated by the adoption of the inflation adjustment, there are other differences between Argentine Central Banking GAAP and IFRS such as the calculation of allowances for loan losses and certain disclosures in the financial statements.

***Argentina’s implementation of the Corporate Criminal Liability Law and other anti-corruption laws and regulations may expose us to related risks.***

We are required to comply with various anti-corruption laws and regulations, including those of Argentina and the U.S. Foreign Corrupt Practices Act of 1977 (the “FCPA”). If we do not successfully comply with applicable anti-corruption laws and regulations designed to combat governmental corruption, we could become subject to fines, penalties or other regulatory sanctions, civil litigation as well as to adverse press coverage, which could cause our reputation and business to suffer. Although we are committed to conducting business in a legal and ethical manner and in compliance with local and international statutory requirements and standards applicable to our business, there is a risk that our management, employees or representatives may take actions that could violate applicable laws and regulations, prohibiting the making of improper payments to government officials for the purpose of obtaining or keeping business. Guilty pleas by or convictions of us or of any of our affiliates (including any of our significant shareholders, employees or other agents) in criminal proceedings may have adverse effects on our business.

**Risks relating to our Class B shares and the ADSs**

***Holders of our Class B shares and the ADSs may not receive any dividends.***

In 2003, the Central Bank prohibited financial institutions from distributing dividends. In 2004, the Central Bank amended the restriction to require the Central Bank’s prior authorization for the distribution of dividends. Under new Central Bank Rules on distribution of dividends, the capital remaining after the distribution of dividends must be sufficient to meet the regulatory capital increased by 75%. See “—Risks relating to the Argentine financial system – Governmental measures and regulatory framework affecting financial entities could have a material adverse effect on the operations of financial entities”.

Since January 2016, pursuant to Central Bank Communication “A” 5827, additional capital margin requirements have to be complied with, including a capital conservation margin and a countercyclical margin. The capital conservation margin shall be 2.5% of the amount of capital RWA, in the case of entities considered D-SIB, like us, and the margin will be increased to 3.5% of the amount of capital RWA. The countercyclical margin shall be within a range of 0% to 2.5% of RWA, but Central Bank Communication “A” 5938, established countercyclical margin of 0% as of April 1, 2016. This margin can be reduced or cancelled by the Central Bank upon its determination that the systematic risk has been diminished.

Since January 2015, Central Bank Communication “A” 5827, as amended, has required that financial entities must make an accounting entry of any administrative and/or disciplinary penalties and adverse criminal judgments pending before the courts, provisioning 100% of the respective penalty provided under each such action until payment is made or a final judgment is entered.

Pursuant to Central Bank Communication “A” 5827 this provisioned amount must also be deducted from the distributable amount. In April 2016, the Central Bank issued Communication “A” 5940, pursuant to which the financial entities that, as of the date thereof, had an amount for such penalties and judgments registered in the account “Provisions – For administrative, disciplinary and criminal penalties,” must analyze, according to the enforcing legal reports, if each such penalty meets the conditions for its total or partial accountable registration, according to the provisions in the “Accounts Plan and Manual” issued by the Central Bank (which provides that penalties must be probable and that their amount can be reasonably estimated).

We obtained authorization from the Central Bank to distribute dividends corresponding to fiscal years 2003 through 2010. For the fiscal years ended December 31, 2011 and 2012, we were not able to distribute dividends because we did not reach the regulatory threshold for dividend distribution under Central Bank regulations. We did reach such regulatory threshold and obtained the authorization from the Central Bank to distribute dividends for the fiscal years ended December 31, 2013 2014, 2015 and 2016, respectively.

On March 12, 2018, the Central Bank issued Communication “6464” pursuant to which, the prior approval of the SEFyC in order to distribute dividends is no longer required. However, the authorization will still be needed for those financial entities that, in order to determine the distributable dividends, have not increased the ranges of COn1 net of deductions (CDCOn1) foreseen in the tables of points 4.2.3. (“integration”) and 4.2.4. (“Limitation on the distribution of results”) of the rules on “Distribution of results” by 1 percentage point. No assurance can be given that in the future, a new modification may be introduced, by which the SEFyC authorization will be needed again to distribute dividends.

***Holders of our Class B shares and the ADSs located in the United States may not be able to exercise preemptive rights.***

Under Argentine Corporate Law No. 19,550 (the “Argentine Corporate Law”), if we issue new shares as part of a capital increase, our shareholders may have the right to subscribe to the proportional amount of shares to maintain their existing shareholding. Rights to subscribe for shares in these circumstances are known as preemptive rights. In addition, shareholders are entitled to the right to subscribe for the unsubscribed shares remaining at the end of a rights offering on a *pro rata* basis, known as accretion rights. Upon the occurrence of any future increase in our capital stock, U.S. holders of Class B shares or ADSs will not be able to exercise the preemptive and related accretion rights for such Class B shares or ADSs unless a registration statement under the U.S. Securities Act of 1933, as amended (the “Securities Act”), is effective with respect to such Class B shares or ADSs or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to those Class B shares or ADSs. We cannot assure you that we will file such a registration statement or that an exemption from registration will be available. Unless those Class B shares or ADSs are registered or an exemption from registration applies, a U.S. holder of our Class B shares or ADSs may receive only the net proceeds from those preemptive rights and accretion rights if those rights can be sold by the depository. If they cannot be sold, they will be allowed to lapse. Furthermore, the equity interest of holders of Class B shares or ADSs located in the United States may be diluted proportionately upon future capital increases.

***You may not be able to sell your ADSs at the time or the price you desire because an active or liquid market may not develop.***

Prior to March 24, 2006, there has not been a public market for the ADSs or, in the case of our Class B shares, a market outside of Argentina. We cannot assure you that any market for our Class B shares or for the ADSs will be available or liquid nor can we assure of the price at which the Class B shares or the ADSs may be sold in any such market. The relative volatility and illiquidity of the Argentine securities markets may substantially limit your ability to sell Class B shares underlying the ADSs at the price and time you desire.

Investing in securities that trade in emerging markets, such as Argentina, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Argentine securities market is substantially smaller, less liquid and can be more volatile than major securities markets in the United States, and is not as highly regulated or supervised as such other markets. There is also significantly greater concentration in the Argentine securities market than in major securities markets in the United States. As of the date of this annual report, the ten largest companies in terms of market capitalization represented more than 90% of the aggregate market capitalization of the BYMA). Accordingly, although you are entitled to withdraw the Class B shares underlying the ADSs from the depository at any time, your ability to sell such shares at a price and time at which you wish to do so may be substantially limited. Furthermore, new capital controls imposed by the Central Bank could have the effect of further impairing the liquidity of the BYMA by making it unattractive for non-Argentines to buy shares in the secondary market in Argentina.

***We are traded on more than one market, which may result in price variations and investors may not be able to easily move shares for trading between such markets.***

The trading prices of our ADSs and our Class B shares may differ on different markets due to various factors. Any decrease in the price of our Class B shares on the BYMA or the MAE could cause a decrease in the trading price of the ADSs on the NYSE. Investors

could seek to sell or buy our shares to take advantage of any price differences between the markets through a practice referred to as arbitrage. Any arbitrage activity could create unexpected volatility in both our share prices on one exchange, and the ADSs available for trading on the other exchange. In addition, holders of ADSs will not be immediately able to surrender their ADSs and withdraw the underlying Class B shares for trading on the other market without effecting necessary procedures with the depository. This could result in time delays and additional cost for holders of ADSs.

***Our shareholders may be subject to liability for certain votes of their securities.***

Our shareholders are not liable for our obligations. Instead, shareholders are generally liable only for the payment of the shares they subscribe. However, shareholders who have a conflict of interest with us and who do not abstain from voting may be held liable for damages to us, but only if the transaction would not have been approved without such shareholders' votes. Furthermore, shareholders who willfully or negligently vote in favor of a resolution that is subsequently declared void by a court as contrary to the Argentine Corporate Law or our bylaws may be held jointly and severally liable for damages to us or to other third parties, including other shareholders.

***Payments on Class B shares or ADSs may be subject to FATCA withholding.***

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign pass thru payments") to persons that fail to meet certain certification, reporting, or related requirements. We are a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Class B Shares and the ADSs, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Class B shares or the ADSs, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Class B Shares and the ADSs, such withholding would not apply prior to January 1, 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Class B Shares and the ADSs.

***We are organized under the laws of Argentina and holders of the ADSs may find it difficult to enforce civil liabilities against us, our directors, officers and certain experts.***

We are organized under the laws of Argentina. A significant portion of our and our subsidiaries' assets are located outside the United States. Furthermore, all of our directors and officers and some advisors named in this annual report reside in Argentina. Investors may not be able to effect service of process within the United States upon such persons or to enforce against them or us in United States courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. Likewise, it may also be difficult for an investor to enforce in United States courts judgments obtained against us or these persons in courts located in jurisdictions outside the United States, including judgments predicated upon the civil liability provisions of the United States federal securities laws. It may also be difficult for an investor to bring an original action in an Argentine court predicated upon the civil liability provisions of the U.S. federal securities laws against us or such persons.

Prior to any enforcement in Argentina, a judgment issued by a U.S. court will be subject to the requirements of 517 through 519 of the Argentine Federal Civil and Commercial Procedure Code if enforcement is sought before federal courts or courts with jurisdiction in commercial matters of the Autonomous City of Buenos Aires. Those requirements are: (1) the judgment, which must be valid and final in the jurisdiction where rendered, was issued by a competent court in accordance with the Argentine principles regarding international jurisdiction and resulted from a personal action, or an in rem action with respect to personal property which was transferred to Argentine territory during or after the prosecution of the foreign action; (2) the defendant against whom enforcement of the judgment is sought was personally served with the summons and, in accordance with due process of law, was given an opportunity to defend against foreign action; (3) the judgment must be valid in the jurisdiction where rendered, and its authenticity must be established in accordance with the requirements of Argentine law; (4) the judgment does not violate the principles of public policy of Argentine law; and (5) the judgment is not contrary to a prior or simultaneous judgment of an Argentine court. Any document in a language other than Spanish, including, without limitation, the foreign judgment and other documents related thereto, requires filing with the relevant court of a duly legalized translation by a sworn public translator into the Spanish language.

**Item 4. Information on the Bank**

**A. History and development of the Bank**

Our legal and commercial name is Banco Macro S.A. We are a financial institution incorporated on November 21, 1966 as a *sociedad anónima*, a stock corporation, duly incorporated under the laws of Argentina for a 99-year period and registered on March 8, 1967 with the Public Registry of Commerce of the City of Bahía Blanca, in the Province of Buenos Aires, Argentina under No. 1154 of Book 2, Volume 75 of *Estatutos*. We subsequently changed our legal address to the City of Buenos Aires and registered it with the IGJ on October 8, 1996 under No. 9777 of Book 119, Volume A of *Sociedades Anónimas*.

We file reports, including our annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Any filings we make electronically with the SEC are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>.

Our principal executive offices are located at Avenida Eduardo Madero 1172, City of Buenos Aires, Argentina, and our telephone number is (+54-11-5222-6500). We have appointed CT Corporation System as our agent for service of process in the United States, located at 28 Liberty St., New York, New York, 10005.

#### **Our history – Banco Macro S.A.**

Banco Macro commenced its operations as a non-banking financial institution in 1985, through the acquisition of Macro Compañía Financiera S.A. (created in 1977). In May 1988, it received the authorization to operate as a commercial bank and it was incorporated as Banco Macro S.A. Subsequently, as a result of the merger process with other entities, it adopted other names (among them, Banco Macro Bansud S.A.) and since August 2006, the name of "Banco Macro S.A."

From then onwards and up to 1995, Banco Macro operated as a wholesale bank, being a pioneer in corporate bonds issuances. It mainly acted in the areas of money markets, trading of government and corporate bonds and financial services for medium and big companies.

Since 1994, Banco Macro has substantially changed its business strategy, focusing on retail banking in market areas with a low level of banking transactions and high growth potential, particularly in the regional areas outside the City of Buenos Aires. Following this strategy, in 1996, we started to acquire entities as well as assets and liabilities resulting from the privatization of provincial and other banks, including Banco Misiones, Banco Salta and Banco Jujuy.

In 2001, 2004, 2006 and 2010, Banco Macro acquired control of Banco Bansud S.A., Nuevo Banco Suquia S.A., Nuevo Banco Bisel S.A. and Banco Privado de Inversiones S.A., respectively, expanding through these acquisitions its presence in the south and center of the country. Such entities merged with us on December 2003, October 2007, August 2009 and December 2013, respectively. In addition, during 2006, Banco Macro acquired control of Banco del Tucumán.

We currently offer traditional bank products and services to companies, including those operating in regional economies, as well as to individuals, thus reinforcing our objective to be a multi-service bank. In addition, Banco Macro performs certain transactions through its subsidiaries, including mainly Banco del Tucumán, Macro Bank Limited, Macro Securities S.A., Macro Fiducia S.A. and Macro Fondos S.G.F.C.I. S.A.

Recently, the Bank and Banco del Tucumán, have subscribed a preliminary merger agreement, whereby the Bank will incorporate with retroactive effect as of January 1, 2019 Banco del Tucumán, at an exchange ratio of 0.65258 Class B Ordinary Shares of the Bank for each Ps.1 of nominal value ordinary shares of Banco del Tucumán. Therefore, the minority shareholders of Banco del Tucumán will be entitled to receive at 0.65258 Class B Ordinary Shares of the Bank, for each Ps.1 of nominal value of ordinary shares held in the capital stock of Banco del Tucumán. Consequently, the Bank, will increase its capital through the issuance of 15,662 Class B Ordinary Shares of the Bank, from Ps.669,663,021 to Ps.669,678,683, and the minority shareholders of Banco del Tucumán will receive Ordinary Shares Class B of the Bank in exchange of their 240 shares in Banco del Tucumán; all of which is subject to the approvals of the corresponding agencies.

Our shares have been publicly listed on the BYMA since November 1994, and on the NYSE since March, 2006 and have been authorized to list on the MAE since October 2015.

#### **Investment in property**

In 2011 we acquired from the Government of the City of Buenos Aires a site located at Avenida Eduardo Madero No. 1180, in the City of Buenos Aires, for an aggregate original amount of Ps.110 million. We have developed a project to build our new corporate offices on this site. Work was initiated in 2012 and was completed as of the date of this annual report.

The building has an area of 52,700 square meters and, as of December 31, 2018, required an investment of approximately U.S.\$172 million at the applicable exchange rates at the end of the month as of the respective dates of such investments.



The new corporate tower was designed to take full advantage of natural light and maximize energy efficiency, while also using materials that do not adversely affect the environment. It is being built in compliance with the Leed International Sustainability Standards of the “U.S. Green Building Council.” For more information, see Item 4.D “Property, plants and equipment.”

## Recent Developments

### *General Ordinary and Extraordinary Shareholders’ Meeting*

Our General Ordinary and Extraordinary Shareholders’ Meeting met on April 30, 2019 (the “2019 Shareholders Meeting”) which approved among others, the following points of the agenda: (i) appointment of the following members of the Board of Directors of the Bank, Jorge Pablo Brito, Carlos Alberto Giovanelli, Nelson Damián Pozzoli, Fabián Alejandro de Paul and Martín Estanislao Gorosito, as regular Directors for a three-year term, and Santiago Horacio Seeber, Alan Whamond and Alejandro Guillermo Chiti, as alternate Directors, for a three-year term, (ii) appointment of Alejandro Almarza, Carlos Javier Piazza and Vivian Haydee Stenghele, as regular members of the Supervisory Committee, and Alejandro Carlos Piazza, Leonardo Pablo Cortigiani and Enrique Alfredo Fila, as alternate members of the Supervisory Committee, (iii) designation auditors, being Carlos Marcelo Szpunar and Pablo Mario Moreno (alternate), both from the firm Pistrelli, Henry Martin y Asociados S.R.L., (iv) the preliminary merger agreement with Banco del Tucumán (for further information, please see below “—Banco del Tucumán”), (v) Bank’s capital increase from Ps.669,663,021 to Ps.669,678,683, as a result of the merger with Banco del Tucumán, through the issuance of 15,662 Class B shares, to be delivered to the minority shareholders of the absorbed company in exchange for their shareholdings, (vi) capital reduction due to the cancellation of Ps.30,265,275 representative of 30,265,275 Class B shares of the Bank and (vii) the amendment of Sections 4, 9, 10, 19, 20, 21 and 33 of the Bylaws of the Bank (which has not been approved yet by the CNV), and its adoption.

### *Banco del Tucuman*

The 2019 Shareholders Meeting approved the (i) preliminary merger agreement duly executed on March 8, 2019 with Banco del Tucumán, and (ii) consolidated special merger financial statements of Banco Macro and Banco del Tucumán, as of December 31, 2018, the aforementioned approvals are *ad-hoc* to the applicable authorizations from the authorities and the shareholders of Banco del Tucumán.

### *Payment of Dividend*

The 2019 Shareholders Meeting approved to the distribution of a cash dividend to the shareholders in the amount of Ps.6,393,977,460, which represents Ps.10 per share, and approved the delegation into the Board of Directors the powers to determine the date for its payment, which was set for May 14, 2019.

Pursuant to the aforementioned, the Bank informed that complies with the requirements established in the Central Bank regulations for the distribution of dividends, consequently the payment of the aforementioned dividend does not require prior authorization from the Superintendence of Financial and Exchange Entities.

## B. Business Overview

We are one of the leading banks in Argentina. With the most extensive private-sector branch network in the country, we provide standard banking products and services to a nationwide customer base. We distinguish ourselves from our competitors given our strong financial position and our focus on low- and middle-income individuals and PyMEs, generally located outside of the City of Buenos Aires. We believe this strategy offers significant opportunity for continued growth in our banking business. According to the Central Bank, as of September 30, 2018, we were ranked first in terms of branches and equity and fourth in terms of both total loans and total deposits among private banks in Argentina.

As of December 31, 2018, on a consolidated basis, we had:

- Ps. 351,233.0 million (U.S.\$ 9,289.8 million) in total assets;
- Ps. 182,113.4 million (U.S.\$ 4,816.8 million) total loans;
- Ps. 237,954.4 million (U.S.\$ 6,293.7 million) in total deposits;
- approximately, 3.6 million retail customers and 0.1 million corporate customers; and
- approximately, 0.9 million employee payroll accounts for private sector customers and provincial governments and 0.8 million retiree accounts.

In general, given the relatively low level of banking intermediation in Argentina, there are limited products and services being offered. We are focusing on the overall growth of our loan portfolio by expanding our customer base and encouraging them to make use of our lending products. We have a holistic approach to our banking business and do not manage the Bank by segments or divisions or by customer categories, by products and services, by regions, or by any other segmentation for the purpose of allocating resources and

assessing profitability. We offer savings and checking accounts, credit and debit cards, consumer finance loans and other credit-related products and transactional services available to our retail customers and PyMEs through our branch network. We also offer *Plan Sueldo* payroll services, lending, corporate credit cards, mortgage finance, transaction processing and foreign exchange. In addition, our *Plan Sueldo* payroll processing services for private companies and the public sector give us a large and stable customer deposit base.

### Our competitive strengths

We believe we are well positioned to benefit from opportunities created by the economic and business environment in Argentina. Our competitive strengths include the following:

- *Strong financial position.* As of December 31, 2018, we had excess of regulatory capital of Ps.45,676 million. (26.5% capitalization ratio). Our excess capital is aimed at supporting growth, and consequently, a higher leverage of our balance sheet.
- *Strong shareholders' equity.* Our shareholders' equity as of December 31, 2017 and 2018 under IFRS was Ps.71,751.6 million and Ps.60,910.8 million respectively.
- *Strong presence in fast-growing target customer market.* We have achieved a leading position with low- and middle-income individuals and among PyMEs, generally located outside the City of Buenos Aires, which have been relatively underserved by the banking system. Based on our experience, this target market offers significant growth opportunities and a stable base of depositors.
- *High exposure to export-led growth.* Given the geographical location of the customers we target, we have acquired banks with a large number of branches outside of the City of Buenos Aires with the aim of completing our national coverage. Our focus is particularly on some export oriented provinces. Most of these provinces engage in economic activities primarily concentrated in areas such as agriculture, mining, cargo transportation, edible oils, ranching and tourism, which have benefited from the export-driven growth in the Argentine economy.
- *Largest private-sector branch network in Argentina.* With 471 branches and 1,485 ATMs as of December 31, 2018, we have the most extensive branch network among private-sector banks in Argentina. We consider our branch network to be our key distribution channel for marketing our products and services to our entire customer base with a personalized approach. In line with our strategy, approximately 94% of these branches are located outside of the City of Buenos Aires.
- *Loyal customer base.* We believe that our customers are loyal to us due to our presence in traditionally underserved markets and our *Plan Sueldo* payroll services. We have benefited from Argentine regulations that require all employees to maintain *Plan Sueldo* accounts for the direct deposit of their wages. In addition, we emphasize face-to-face relationships with our customers and offer them personalized advice.
- *Exclusive financial agent for four Argentine provinces.* We perform financial agency services for the governments of the provinces of Salta, Jujuy, Misiones and Tucumán in northern Argentina. As a result, each provincial government's bank accounts are held in our bank and we provide their employees with *Plan Sueldo* accounts, giving us access to substantial low-cost funding and a large number of loyal customers.
- *Strong and experienced management team and committed shareholders.* We are led by committed shareholders and a senior management team with large experience in the banking industry, who have transformed us in one of the strongest and largest banks in Argentina.

### Our strategy

Our competitive strengths position us to better participate in the future development of the Argentine financial system.

We operate in accordance with our sustainability policy based on five business-related strategic pillars that affect all our clients, establishing a short-, medium- and long-term sustainability strategy. Our strategic sustainability pillars are:

- *Financial inclusion and education:* encouraging the use of banking products and accessibility, focused on lower income sectors and the financial education of all communities.
- *Direct and indirect environmental effect:* encouraging the protection of the environment and society, both internally and in our value chain.
- *Responsibility for the wellbeing and inclusion of people:* aiming to improve the quality of life of individuals, we support the professional development of our staff and encourage diversity and inclusion.
- *Development of PyMEs and enterprises:* accompanying our clients in the development of their businesses, offering customized products services and providing knowledge, advice and the best customer service.
- *Transparency in all our actions:* in order to create a framework of trust and credibility for all our interest groups, in compliance with the main national and international transparency and management responsibility standards and best practices.

Our goal is to promote our overall growth by increasing our customer base, expanding our loan portfolio and generating more fee income from transactional services. We achieve this goal by managing the Bank on a holistic basis, focusing our growth strategy on the marketing and promotion of our standard banking products and services. We have pursued our growth strategy by acquiring financial entities throughout Argentina, which has enabled us to significantly expand our branch network and customer base. We have taken advantage of the opportunities presented by the Argentine financial system to move into new locations by acquiring banks or absorbing branches from banks liquidated by the Central Bank.

We intend to continue enhancing our position as a leading Argentine bank. The key elements of our strategy include:

- *Focus on underserved markets with strong growth potential.* We intend to continue focusing on both low- and middle-income individuals and PyMEs, most of which have traditionally been underserved by the Argentine banking system and are generally located outside the City of Buenos Aires, where competition is relatively weaker and where we have achieved a leading presence. We believe that these markets offer attractive opportunities given the low penetration of banking services and limited competition.
- *Further develop branch network.* We seek to further expand our branch network management model and the development of the network by opening new branches, reinforcing local business opportunities and targeting support and sale points in accordance with the specific needs of our clients.
- *Further expand our customer base.* We intend to continue growing our customer base, which is essential to increasing interest and fee-based revenues. To attract new customers, we intend to:
  - Offer medium- and long-term credit. We intend to capitalize on the increased demand for long-term credit that we believe will accompany the expected economic trends of Argentina. We intend to use our strong liquidity and our capital base to offer a more readily available range of medium- and long-term credit products than our competitors.
  - Focus on corporate banking customers. Increase corporate financing by means of a wide offer of credit and transaction products that suit each client's profile and needs.
  - Expand *Plan Sueldo* payroll services. We will continue to actively market our *Plan Sueldo* payroll services, emphasizing the benefits of our extensive network for companies with nationwide or regional needs.
  - Strengthen our market share in credit cards by increasing promotional activity and benefits for clients.
  - Further expand the use of automatic channels both in customer acquisition and retail products, increasing operational efficiency.
  - Further expand the development of the customer service support, granting them different means to carry out financial transactions without time limits, in a total secure, simple and comfortable manner.
  - Grow our high-end customer base through our *Selecta* product suite.
- *Focus on our sustainability objectives.* We intend to focus on our sustainability objectives in line with our business, in the fundamental areas of the Bank and further expand such initiatives.
- *Look for growth opportunities.* A key component of our strategy is the continuous search for growth opportunities, including potential acquisitions. We, at any time, may consider one or more potential acquisitions or similar transactions within the Argentine banking and financial sector, in different stages of evaluation, negotiation and/or revision processes. Any of them may be material considering it individually or collectively.

## **Our products and services**

We provide our customers with a combination of standard products and services that are designed to suit individual needs. We have two broad categories of customers: (i) retail customers, who include individuals and (ii) corporate customers, which include small, medium and large companies. In addition, we provide services to four provincial governments. We offer a relatively narrow range of standard products, which are generally available to both our retail and corporate customers. We have a holistic approach to our banking business and do not manage the Bank by segments or divisions or by customer categories, by products and services, by regions, or by any other segmentation for the purpose of allocating resources and assessing profitability. Our strategy is to grow our business, as demand for credit in Argentina increases, by focusing on cross-selling opportunities among our broad customer base. The following discussion of our business follows the broad customer categories of retail and corporate as a way to understand who our customers are and the products and services that we provide.

### **Retail customers**

#### **Overview**

We serve our retail customers with the objective of satisfying their financial needs, whether savings, transactional or funding. Retail customers are classified according to their labor condition or their main income source, in the following categories: *Plan Sueldo* (Salary Plan), Retirees, Open Market and Professionals and Business. We provide services to them throughout Argentina, in particular in areas outside the City of Buenos Aires, which have higher concentrations of low- and middle-income individuals who are traditionally underserved by large private banks. We serve our retail customers through our extensive, nationwide branch network. Approximately 94% of our branches are located outside the City of Buenos Aires.

The table below reflects the number of retail customers sorted by category as of December 31, 2017 and 2018:

<b>Retail Customers by category</b>	<b>2017</b>	<b>2018</b>
Open Market	1,398,709	1,506,733
Plan Sueldo (private and public sector)	859,330	870,678
Retirees	684,642	716,081
Professionals and business and others	530,416	552,274
<b>Total Retail Customers</b>	<b>3,473,097</b>	<b>3,645,766</b>

We offer our retail customers traditional banking products and services, such as savings and checking accounts, time deposits, credit and debit cards, consumer finance loans (including personal loans), mortgage loans, automobile loans, overdrafts, credit-related services, home and car insurance coverage, tax collection, utility payments, ATMs and money transfers.

Our retail customers provide us with a key source of funding as well as a significant interest and fee income. We believe that our large retail customer client base provides us with an excellent opportunity to expand the volume of our lending business. For example, as of December 31, 2018, only 20% of our retail customers currently have a personal loan from us and only 35% currently have a credit card. We believe there is strong potential to increase these percentages.

Our efforts have been aimed at strengthening relationships with our customers by offering them the products that are best suited to their needs and circumstances, through our individualized, professional advice, which we believe is an important feature that distinguishes us in our target markets. Likewise, we have focused on increasing the volume of new customer acquisition with focus on those segments that allow greater efficiency and better result of the cost/benefit equation.

Our main goals for the retail bank are to keep our leading position in personal loans, and steady growth in the credit cards portfolio. In this regard, and aiming to continue growing in the credit card market, we intensified efforts to increase consumption and total assets. We also improved the use of our clients' information as a tool to implement better cross selling, client retention and default prevention commercial actions.

#### ***Savings and checking accounts and time deposits***

We generate fees from providing account maintenance, account statements, check processing and other direct banking transactions, direct debits, fund transfers, payment orders and bank debit cards. In addition, our time deposits provide us with a strong and stable funding base.

Our commercial and customer bonding actions enable us to achieve growth in the deposit portfolio above market levels, mainly due to an increase in time deposits of retail customers which intensified funding diversification.

Accounts and account packages are the primary channels for cash deposits and are two of the main drivers of fee income. For this reason, we focus on the life cycle of the account packages, promoting loyalty measures and retention of our products.

The number of retail accounts increased by 14% in 2017 and by 11% in 2018.

In 2016, we implemented the opening of special savings account, which required customers only to provide their natural identity card, with the aim of introducing into the banking system those individuals who still do not have any accounts in the financial system. Furthermore, we launched new functionalities in "Home Banking" and established a customer call center so that our clients can open accounts and request the cancellation of products through this channel.

Within the framework provided by the Tax Amnesty Law No. 27,260, in 2016 we also worked on opening special accounts and accepting deposits in accordance with the options available to clients under the applicable regulations.

Our "debit card" service is critical within the framework of our strategy to increase customer transactions by encouraging the use of accounts. Debit card services also help to develop account balances into transactional accounts, as deposits increase, thereby expanding our demand deposit base. The amount of debit cards we issued, grew 8%, and 9% in 2017 and 2018, respectively. In 2018 we highlight the migration of our debit cards to EMV technology (Europay, MasterCard, Visa), cards with integrated chip. We also increased the extraction limits of our clients in order to favor the use of automated channels to obtain cash.

The following table reflects the number of retail accounts as of December 31, 2017 and 2018:

<b>Product</b>	<b>2017</b>	<b>2018</b>
<b>Savings</b>		
Total savings accounts*	<b>3,588,555</b>	<b>4,083,512</b>
Retirees	769,660	849,265
Open Market	1,207,848	1,441,155
Other Special Segments	298,376	321,344
<i>Plan Sueldo</i> (private sector)	612,906	685,678
<i>Plan Sueldo</i> (public sector)	484,312	512,496
Professionals and business and others	215,453	273,574
<b>Checking</b>		
Checking accounts	888,700	881,736
<b>Electronic Account Access</b>		
Debit Cards	3,175,913	3,473,479

(\*) From this report we detailed the total of savings accounts by type of client, considering the situation of the client at the closing date instead of taking its categorization at the date of registration as a client.

### ***Lending products and services***

We offer personal loans, document discounts, residential mortgages, overdrafts, pledged loans and credit card loans to our retail customers.

We intend to continue to increase our retail lending by focusing our marketing efforts on underserved target markets such as low- and middle-income individuals. We also plan to continue to cross-sell our retail lending products to our existing customers, particularly targeting those who may choose to open savings and checking accounts with us because we already provide their payroll and pension services.

In 2016, we launched a new line of mortgage loans in adjustable purchase value units, or UVAs (an inflation adjustment unit), which allowed us to be part of the PROCREAR Program Own House Solution, for beneficiaries selected by ANSES. The PROCREAR Program is an Argentine government initiative aimed at boosting economic activity, creating jobs and providing solutions to the housing problems of low-income families.

During 2017 we continued working on the promotion of an inclusive financial system, with a special focus on improving the accessibility of people with a low level of participation in the banking sector. We also worked to increase the personal loan portfolio and the volume of sales through alternative channels. We maintained our position in credit cards in terms of consumption and total assets, positioning it as a strategic product in the capture of customers.

In 2017, we encouraged the development of mortgage loans, through the incorporation of new destinations, supporting the development of lines that promote social welfare, such as: improvement, renovation, second home, acquisition of offices and businesses, and acquisition of wooden houses.

The UVA mortgage loans increased in 2017, a year in which Banco Macro stood out for offering one of the most competitive rates in the market, with 2,873 transactions being settled. Within the line of mortgage loans, we continue being part of the Procrear “*Solución Casa Propia*,” aimed to ANSES selected beneficiaries. We also joined the “*Procrear Ahorro Joven*” program, whose beneficiaries will be able to access a subsidized mortgage loan after having evidenced savings capacity during 12 months, through fixed-term UVA denominated deposits.

In 2018, we were leaders among private banks in consumer loans. Regarding longer-term loans, we share with the market a greater offer of mortgage loans, although, in the last semester of 2018, demand was significantly reduced due to the monetary policy carried out by the Argentine government.

We continued to work in the promotion of an inclusive financial system, with special emphasis and interest in allowing that people with low level of banking can access to personal loans, based on agreements with municipalities or small loans.

We also continued to be part of the PROCREAR UVA Mortgage Loans line, supporting the “*Procrear Ahorro Joven*” program.

In order to grow the *Plan Sueldo* portfolio, we focused on the incorporation of new clients from the private sector and provinces in which we are not a financial agent, while we work on consolidating relationships with the existing customers.

We are one of the major credit card issuers in Argentina, with approximately 2.7 million credit cards in circulation for retail customers as of December 31, 2018. One of our initiatives to expand lending is to encourage low- and middle-income customers to use credit cards for larger amount purchases.

As of December 31, 2017 and 2018, our consumer loan portfolio was as follows:

	Consumer loan portfolio (as of December 31, of each year) (in millions of Pesos and as percentage of consumer loan portfolio)			
	2017 (1)		2018	
Overdraft	712.1	0.6%	668.9	0.7%
Documents	1,731.8	1.5%	1,694.4	1.7%
Mortgage and pledge	7,558.9	6.4%	12,014.5	11.9%
Credit Card	35,013.7	29.8%	28,153.4	27.9%
Personal loans	71,300.4	60.6%	57,326.3	56.8%
Others	1,326.3	1.1%	1,039.1	1.0%
	<b>117,643.3</b>	<b>100.0%</b>	<b>100,896.7</b>	<b>100.0%</b>

**Note:**

(1) Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2018.

As of December 31, 2018, personal loans, which comprise the largest share of our consumer loan portfolio, carried an annual average nominal interest rate of 56% and an average maturity of 45 months. Interest rates and maturities vary across products.

**Plan Sueldo payroll services**

Since 2001, Argentine labor law has provided for the mandatory payment of wages through accounts opened by employers in the name of each employee at financial institutions within two kilometers of the workplace, in the case of urban areas, and ten kilometers of the workplace, in the case of rural areas. There are similar requirements in place for pension payments.

We handle payroll processing for private sector companies and the public sector, which require employers to maintain an account with us for the direct deposit of employee wages. Currently, we provide payroll services for the governments of the Argentine provinces of Misiones, Salta, Jujuy and Tucumán and to the private sector for a total aggregate of 1.6 million retail clients (including retirees). Our *Plan Sueldo* payroll services provide us with a large and diversified deposit base with significant cross-selling potential.

**Corporate customers**

**Overview**

Legal and natural persons of the private non-financial sector that develop commercial and/or industrial activities are included in the corporate customer category. We provide our corporate customers with traditional banking products and services such as deposits, lending (including overdraft facilities), check cashing advances and factoring, guaranteed loans and credit lines for financing foreign trade and cash management services. We also provide them trust, payroll and financial agency services, corporate credit cards and other specialty products.

The corporate business is focused on classification by size and sector. We have four categories for our corporate customers: (1) small companies, which register up to Ps.200 million in sales per year; (2) medium-sized and large companies, which register more than Ps.200 million and less than Ps.800 million in sales per year; (3) agricultural companies, which include individuals and companies who operate in agriculture or in the commerce of agricultural products; and (4) corporate companies which register more than Ps.800 million in sales per year.

The following table reflects our portfolio breakdown, sorted by category as of December 31, 2017 and 2018:

<b>Portfolio conformation</b>	<b>2017</b>	<b>2018</b>
Corporate companies	29%	46%
Medium sized companies	25%	18%
PyMEs	20%	11%
Microenterprises	5%	3%
Agricultural companies	21%	22%

We support productive activities through the promotion of development, new trends and innovation, since our goal is to continue offering the best services for market participants active in agriculture, industry and commerce. Based on values of close customer relationships, effort, hard work, dedication and community, we offer financing lines according to each customer profile that contribute to their growth, their development and that of their communities.

At present, we have a network of branches with business officials specialized in each category, offering a wide range of products, including working capital facilities, and credit for investment projects, leasings and foreign trade transactions.

Our corporate customer base also acts as a source of demand for our excess liquidity through overnight and short-term loans to large corporate customers. See Item 5.B “*Operating and Financial Review and Prospects—Liquidity and Capital Resources*”.

### ***Lending products and services***

We offer short-term and medium- to long-term corporate lending products.

*Short-term:* Products include credit lines for up to 180 days and consist mainly of overdraft facilities, corporate credit and debit cards and factoring, as well as foreign trade related financing, such as pre-export, post-shipment and import financing. These products also include contingency lines, such as short-term guarantees (performance guarantees and bid bonds) and import letters of credit. The credit risk assigned to these kinds of transactions is the debtor rating described below, unless increased as a result of a pledge or a guarantee.

*Medium- to long-term:* Products include credit lines and specific lending facilities of more than 180 days. Credits are usually asset-based, such as leasing, whereby a credit enhancement is achieved by means of the underlying asset.

Medium- to long-term facility risks are mitigated through different mechanisms that range from pledges and mortgages, to structured deals through financial trusts whereby the debtor pledges the underlying asset, mostly future income flows. Regardless of the term and based on the fact that these credit lines are devoted to small to medium-sized companies, our policy is to require personal guarantees from the owners, although the underlying debtor rating remains unchanged.

During the last years, our focus was PyMEs and regional businesses, working to offer products and services tailored to each company profile, primarily based on size and the location of operations. Our management has been focused on growing this segment and consolidating our relationships with existing clients.

We supported the growth of PyMEs through the development of businesses and sustainable links throughout the country. The geographic distribution, proximity, personalized attention and the knowledge of our clients and the regional economies allow us to detect their needs and support them in the financing of their projects, as well as to provide transactional solutions for the management of their payments and collections.

We have continued with actions aimed at financing small-scale client producers and suppliers of the value chain of our Megra customers. Among these actions are agreements with large companies buying yerba mate in the northeast region of Argentina and the tobacco companies of Salta and Jujuy.

Within our Corporate Banking division (“Corporate Banking”), in 2016, we sought to strengthen our relationship with existing and new clients, in order to position ourselves as one of the main banks in the corporate banking sector. This allowed us to provide specialized assistance to each of the companies which constitute the different value chains, with products tailored to their needs. In addition, we worked together with our Retail Banking division and our network of branches to increase the base of *Plan Sueldo* and increase our market share in credit products.

Regarding our Agro Banking division (“Agro Banking”), we continued to support regional economies with tailor-made products for sectors such as tobacco, sugar and yerba mate, by financing all value chains from the primary producer to the industrial producer.

Through the “Instant Line of Credit” program for microentrepreneurs and PyMEs throughout the country and with the objective of financing working capital, we offer existing and new customers the possibility of requesting instant credit, with minimum approval requirements. This line of credit was intended to finance working capital, for a maximum amount of up to Ps. 1,500,000 and offers discount deferred payment checks, current account agreement, single signature loan, the opportunity to apply for a Macro Agro Credit Card and foreign trade financing.

We provide access to credit to PyMEs and microenterprises through different account packages and the Line of Production Investment. Likewise, we offer the “*Prenda Ágil*” product for the financing of roads and agricultural machinery for PyMEs.

In addition, strategic alliances were created with large supplier companies that allow our customers to access purchases of inputs with reduced financial cost. As of December 2016, more than 30 agreements were signed with manufacturers or concessionaires for U.S. dollar credit lines to finance the purchase of agricultural machinery.

During 2017, Corporate Banking made further improvements in its service model by consolidating the teams of officers specialized in Cash Management and Foreign Trade businesses, which led to an improvement in our market position in both businesses, based on a proactive segmented marketing strategy.

The Bank continues to promote development, new trends and innovation by offering the best suite of services for the rural area, industry and commerce, based on the pillars of closeness, effort, hard work, dedication and sense of belonging.

In 2017, access to credit was provided to PyMEs and Micro-Businesses through different packages and programs offering special interest rates and Productive Investment facilities, and the “*Prenda Ágil*” (Expeditious Pledge) product for the financing of vehicles and machinery for PyMEs. During the past year, more than 7,000 new PyMEs and Micro-Businesses joined our customer base and were offered solutions to their needs.

Our “*Línea de Crédito al Instante*” (Immediate Credit Line) aimed at Micro-Businesses and PyMEs across the whole Argentine territory, offers customers and non-customers the possibility of requesting an instant loan, which is granted immediately and with minimum requirements. This line, which is used to finance working capital for up to Ps.3 million, offers discount of deferred payment checks, checking account overdrafts, signature loans, a Macro Agricultural credit card and foreign trade financing (for exporters and importers).

As regards Megra (Medium and Large Sized Companies) and Corporate Banking, we have carried out work to understand our customers’ needs and, consequently, we have developed actions aimed at incorporating suppliers and small producers to achieve integration of the value chain and boost their business. In this sense, we focused on increasing the “*Plan Sueldo*” (Payroll Program) customer base, acting jointly with Personal Banking and our branch network.

Committed to the growth of Argentina, we launched an exclusive UVA mortgage loan facility to finance real estate developers. The initiative aims to support the financing process of up to 80% of the construction of residential units, subsequently intended for sale.

The agricultural sector suffered negative consequences due to excessive rains during the autumn, which adversely affected crops in the main agricultural areas and made it difficult to access to the ports. In order to face the financial maturities and the impossibility of delivering the grain, the demand for loans came in earlier, and it was satisfied mainly in U.S. dollars. This was possible thanks to the flexibilization of the regulations issued by the Central Bank on the use of foreign currency derived from deposits.

During 2017, financial borrowings against delivery of crops to exporters continued. In addition, medium-term loans (three to five years) in the same currency were granted and purchases of agricultural machinery, investments or asset acquisitions were financed; dollar loans for working capital were granted; and promotional agreements on the rural credit card (known as zero interest rate) continued with an excellent performance.

We support regional economies by offering customized products to sectors such as tobacco, sugar and *yerba mate*, where we provide financing to the entire value chain, from the primary producer to the industrial producer that exports or sells its products in the domestic market.

As regards Foreign Trade, we recorded a strong increase in both transactions and user clients through our Digital E-Comex platform. We also launched *Macro Pro Comex*, as an exclusive free service that allows customers to make queries that help them increase their foreign trade business. *Macro Pro Comex* offers customized market research on exporting and/or importing markets, foreign potential buyers and/or sellers, prices and other relevant information.

We also continued to create strategic alliances with large supplier companies so that our customers can access input purchases at a reduced financial cost.

As in past years, we participated in fairs and gatherings with businessmen and entrepreneurs in which we offered the services of our business officers specialized in the Agricultural, Professionals and Businesses, and PyMEs segments, who provided advice on our services and products.

In 2018 we continued offering the best services for the agricultural, industrial and commercial sectors, trying to promote the development and the innovation in the different areas of the productive sector. We continue to offer financing for the acquisition of vehicles and machinery for PyMEs, through the “*Prenda Ágil*” product and also an instant credit line “*Línea de Crédito Instantánea*” to finance working capital of micro-entrepreneurs and PyMEs throughout the country, with immediate granting and minimum requirements. In addition, we are working on an electronic credit bill development process so that MiPyMEs can sell their invoices in the stock market.



In connection with agricultural companies, we continued to grow our client portfolio and we oriented commercial action to support our clients with their needs for working capital financing and investment projects. We have innovated and improved our processes for our clients to operate with grains directly with us, paying their obligations with their grain production, achieving the landmark of exceeding one million tons per year. Additionally, we perform operations in U.S.\$ like working capital, medium-term loans (three to five years), financing the acquisition of agricultural machinery, investments or asset purchases; we have entered into agreements with the main manufacturers to provide predictability in their campaign plans investments, and we continued with the agreements for the development of the rural credit card (known as a “zero interest rate” card), with an excellent performance.

We continue with E-Comex Digital and Macro Pro-Comex, the exclusive service, free of charge, which allows our customers to make queries that help them increase their business abroad. We complement this service by offering relevant information, such as personalized market research on exporting and/or importing markets, potential buyers and/or sellers of foreign markets and prices.

In 2018, loans to agricultural companies and loans to corporate companies stood out above the rest. The best performing lines were foreign trade and overdrafts.

As of December 31, 2017 and 2018, our commercial loan portfolio was as follows:

	<b>Commercial loan portfolio (1)</b> <b>(as of December 31, of each year)</b> <i>(in millions of Pesos and as percentage of consumer loan portfolio)</i>			
	<b>2017 (2)</b>		<b>2018</b>	
Overdraft	13,241.0	16.4%	17,157.7	21.1%
Documents	23,472.0	29.1%	22,400.1	27.6%
Mortgage and pledge	10,848.1	13.4%	8,206.2	10.1%
Consumer Loans (3)	1,772.7	2.2%	1,463.6	1.8%
Others	31,405.0	38.9%	31,989.1	39.4%
<b>Total Commercial Loans</b>	<b>80,738.8</b>	<b>100.0%</b>	<b>81,216.8</b>	<b>100.0%</b>

(1) Including loans to micro credit institutions and commercial loans that, for the consolidated statements of debtors, was included as consumer portfolio following the criteria described in “Argentine Banking Regulation—Credit Portfolio.”

(2) Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2018.

(3) Includes credit card loans and personal loans.

### **Transaction services**

We offer transaction services to our corporate customers, such as cash management, collection services, payments to suppliers, payroll services, foreign exchange transactions, foreign trade services, corporate credit cards, and information services, such as our Datanet and Interpymes services, described further below. There are usually no credit risks involved in these transactions, except for intra-day gapping (payments made against incoming collections), as well as settlement and pre-settlement related to foreign exchange transactions which, in general, are approved following the debtor credit rating process.

*Payments to suppliers.* Our payments for supplier services enable our customers to meet their payment obligations to their suppliers on a timely basis through a simple and efficient system. This service also provides payment liquidations, tax payment receipts, invoices and any other documents required by the payer.

*Collection services.* Our collection services include cash or check deposits at our 471 branches, automatic and direct debits from checking or savings accounts and the transportation of funds collected from corporate customers to our branches for deposit. Our extensive branch network enables us to offer fast and efficient collection services throughout Argentina, which is of critical importance to both regional and nationwide companies.

*Datanet and Interpymes.* We provide our corporate clients with access to the Datanet service (“Datanet”), which is an electronic banking network linking member banks in Argentina. This service permits our clients to obtain reliable online information on a real-time basis from their bank accounts in Datanet as well as, to perform certain transactions.

Interpymes is an electronic banking system designed to meet the needs of small businesses. It does not require special installation procedures and is easily accessible through the internet, helping to simplify day-to-day operations for our customers.

*Tax collection and financial agency services.* We also have exclusive, long-term arrangements to provide tax collection and financial agency services to four provinces: Salta, Misiones, Jujuy and Tucumán. These contracts expire in 2026, 2029, 2024 and 2031, respectively.

*Payroll services.* We provide payroll services to four provinces and to the private sector. See “*Our products and services—Retail customers*”.

### Our distribution network

As of December 31, 2018, we had the largest private sector branch network in the country, with 471 branches spread throughout Argentina. In particular, in line with our strategy of expanding nationally, we have extensive coverage in the Argentine provinces with 94% of our branches located outside the City of Buenos Aires. Furthermore, as of December 31, 2018, we had 1,485 ATMs, 934 self-service terminals (“SSTs”) and several service points used for social security benefit payments and servicing of checking and savings accounts and internet home banking service (“Home Banking”). The following table breaks down the distribution of our branches per province as of December 31, 2018:

Province	As of December 31, 2018	
	Branches	% of total
City of Buenos Aires	28	6%
Buenos Aires (Province)	73	15%
Catamarca	1	0%
Chaco	2	0%
Chubut	6	1%
Cordoba	71	15%
Corrientes	4	1%
Entre Rios	10	2%
Formosa	0	0%
Jujuy	16	3%
La Pampa	2	0%
La Rioja	2	0%
Mendoza	16	3%
Misiones	36	8%
Neuquén	5	1%
Rio Negro	6	1%
Salta	37	8%
San Juan	2	0%
San Luis	3	1%
Santa Cruz	2	0%
Santa Fe	105	22%
Santiago del Estero	2	0%
Tierra del Fuego	2	0%
Tucuman	40	8%
<b>TOTAL</b>	<b>471</b>	<b>100%</b>

Source: Central Bank

### Technology, automated channels and credit cards processing systems

Our technological development is continuous and the number of alternative methods to perform banking transactions is increasing. Automated channels allow our clients to perform banking transactions with enhanced speed, comfort and safety, offering a wide variety of available transactions.

During the last few years we have focused on automatic channels, giving customers more accessible and flexible services. As a result, the use of automated channels continued to expand, both in terms of volume of transactions and number of users.

In 2018 the number of transactions made through automatic channels increased by 70% compared to 2017, mainly due to greater use of internet banking and mobile banking. The increase in transactions made through automatic channels has two benefits: it simplifies and ease customers’ operations and, at the same time, reduces operational tasks in the branches.

We have ATMs that operate independently of the branch and offer money extraction service and balances consultation, among other operations. New actions were implemented to maintain high security, service quality and availability standards in our ATM network through preventive management and training strategies. We increased the number of ATMs with cash recognition and online deposit crediting, as well as the number of ATMs with voice guidance for the blind or vision impaired, 97% of our ATMs have that feature. We also implemented a new system that allows cash withdrawals from the ATM without a debit card, using only a code created by the

*Macro Banca Móvil* mobile application. This has placed us in a leading position as to service quality, which is particularly important given the number and geographical dispersion of our ATMs.

Furthermore, we continued strengthening and updating the technology offered at our ATMs, reaching a total of 1,485 operating ATMs, representing one of the widest reaching networks in Argentina. In 2018, the amount transacted through ATMs increased by 12% compared to 2017.

We have SSTs terminals distributed in our branch network across Argentina, offering an ample variety of operations, including the possibility of making deposits twenty-four hours a day, every day, all year long. In 2014, we incorporated the smart check deposit functionality. This development has been beneficial both to us, increasing efficiency by reducing operating tasks in branches, and to clients, increasing safety and reducing transaction times. In 2018, we had 163 intelligent self-service terminal units installed in 120 branches all over the country, in which there have been 180,860 transactions. In 2018, the amount transacted through SSTs increased 5% compared to 2017. As of December 2018, we had 934 SSTs installed. Our aim is to be positioned with the best offer in digital services and promote a migration channel strategy, focusing on the best experience for our customers. During 2017, the Bank initiated a strategic alliance with Globant to define and execute the Bank's digital transformation. The key to digital transformation is, in addition to a technological and methodological challenge, a cultural challenge that it crosses the main areas of the Bank.

Regarding Home Banking, we have implemented a collections service for companies offering the following benefits: security (no cash or checks are transported to the branch), practicality (easy and safe, backup of receipts in a PDF file, possibility to review the history of payments and receipts), accessibility (from any computer) and no additional cost. We also use Home Banking to inform our retail customers about the possibility of getting a personal loan, the amount available and how to apply for it. In 2017, the migration of "*MacrOnline*" to the new Internet Banking System for individuals started. During 2019, we intend to launch the new Business Home Banking, through which we intend to generate a substantial change in the way of operating of our corporate customers interact with us, based on the pillars of security, self-management and transactionality.

Our *Macro Banca Móvil* channel has developed significantly in the last three years. In line with the characteristics of the users and the technological trends supporting the development of the service, the *Macro Banca Móvil* application is available in the main virtual stores of the principal operating systems. In 2017, we worked on new functionalities that generate value for clients: dollar purchase and sale transactions, transfers to new accounts, point checking and redemptions under our *Macro Premia* rewards program, and UVA loans detailed enquiries.

The transactions performed through Home Banking and *Macro Banca Móvil* increased by 76% in 2018.

During 2017, the Bank worked together with Globant to develop a new experience in all the Bank's websites, introducing an innovative design to generate high impact on users. New online advice tools will be added through an engine that searches for customer needs, and service through a virtual agent with artificial intelligence capabilities.

In line with the introduction of new technologies, in 2017 we partnered with Fintech Whyline, pioneering in the introduction of this application in more than 250 branches throughout the country.

Whyline is an application that reduces waiting times in branches. If the customer still feels uncomfortable about using Mobile Banking or Internet Banking and needs to approach a branch in person, they are able to manage their time better through the use of this application.

The significant sustained growth in the number of users and transactions made through automated channels has demonstrated the effectiveness and acceptance of this service in the market.

#### *Prisma Medios de Pago S.A.*

On August 23, 2017, the shareholders of Prisma Medios de Pago S.A. ("Prisma") signed a divestment agreement in Prisma, which was approved by the Ministry of Production on September 26, 2017 (the "Divestment Process").

In accordance with the Divestment Process, Prima's shareholders agreed to transfer, in two stages, its shareholding in Prisma. The first stage (already completed) consisted in the proportional transfer, of each shareholder, of 51% of the shares held in Prisma, while the remaining 49% was agreed to be divested within three years from the completion of the first stage, i.e., January 31, 2022.

Additionally, as a result of the Divestment Process, on February 26, 2018, we entered into several agreements with Prisma pursuant to which (i) the processing for Visa (credit and debit) and American Express, was agreed for a term of five years, starting as from the completion of the first stage of the Divestment Process, and (ii) a non-compete agreement was signed for a five year term, starting as from the completion of the first stage of the Divestment Process in connection with the acquisition rights of Prisma, which will automatically lose effect the day in which the remaining 49% of the share capital of Prisma is transferred. For more information, please see note 20 to our consolidated financial statements as of and for the year ended December 31, 2018 contained elsewhere herein.

### **Risk management policies**

To comply with the "Risk Management Guidelines for Financial Institutions" set forth under Communication "A" 5203, as amended, we have adopted various measures at our organizational structure level and have implemented procedures to ensure the establishment of an independent risk management process.

Our Board of Directors created a Risk Management Committee (the "Risk Management Committee") and appointed a Comprehensive Risk Manager (the "Comprehensive Risk Manager") and made them responsible for coordinating the application of risk management policies and the relevant responsible officers. For more information, see Item 6.C "*Board Practices*".

The Comprehensive Risk Manager coordinates the heads of financial risk, credit risk and operational and technological risk, who are in charge of implementing the guidelines contained in the risk management framework policy.

Our risk management framework policy establishes the environment for the risk management process under the notions of risk identification, measurement, monitoring and mitigation. In addition, it lays out the duties of each organizational level in the process.

Our risk management process includes setting of acceptable risk levels by our Board of Directors, monitoring of our compliance with such levels by responsible officers, the issuance of regular reports for the Risk Management Committee, follow up on alerts and the application of action plans in connection with such alerts and the guidelines for the development of stress tests.

The stress test development process we established includes documenting and formalizing the program, including selecting the persons in charge of carrying out the program, the frequency of testing and validation of the system. It also contemplates the contingency plan based on test results. The Risk Management Committee leads and coordinates these tasks.

Additionally, the system is supplemented with policies and procedures specific to each risk (financial, credit, operational, counterparty credit, country risk, securitization, reputational, compliance and strategic risks, among others).

### **Economic capital estimate**

Economic capital is the estimated amount of unexpected losses identified for each one of the individual risks (financial, credit, counterparty credit, concentration, operational, securitization, strategic and reputational) determined for us on a consolidated basis.

We have implemented a formal procedure for quantifying economic capital, both current and prospective, and it is a tool used in the day-to-day management of risks, in preparing the business plan and in the stress tests.

The methods used to measure the economic capital of each risk were documented and approved by management, pursuant to the internal rules on corporate governance and risk management.

The most significant risks we manage are financial risk, credit risk and operational and technological risk.

### **Financial risk**

Financial risk consists of liquidity, market and interest rate risks, which, independently or in an interrelated manner, can affect our liquidity and solvency.

We have strategies, policies and limits defined for each exposure which have been approved by our Board of Directors within the framework of market, liquidity and interest rate risk management. This process is reviewed periodically by the Risk Management Committee in accordance with the guidelines set forth by the Central Bank.

The purpose of the financial risk policy is to ensure that the Risk Management Committee and senior management have the proper procedures, tools and information to enable them to measure, manage and control the applicable risks.

For more information on financial risk definition and management processes see note 50 “Capital management, Corporate Governance Transparency Policy and Risk management” to our audited consolidated financial statements as of and for the years ended December 31, 2018 and 2017.

## **Credit risk**

### **Credit policy and credit risk management**

The Board of Directors approves our credit policy and credit assessment in order to provide a framework for the creation of businesses to attain an adequate correlation between the risk assumed and profitability.

Our Credit Risk Management area is in charge of interpreting, executing and guaranteeing the application of our General Credit Policy approved by our Board of Directors, ensuring proper identification, assessment, control, follow-up and mitigation of credit risk.

Credit risk results from the possibility of loss derived from customers or counterparties from fully or partially breaching financial obligations they have undertaken with us.

In order to manage and control the credit risk, we establish limits regarding the amount of risk we are willing to accept, so as to monitor the indicators with respect to such limits.

### **Credit risk rating and approval process**

In order to determine the credit risk, our Credit Risk Department qualifies each individual or company by means of a risk rating model, assigning a rating to each debtor, taking into consideration quantitative as well as qualitative concepts. The Credit Risk Department has focused its actions on increasing the quality and efficiency of the credit risk rating process.

There are specific policies and procedures for loan granting for corporate and retail customers, which differ according to the segment to which they belong (public or private payroll, retirees or open market).

The risk assessment process varies depending on whether it's about Corporate Banking customers or Retail Banking customers.

Credit risk assessment for retail customers includes the use of risk applications based on screening and scoring methods related to an arrears level. There is also a mass-scale and centralized qualification process for clients and credit prequalification models for the assessment of potential customers from different sales campaigns.

Various credit committees, composed of members of the business and risk areas are responsible for reviewing and determining whether to approve certain loans, depending upon relevant market targeted and the amount involved. These include a senior credit committee, a junior credit committee, credit committees by customer's categories, and credit committees by region. The senior credit committee consists of members of our Board of Directors and senior management and considers loan proposals in excess of Ps.110 million.

For the assessment of Corporate Banking customers, we feature different methods involving several responsible levels and which become more complex according to the magnitude of the transactions, as to amounts and type of assistance, weighted by terms and existing coverage.

The risk analysis of assistance discussed in Credit Committees is performed at the Corporate Risk Management Department: specialized risk analysts prepare separate Risk Reports per client or Economic Group, which serves to support the credit decisions made by Committee members.

We have a management information system suitable for the size of our operations. Its components include an automated tool for the calculation of key performance indicators, for which alert and limit values have been determined in order to monitor business changes according to the risk appetite defined by our Board of Directors. Other credit risk management tools used are evaluation or score models, which are used at different stages of the credit cycle, attributing an internal risk rating to customers, according to which the assigned credit limits are managed and according to which the portfolio is monitored. Those tools are complemented with expected losses and provision models.

For more information on the credit risk management process see note 50 “Capital management, Corporate Governance Transparency Policy and Risk management” to our audited consolidated financial statements as of and for the years ended December 31, 2018 and 2017.

### **Operational and technological risk**

Operational risk, which we define pursuant to the Basel II Accord and Central Bank Communication “A” 5398, as amended, consists of the risk of suffering losses due to inadequate or failed internal processes, systems or persons or due to external events. This definition includes legal risk but excludes strategic and reputational risk.

Within such framework, the legal risk –which may arise internally or externally- comprises, among other aspects, the exposure to penalties, sanctions or other economic consequences or results for failure to comply with any rule or regulation or contractual obligation.

We have policies, procedures and structures, appointing a head of operational risk, whose main objective is to secure an operational risk management plan which includes policies, programs, measurements and competencies for identifying, assessing and managing risks, with the purpose of assisting our Senior Management and our Board of Directors, in an environment of rapidly changing and significant risks.

In this context, the “Evolutionary Comprehensive Operational Risk Management Model” was developed, which involves the identification, measurement, management and monitoring of operational risks. A training plan was designed to begin conveying the concepts inherent to operational risk and the cultural change that this generates, and an implementation plan of the model was put into practice to achieve full implementation of all of its stages.

A quantitative approach is used to measure operational risk and technological risk. In respect of risk management related to the IT and information systems, we have contingency and business continuity plans in place to minimize the risks that could affect our continuity of operations.

We have an incentives system to manage operational risk in such a way that it would encourage involvement and risk assessment. The risk assessment policy has also been reinforced for new products and in modifications to existing products.

In addition, the implementation of improvements on different functions of our risk management system also continued.

For more information on operational risk management processes see note 50 “Capital management, Corporate Governance Transparency Policy and Risk management” to our audited consolidated financial statements as of and for the years ended December 31, 2018 and 2017.

### **Competition**

We believe that we have an important advantage over our competitors in providing banking products and services to small communities in the provinces of Argentina as a result of the close community relationships and strong loyalty we have developed over time with our customers in these areas.

We consider Banco Santander Río S.A., Banco de Galicia y Buenos Aires S.A., BBVA Banco Francés S.A., HSBC Bank Argentina S.A. and Banco Patagonia S.A. to be our main competitors among private banks. We also compete with certain regional banks.

In the future, we expect competition to increase in corporate transactions products, long-term lending, mortgage lending and other secured financings, credit cards, personal loans, payroll services and investment management services.

### **Competitive landscape**

We are ranked as the fourth private bank and the sixth bank overall in Argentina in terms of total loans and total deposits as of September 30, 2018. In terms of equity we are ranked as the first private bank and the second bank overall in Argentina as of September 30, 2018.

Below are the rankings of banks across these metrics:

#### Total Loans (September 30, 2018)

		Ps. Million	Market Share
1	Banco de la Nación Argentina (1)	390,992	17%
2	Banco de Galicia y Buenos Aires S.A.	246,281	11%
3	Santander Río S.A.	232,484	10%
4	Banco de la Provincia de Buenos Aires (1)	210,928	9%
5	BBVA Frances S.A.	184,691	8%
6	<b>Banco Macro S.A. (2)</b>	<b>173,708</b>	<b>7%</b>
7	HSBC Bank Argentina S.A.	90,064	4%
8	Banco de la Ciudad de Buenos Aires	87,135	4%
9	Industrial and Commercial Bank of China (Argentina) S.A.	79,586	3%
10	Banco Patagonia S.A.	76,814	3%
	Remainder of the Financial System	571,439	26%
	<b>Total Financial System</b>	<b>2,344,122</b>	<b>100%</b>

Source: Central Bank. See "Market and Central Bank Data".

(1) Public sector banks.

(2) Figures from the Bank and Banco del Tucumán were prepared based on Central Bank methodology. See "Market and Central Bank Data".

#### Total Deposits (September 30, 2018)

		Ps. Million	Market Share
1	Banco de la Nación Argentina (1)	1,019,373	27%
2	Santander Río S.A.	385,615	10%
3	Banco de la Provincia de Buenos Aires (1)	344,866	9%
4	Banco de Galicia y Buenos Aires S.A.	320,473	8%
5	BBVA Frances S.A.	247,510	6%
6	<b>Banco Macro S.A. (2)</b>	<b>194,087</b>	<b>5%</b>
7	HSBC Bank Argentina S.A.	138,508	4%
8	Banco de la Ciudad de Buenos Aires	126,200	3%
9	Banco Credicoop Limitado	119,444	3%
10	Banco Patagonia S.A.	97,749	3%
	Remainder of the Financial System	816,143	21%
	<b>Total Financial System</b>	<b>3,809,968</b>	<b>100%</b>

Source: Central Bank. See "Market and Central Bank Data".

(1) Public sector banks.

(2) Figures from the Bank and Banco del Tucumán were prepared based on Central Bank methodology. See "Market and Central Bank Data".

#### Equity (September 30, 2018)

		Ps. Million	Market Share
1	Banco de la Nación Argentina (1)	127,354	23%
2	<b>Banco Macro S.A. (2)</b>	<b>53,673</b>	<b>10%</b>
3	Santander Río S.A.	39,828	7%
4	Banco de Galicia y Buenos Aires S.A.	39,759	7%
5	BBVA Frances S.A.	37,434	7%
6	Banco de la Provincia de Buenos Aires (1)	30,780	6%
7	Citibank, N.A (Argentine Branch)	19,622	4%
8	Industrial and Commercial Bank of China (Argentina) S.A.	15,531	3%
9	HSBC Bank Argentina S.A.	15,235	3%
10	Banco Patagonia S.A.	15,041	3%
	Remainder of the Financial System	159,225	29%
	<b>Total Financial System</b>	<b>553,483</b>	<b>100%</b>

Source: Central Bank. See “Market and Central Bank Data”.

(1) Public sector banks.

(2) Figures from the Bank and Banco del Tucumán were prepared based on Central Bank methodology. See “Market and Central Bank Data”.

There is a large concentration of branches in the City of Buenos Aires and in the province of Buenos Aires for the financial system as a whole, as shown by the following table. However, we have the most extensive private-sector branch network in Argentina and a leading regional presence holding 64% of our total branches in six provinces including Santa Fe, Córdoba, Misiones, Salta, Tucumán and Jujuy.

	As of September 30, 2018				
	Banking system		Banco Macro (1)		Market Share (% share of total of branches in each province)
Province	Branches	% of total	Branches	% of total	
City of Buenos Aires	974	20.4%	29	5.9%	3.0%
Buenos Aires (Province)	1,502	31.5%	75	15.5%	5.0%
Catamarca	21	0.4%	1	0.2%	4.8%
Chaco	70	1.5%	2	0.4%	2.9%
Chubut	71	1.5%	6	1.3%	8.5%
Cordoba	461	9.7%	71	15.1%	15.4%
Corrientes	82	1.7%	4	0.8%	4.9%
Entre Rios	134	2.8%	10	2.1%	7.5%
Formosa	38	0.8%	0	0.0%	0.0%
Jujuy	34	0.7%	16	3.4%	47.1%
La Pampa	73	1.5%	2	0.4%	2.7%
La Rioja	27	0.6%	2	0.4%	7.4%
Mendoza	174	3.6%	16	3.4%	9.2%
Misiones	67	1.4%	36	7.6%	53.7%
Neuquén	85	1.8%	6	1.1%	7.1%
Rio Negro	76	1.6%	6	1.3%	7.9%
Salta	80	1.7%	37	7.9%	46.3%
San Juan	42	0.9%	2	0.4%	4.8%
San Luis	49	1.0%	3	0.6%	6.1%
Santa Cruz	49	1.0%	2	0.4%	4.1%
Santa Fe	484	10.2%	105	22.3%	21.7%
Santiago del Estero	55	1.2%	2	0.4%	3.6%
Tierra del Fuego	25	0.5%	2	0.4%	8.0%
Tucuman	95	2.0%	40	8.5%	42.1%
TOTAL	4,768	100%	475	100%	10.0%

Source: Central Bank.

(1) Includes branches of Banco Macro and Banco del Tucumán.



## **Argentine Banking Regulation**

Unless otherwise indicated, the regulations explained in this section should be applied to financial information of the banks calculated in accordance with Central Bank Rules. IFRS differs in certain significant respects from Central Bank Rules.

### **Overview**

Founded in 1935, the Central Bank is the principal monetary and financial authority in Argentina. Its mission is to promote monetary and financial stability, employment and economic development with social equity. It operates pursuant to its charter, which was amended in 2012 by Law No. 26,739 and the provisions of the Financial Institutions Law. Under the terms of its charter, the Central Bank must operate independently from the Argentine government.

Since 1977, banking activities in Argentina have been regulated primarily by the Financial Institutions Law, which empowers the Central Bank to regulate the financial sector. The Central Bank regulates and supervises the Argentine banking system through the Superintendency. The Superintendency is responsible for enforcing Argentina's banking laws, establishing accounting and financial reporting requirements for the banking sector, monitoring and regulating the lending practices of financial institutions and establishing rules for participation of financial institutions in the foreign exchange market and the issuance of bonds and other securities, among other functions.

The powers of the Central Bank include the authority to fix the monetary base, set interest rates, establish minimum capital, liquidity and solvency requirements, regulate credit, approve bank mergers, approve certain capital increases and transfers of stock, grant and revoke banking licenses, and to authorize the establishment of branches of foreign financial institutions in Argentina and the extension of financial assistance to financial institutions in cases of temporary liquidity or solvency problems.

The Central Bank establishes certain technical ratios that must be observed by financial entities, such as ratios related to levels of solvency, liquidity, the maximum credit that may be granted per customer and foreign exchange assets and liability positions.

In addition, financial entities need the authorization from the Central Bank for certain actions, such as opening or changing branches or ATMs, acquiring share interests in other financial or non-financial corporations and establishing liens over their assets, among others.

As supervisor of the financial system, the Central Bank requires financial institutions to submit information on a daily, monthly, quarterly, semi-annual and annual basis. These reports, which include balance sheets and income statements, information related to reserve funds, use of deposits, classifications of portfolio quality (including details on principal debtors and any allowances for loan losses), compliance with capital requirements and any other relevant information, allow the Central Bank to monitor the business practices of financial entities. In order to confirm the accuracy of the information provided, the Central Bank is authorized to carry out inspections.

If the Central Bank's rules are not complied with, various sanctions may be imposed by the Superintendency, depending on the level of infringement. These sanctions range from a notice of non-compliance to the imposition of fines or, in extreme cases, the revocation of the financial entity's operating license. Additionally, non-compliance with certain rules may result in the compulsory filing of specific adequacy or restructuring plans with the Central Bank. These plans must be approved by the Central Bank in order to permit the financial institution to remain in business.

## **Banking Regulation and Supervision**

### ***Central Bank Supervision***

Since September 1994, the Central Bank has supervised the Argentine financial entities on a consolidated basis. Such entities must file periodic consolidated financial statements that reflect the operations of head offices or headquarters as well as those of their branches in Argentina and abroad, and of their significant subsidiaries, whether domestic or foreign. Accordingly, requirements in relation to liquidity and solvency, minimum capital, risk concentration and loan loss provisions, among others, should be calculated on a consolidated basis.

### ***Permitted activities and investments***

The Financial Institutions Law governs any individuals and entities that perform habitual financial intermediation and, as such, are part of the financial system, including commercial banks, investment banks, mortgage banks, financial companies, savings and loan companies for residential purposes and credit unions. Except for commercial banks, which are authorized to conduct all financial

activities and services that are specifically established by law or by regulations of the Central Bank, the activities that may be carried out by Argentine financial entities are set forth in the Financial Institutions Law and related Central Bank Rules. Commercial banks are allowed to perform any and all financial activities inasmuch as such activities are not forbidden by law. Some of the activities permitted for commercial banks include the ability to (i) receive deposits from the public in both local and foreign currency; (ii) underwrite, acquire, place or negotiate debt securities, including government securities, in both exchange and over-the-counter ("OTC") markets (subject to prior approval by the CNV, if applicable); (iii) grant and receive loans; (iv) guarantee customers' debts; (v) conduct foreign currency exchange transactions; (vi) issue credit cards; (vii) act, subject to certain conditions, as brokers in real estate transactions; (viii) carry out commercial financing transactions; (ix) act as registrars of mortgage bonds; (x) participate in foreign exchange transactions; and (xi) act as fiduciary in financial trusts. In addition, pursuant to the Financial Institutions Law and Central Bank Communication "A" 3086, as amended, commercial banks are authorized to operate commercial, industrial, agricultural and other types of companies that do not provide supplemental services to the banking services (as defined by applicable Central Bank Rules) to the extent that the commercial bank's interest in such companies does not exceed 12.5% of its voting stock or 12.5% of its capital stock. Nonetheless, if the aforementioned limits were to be exceeded, the bank should (i) request Central Bank's authorization; or (ii) give notice of such situation to the Central Bank, as the case may be. However, even when commercial banks' interests do not reach such percentages, they are not allowed to operate such companies if (i) such interest allows them to control a majority of votes at a shareholders' or board of directors' meeting, or (ii) the Central Bank does not authorize the acquisition.

Furthermore, according to the rules regarding "*Complementary Services of the Financial Entities and Allowed Activities*", as amended commercial banks are authorized to operate in local or foreign companies that have one or two of the exclusive corporate purposes listed in section 2.2 of Communication "A" 5700 as amended by Communication "A" 6342, in which the commercial bank's interest either exceeds 12.5% of such companies' voting stock or allows the commercial bank to control a majority of votes at a shareholders' or board of directors' meeting. The financial entities shall give notice to the Superintendency if the corporate purposes of such companies include any of the corporate purposes listed in section 2.2 of that rule.

#### ***Operations and activities that banks are not permitted to perform***

Section 28 of Financial Institutions Law prohibits commercial banks from: (a) creating liens on their assets without prior approval from the Central Bank, (b) accepting their own shares as security, (c) conducting transactions with their own directors or managers and with companies or persons related thereto under terms that are more favorable than those regularly offered in transactions with other clients, and (d) carrying out commercial, industrial, agricultural or other activities without prior approval of the Central Bank, except those considered financially related activities under Central Bank Rules. Notwithstanding the foregoing, banks may own shares in other financial institutions with the prior approval of the Central Bank, and may own shares or debt of public services companies, if necessary to obtain those services.

#### ***Liquidity and solvency requirements***

As of 1994, the Central Bank supervision of financial institutions is carried out on a consolidated basis. Therefore, all of the documentation and information filed with the Central Bank, including financial statements, must show the operations of each entity's headquarters and all of its branches (in Argentina and abroad), the operations of significant subsidiaries and, as the case may be, of other companies in which such entity holds stock. Accordingly, all requirements relating to liquidity, minimum capital, risk concentration and bad debts' reserves, among others, are calculated on a consolidated basis.

#### ***Legal reserve***

Pursuant to the Financial Institutions Law, we are required to maintain a legal reserve which must be funded with no more than 20% and no less than 10% of yearly income, notwithstanding the aforementioned, pursuant to Central Bank Rules, we are required to maintain a legal reserve which is funded with 20% of our yearly income determined in accordance with Central Bank Rules. This reserve can only be used during periods in which a financial institution has incurred losses and has exhausted all other reserves. If a financial institution does not comply with the required legal reserve, it is not allowed to pay dividends to its shareholders.

#### ***Non-liquid assets***

Since February 2004, non-liquid assets (computed on the basis of their closing balance at the end of each month, and net of those assets that are deducted to compute the regulatory capital) plus the financings granted to a financial institution's related parties (computed on the basis of the highest balance during each month for each customer) cannot exceed 100% of the Argentine regulatory capital of the financial institution, except for certain particular cases in which it may exceed up to 150%.

Non-liquid assets consist of miscellaneous assets and receivables, bank property and equipment, assets securing obligations, except for swaps, futures and derivative transactions, certain intangible assets and equity investments in unlisted companies or listed shares, if the holding exceeds 2.5% of the issuing company's equity. Non-compliance with the ratio produces an increase in the minimum capital requirements equal to 100% of the excess on the ratio.

Unless otherwise indicated, the regulations explained in this section should be applied to financial information of the banks calculated in accordance with Central Bank Rules. IFRS differs in certain significant respects from Central Bank Rules.

### ***Minimum capital requirements***

The Central Bank requires that financial institutions maintain minimum capital amounts measured as of each month's closing. The minimum capital is defined as the greater of (i) the basic minimum capital requirement, which is explained below, or (ii) the sum of the credit risk, operational risk and market risk. Financial institutions (including their domestic Argentine and international branches) must comply with the minimum capital requirements both on an individual and a consolidated basis.

The capital composition to be considered in order to determine compliance with minimum capital requirements is the financial institution's RPC (rules regarding to "Financial Entities Minimum Capital", as amended).

### ***Basic minimum capital***

The basic minimum capital requirement varies depending on the type of financial institution and the jurisdiction in which the financial institution's headquarter is registered, with Ps.26 million for banks under Category I and II (Ps.12 million for other financial entities under this category), and Ps.15 million for banks under Category III to VI (Ps.8 million for other financial entities under this category).

### ***Regulatory Capital of Financial Institution: Tier 1 and Tier 2 capital regulations***

Argentine financial institutions must comply with guidelines similar to those adopted by the Basel Committee on Banking Regulations and Supervisory Practices, as amended in 1995 (the "Basel Rules"). In certain respects, however, Argentine banking regulations require higher ratios than those set forth under the Basel Rules.

The Central Bank takes into consideration a financial institution's RPC in order to determine compliance with capital requirements. RPC consists of Tier 1 Capital (Basic Net Worth) and Tier 2 Capital (Complementary Net Worth).

Tier 1 Capital consists of (i) Common Equity Tier 1 ("COn1"), (ii) deductible concepts from Common Equity Tier 1 ("CDCOn1"), (iii) Additional Tier 1 ("CAn1"), and (iv) deductible items from Additional Tier 1 ("CDCAn1").

COn1 includes the following net worth items: (i) capital stock (excluding preferred stock); (ii) non-capitalized capital contributions (excluding share premium); (iii) adjustments to shareholders' equity; (iv) earnings reserves (excluding the special reserve for debt instruments); (v) unappropriated earnings; (vi) other results either positive or negative, in the following terms:

- with respect to results from prior fiscal years, 100% of net earnings or losses recorded until the last quarterly financial statements with limited review report, corresponding to the last full fiscal year and in respect of which the auditor has not issued the audit report;
- 100% of net earnings or losses for the current year as of the date of the most recent audited quarterly financial statements;
- 50% of profits or 100% of losses for the most recent audited quarterly or annual financial statements; and
- 100% of losses not shown in the financial statements, arising from quantification of any facts and circumstances reported by the auditor;

(vii) other comprehensive income: i) 100% of the results recorded in the following items: revaluation of property, plant and equipment and intangibles; gains or losses on financial instruments at fair value with changes in other comprehensive income, ii) 100% of the debit balance of each of the items recorded in other comprehensive income not mentioned in section i). The recognition of these concepts, registered in accounts of other comprehensive income or other accumulated comprehensive income, as appropriate, will be made in accordance with the terms of points 8.2.1.5. or 8.2.1.6., as the case may be of Central Bank Rules regarding "Financial Entities Minimum Capital".

(viii) share premiums of the instruments included in COn1, and, in the case of consolidated entities; and

(ix) minority shareholdings (common shares issued by subsidiaries subject to consolidated supervision and belonging to third parties, if certain criteria are met).

In order for the shares to fall under CON1, at the time of issuance, the financial entity must not generate any expectation that such shares will be reacquired, redeemed or amortized, and the contractual terms must not contain any clause that might generate such an expectation.

#### *Deductible Items*

The above-mentioned items will be considered without certain deductions pursuant to subsection 8.4.1 and 8.4.2 (as applicable) of Central Bank Rules regarding “Financial Entities Minimum Capital”, as amended.

Items deductible from CON1 include, among other things: (a) positive balances resulting from the application of income tax withholdings above 10% of the previous months of basic net worth and balances in favor from deferred tax assets; (b) deposits maintained in a corresponding account with a foreign financial institutions that are not rated as “investment grade,” (c) debt securities not held by the relevant financial institutions, except in the case of securities registered by or in custody of the Central Bank (CRYL), Caja de Valores S.A., or Clearstream, Euroclear and the Depository Trust Company, (d) securities issued by foreign governments whose credit rating is at least ‘investment grade’ according to Communication “A” 5671; (e) subordinated debt instruments issued by other financial institutions; (f) shareholders; (g) real property added to the assets of the financial entity and with respect to which the title deed is not duly recorded at the pertinent Argentine real property registry, except where such assets shall have been acquired in a court-ordered auction sale; (h) goodwill; (i) items pending allocation, debtor balances and other; (j) certain assets, as required by the Superintendency resulting from differences between carry amount and the fair value of assets or actions taken to distort or disguise the true nature or scope of operations; (k) any deficiency relating to the minimum loan loss provisions required by the Superintendency; (l) equity interests in companies that have the following activities: (i) financial assistance through leasing or factoring agreements, and (ii) transitory equity acquisitions in other companies in order to further their development to the extent the ultimate purpose is selling such interest after development is accomplished; (m) the highest balance of that month’s financial assistance granted during the month, where the advance payments set forth in Section 3.2.5 of the rules on “Lending to the non-financial public sector” surpass the authorized limit and/or are not settled within the terms established therein; (n) income from sales relating to securitization transactions, as applicable, pursuant to the provisions of Sections 3.1.4., 3.1.5.2. and 3.1.9., and from portfolio sales or assignments with recourse. This deduction can be applied as long as the credit risk still persists and to the extent in which the capital requirement for the underlying exposures or the sold or assigned portfolio with recourse is maintained; (o) in the case of liabilities from derivatives accounted for at fair value, unrealized gains or losses due to changes in the financial institution’s credit risk will be deductible. The deduction will be limited to the financial institution’s own credit risk adjustments only plus or minus, as the case may be; such adjustments may not be offset against adjustments for counterpart risk; (p) equity interests in financial institutions subject to consolidated oversight, except where not permitted due to the existence of deductible amounts; or in the case of foreign financial institutions. In these cases, the deductions will be the net amount of the allowance for impairment and, when controlled financial institutions subject to the provisions of Section 8.2.1.6., item iii) are involved, the deductions will be 50% of the net amount of profits derived by these entities on a proportional basis to their respective interests.

CAN1 includes certain debt instruments of financial entities not included under CON1 that meet the regulatory criteria established in section 8.3.2 of the rules regarding “Financial Entities Minimum Capital”, as amended and supplemented, and share premiums resulting from instruments included in CAN1. Furthermore, in the case of consolidated entities, it includes instruments issued by subsidiaries subject to consolidated supervision and belonging to third parties, pursuant to applicable regulatory requirements.

Moreover, debt instruments included under CAN1 must comply with the following requirements:

- 1) Must be totally subscribed and paid in full.
- 2) Must be subordinated to depositors, unsecured creditors and to the subordinated debt of the financial entity. The instruments must contemplate that in the case of the entity’s bankruptcy and once all debts with all the other creditors are satisfied, its creditors shall have priority in the distributions of funds only and exclusively with respect to the shareholders (irrespective of their class), with the express waiver of any general or special privilege.
- 3) Must not be insured or guaranteed by the issuer or a related entity, and with no agreement improving, either legally or economically, the payment priority in the case of the entity’s bankruptcy.
- 4) They shall not contemplate any type of capital payment, except in the case of liquidation of the financial entity. Provisions gradually increasing remuneration or other incentives for anticipated amortization are not allowed.
- 5) After 5 years, as from the issuance date, the financial entity can buy back the debt instruments if: (i) it has the prior authorization of the Superintendency; (b) the entity does not create any expectations regarding the exercise of the purchase option and (c) the debt instrument is replaced by a RPC of equal or greater value sustained by its revenue capacity, or if it is demonstrated that once the purchase option is exercised, its RPC significantly exceeds at least by 20% of the minimum capital requirements.
- 6) Any capital repayment requires previous authorization from the Superintendency. In the case of a capital repayment, the financial entity must not create any market expectations regarding the granting of such authorization.

- 7) The financial entity can cancel dividends/interest coupons at any time and at its sole discretion, which shall not be considered the default in itself and shall not grant bondholders the right to demand the conversion of their notes into ordinary shares. Furthermore, there shall be no restrictions to the financial entity, except with respect to dividend distribution to the shareholders.
- 8) The payment of dividends/interest coupons shall be carried out through the noting of distributable entries, in the terms of the regulations on “Results Distribution” (Section III of the Central Bank’s regulations).
- 9) The included dividends/interest coupons shall not have periodic adjustments because of the financial entity’s credit risk.
- 10) They should not have been bought by the financial entity or any other entity over which the financial entity has control or significant influence.
- 11) They should not have been bought with direct or indirect financing from the financial entity.
- 12) They shall not contain elements that make re-capitalization difficult.

Instruments considered liabilities must absorb losses once a pre-established triggering event takes place. The instruments must do so through their conversion into ordinary shares or a mechanism assigning final losses to the instrument with the following effects:

- a) Reduction of debt represented by the instrument in the event of winding-up of the entity;
- b) Reduction of the amount to be repaid in case a call option is exercised;
- c) Total or partial reduction of the dividends/interest coupon payments of the instrument.

#### *Complementary Net Worth (NWc): Tier 2*

Tier 2 Capital includes (i) certain debt instruments of financial entities which are not included in Tier 1 Capital and meet the regulatory criteria established in section 8.3.3 of the rules regarding “Financial Entities Minimum Capital” as amended and supplemented, (ii) share premium from instruments included in Tier 2 Capital, and (iii) loan loss provisions on the loan portfolio of debtors classified as being in a “normal situation” pursuant to Central Bank Rules on debtor classification and of financing with preferred security “A” not exceeding 1.25% of the assets measured for credit risk. Additionally, in the case of consolidated entities, it includes (iv) debt instruments issued by subsidiaries subject to a consolidated supervision and belonging to third parties, if they meet the criteria in order to be included under NWc. The above-described items will be considered less deductible items pursuant to section 8.4.2 of the rules regarding “Financial Entities Minimum Capital”, as amended and supplemented, which is described below.

Moreover, debt instruments included under NWc must comply with the following requirements:

- Must be totally subscribed and paid in full.
- Must be subordinated to depositors, unsecured creditors and the subordinated debt of the financial entity.
- Must not be insured or guaranteed by the issuer or a related entity, and with no agreement improving either legally or economically the payment priority in case of the entity’s bankruptcy.
- Maturity: (i) original maturity date within no less than five years; (ii) clauses considering gradually increasing remuneration or other incentives for anticipated amortization are not allowed and (iii) from the beginning of the last five years of life of the indebtedness, the computable amount will be diminished by 20% of its nominal issuance value.
- After five years as from the issuance date, the financial entity can buy back the debt instruments with the previous authorization of the Superintendency, and if the entity does not create any expectations regarding the exercise of the purchase option. The debt instrument must be replaced by an RPC of equal or greater value sustained by its revenue capacity, or if it is demonstrated that once the purchase option is exercised its RPC significantly exceeds at least in a 20% of the minimum capital requirements.
- The investor shall not be entitled to accelerate the repayment of future projected payments, except in the case of bankruptcy or liquidation.
- They cannot incorporate dividends/coupons with periodic adjustments linked to the financial entity’s credit risk.
- They should not have been bought by the financial entity or any other entity over which the financial entity has control or significant influence.
- They should not have been bought with direct or indirect financing from the financial entity.

Additionally, instruments included in NWc and CAn1, shall present the following conditions in order to assure their loss-absorbency capacity:

- a) Their terms and conditions must include a provision pursuant to which the instruments must absorb losses—either through a release from debt or its conversion into ordinary capital—once a triggering event has occurred, as described hereunder.
- b) If the holders receive compensation for the debt release performed, it should be carried out immediately and only in the form of common shares, pursuant to applicable regulations.
- c) The financial entity must have been granted the authorization required for the immediate issuance of the corresponding common shares in the case of a triggering event, as described below.

Triggering events of regulatory provisions described above are: (i) when the solvency or liquidity of the financial entity is threatened, and the Central Bank rejects the amnesty plan submitted or revokes its authorization to function, or authorizes restructuring protecting depositors (whichever occurs first) or (ii) upon the decision to capitalize the financial entity with public funds.

We have issued U.S.\$400,000,000, 6.750% Series A Subordinated Resettable Notes due 2026, that are outstanding as of the date of this annual report and comply with all the requirements described above.

Further criteria regarding the eligibility of items included in the RPC calculation must be followed pursuant to the regulatory requirements of minority and other computable instruments issued by subsidiaries, subject to consolidated supervision by third parties. A minority shareholding may be included in COn1 of the financial entity if the original instrument complies with the requirements established for its qualification as common shares regarding the RPC.

#### *Deductible items applied to the different capital levels*

- i) Investments in computable instruments under the financial entity's RPC not subject to consolidated supervision when the entity owns up to 10% of the issuer's ordinary capital according to the following criteria: (i) investments include direct, indirect or synthetic interests; (ii) investments include the acquired net position; (iii) securities issued are placed within five (5) business days; and (iv) the investments in capital instruments that do not satisfy the criteria to be classified as COn1 (Common Capital Tier 1), AT1 (Additional Capital Tier 1) or PNc (Supplementary Capital) of the financial institution shall be regarded as COn1 –common equity shares, for the purposes of this regulatory adjustment. If the aggregate amount of these interests in the capital of financial institutions, companies providing services supplementary to the financial industry and insurance companies – which individually represent less than 10% of the COn1 of each issuer – exceeds 10% of the COn1 of the financial institution, net of applicable deductions, the amount over such 10% shall be deducted from each capital tier in accordance with the following method: i) Amount to be deducted from COn1: aggregate excess amount over 10% multiplied by the proportion represented by the COn1 holdings over the aggregate equity interests; ii) Amount to be deducted from CAn1: aggregate excess amount over 10% multiplied by the proportion represented by the CAn1 over the aggregate equity interests. iii) Amount to be deducted from PNc: aggregate excess amount over 10% multiplied by the proportion represented by the PNc holdings over the aggregate equity interest. If the financial institution does not have enough capital to make the deduction pertaining to a particular capital tier, the remaining amount shall be deducted from the next higher level. Amounts below the threshold, which are not deducted, are weighted based upon the risk or are taken into account in the calculation of the market risk requirement, as applicable.
- ii) Investments in instruments computed as regulatory capital of financial institutions and companies rendering services supplementary to the financial industry, not subject to consolidated oversight, and insurance companies, when the institution holds more than 10% of the common equity of the issuer, or when the issuer is a subsidiary of the financial institution, shall be subject to the following criteria: i) The investments include direct, indirect and synthetic interests. For these purposes, indirect interest means an investment by a financial institution in another financial institution or company not subject to consolidated oversight, which in turn has an interest in another financial institution or company not consolidated with the first one. A synthetic interest means an investment made by a financial institution in an instrument the value of which is directly related with the equity value of another financial institution or company not subject to consolidated oversight; ii) The net acquired position is included, i.e., the gross acquired position less the position sold in the same underlying exposure, when this has the same duration than the acquired position or its residual life is at least one year; iii) The holding of securities underwritten to be sold within a five business day term may be excluded; iv) Investments in capital instruments that do not satisfy the criteria to be classified as COn1, CAn1 or PNc of the financial institution shall be regarded as COn1, common equity shares, for the purposes of this regulatory adjustment. The amount of these interests, taking into account the applicable type of instrument, shall be deducted from each of the applicable capital tiers of the financial institution. If the financial institution does not have enough capital to make the deduction pertaining to a particular capital tier, the remaining amount shall be deducted from the next higher level.
- iii) Own repurchased instruments that satisfy the criteria for being included in CAn1 or PNc must be deducted from the applicable capital tier.

#### *Limits*

Rules regarding "Financial Entities Minimum Capital", as amended and supplemented, establishes minimum thresholds regarding capital integration: (i) for COn1, the amount resulting from multiplying the capital RWA by 4.5%; (ii) for NWb, the amount resulting from multiplying RWA by 6% and (iii) for the RPC, the amount resulting from multiplying RWA by 8%. The lack of compliance with any of these limitations is considered as an infringement to minimum capital integration requirements.

Pursuant to Communication "A" 5889, RWA shall be calculated as follows:

$$RWA = RWAc + [(MR+OR) \times 12.5]$$

Where:

RWAc: credit risk weighted assets

MR: minimum capital requirement for market risk

OR: minimum capital requirement for operational risk

### *Economic Capital*

Rules regarding “Financial Entities Risk Management Guidelines”, as amended and supplemented, requires financial institutions to have an integrated global internal process in place to assess the adequacy of their economic capital based on their risk profile (the “Internal Capital Adequacy Assessment Process” or “ICAAP”), as well as a strategy aimed at maintaining their regulatory capital. If, as a result of this internal process, it is found that the regulatory capital is insufficient, financial institutions must increase regulatory capital based on their own estimates to meet the regulatory requirement.

The economic capital of financial institutions is the amount of capital required to pay not only unexpected losses arising from exposure to credit, operational and market risks, but also those arising from other risks to which the financial institution may be exposed.

Financial institutions must demonstrate that their internal capital targets are well-funded and adequate in terms of their general risk profile and operations. The ICAAP should take into consideration all material risks to which the institution is exposed. To this end, institutions must define an integral process for the management of credit, operational, market, interest rate, liquidity, securitization, graduation, reputational and strategic risks and use stress tests to assess potential adverse scenarios that may affect their regulatory capital.

The ICAAP must include stress tests supplementing and validating any other quantitative or qualitative approach employed by the institution in order to provide the board of directors and senior management with a deeper understanding of the interaction among the various types of risk under stress conditions. In addition, the ICAAP must consider the short- and long-term capital needs of the institution and ensure the prudent accumulation of excess capital during positive periods of the economic cycle.

The capital level of each entity must be determined in accordance with its risk profile, taking external factors such as the economic cycle effects and political scenario.

The main elements of a strict capital evaluation include:

- a) Policies and procedures to guarantee that the entity identifies, quantifies and informs all the important risks.
- b) A process which relates economic capital with the current level of risk.
- c) A process which sets forth capital sufficiency objectives related to the risk, taking a strategic approach from the entity and its business plan into consideration.
- d) An internal process of controls, tests and audits, with the objective to guarantee that the general risk management process is exhaustive.

### ***Requirements applicable to dividend distribution***

Dividends are calculated based on our statutory financial statements of the Bank, and prepared under Central Bank Rules, that differ in certain significant aspects from IFRS. The Central Bank has imposed restrictions on the payment of dividends, substantially limiting the ability of financial institutions to distribute such dividends subject to compliance with the rules set forth in the Restated Regulations on Earnings Distributions, under the criterion that the amount to be distributed cannot affect the institution’s liquidity and solvency, which shall be verified by the satisfaction of certain requirements, on a consolidated basis.

Such regulations provides that the payment of dividends (other than dividends on common shares), the acquisition of treasury shares, the payment on other tier 1 equity instruments (as determined in accordance with the provisions set forth in the rules on “Minimum capital of financial institutions”) and/or the payment of financial incentives (bonuses) to personnel – in this case, subject to the labor law regulations (legal, statutory and contractual) governing the financial institutions’ relationships with their personnel– shall be subject to these rules.

Institutions may distribute earnings up to the positive amount derived from the off-balance sheet calculation set forth herein, without exceeding the limits set forth in these rules.

To such effect, the registered balances, as of the end of the fiscal year to which they belong, in the account “Unappropriated Retained Earnings” and in the voluntary reserve for future distributions of earnings shall be computed, deducting the amounts – recorded on the same date – of the legal and statutory reserves – whose creation is mandatory – and the following items:

1. 100 % of the negative balance of each of the items recorded under the line “Other comprehensive retained earnings.”
2. The result derived from the revaluation of property, plant and equipment and intangible assets and investment properties.
3. The net positive difference resulting from the calculation at amortized cost and the fair market value recorded by the financial institution in connection with sovereign bonds and/or currency regulation instruments issued by the Central Bank for such instruments valued at amortized cost.
4. The asset valuation adjustments notified by the Superintendency – whether accepted or not by the institution –, that are pending registration and/or those indicated by the external audit that have not been accounted.
5. The individual deductibles – regarding asset valuation – established by the SEFyC, including the adjustments derived from the failure to consider agreed adjustment plans.

In addition, financial institutions shall not distribute earnings out of the income derived from the first application of IFRS and are obliged to create a special reserve which shall only be reversed for capitalization purposes or to absorb possible negative balances in the item “Unappropriated Retained Earnings”.

The amount to be distributed, which shall not exceed the limits set forth by the Central Bank, shall not compromise the liquidity and solvency of the institution. This requirement shall be considered satisfied once it has been verified that there are no integration defects in the minimum capital position – whether individual and consolidated – as of the end of the fiscal year to which the unappropriated retained earnings pertain or in the last closed position, whichever has the lesser integration excess, recalculating them together (for such purpose only) with the following effects based on the data relevant as of each such date:

1. Those arising after deducting the items set forth above in points 1 to 5, if applicable, from the assets.
2. The failure to consider the deductibles established by the SEFyC affecting the requirements, integrations and minimum capital position.
3. The deduction of the amounts relating to the following items from the unappropriated retained earnings:
  - the amount to be distributed and, if applicable, the amount allocated to the creation of the reserve to repay debt instruments, capable of integrating the regulatory capital;
  - positive balances due to the application of the minimum presumed income tax – net of allowances for impairment – that have not been deducted from the basic shareholders’ equity, in accordance with the provisions set forth in rules on “Minimum capital of financial institutions”; and
  - adjustments made in accordance with paragraphs 4 and 5 above.
4. The failure to consider the limit set forth in paragraph 7.2. of the rules on “Minimum capital of financial institutions.”

The distribution of earnings shall only be admitted if none of the following events occurs:

- the institution is subject to the provisions of article 34 “Regularization and Recovery” and article 35 bis “Institution’s restructuring for the purpose of safeguarding loans and deposits” of the Financial Institutions Law;
- the institution has received financial assistance from the Central Bank under section 17 of its Charter, due to illiquidity;
- the institution is delayed or in breach of the reporting regime set forth by the Central Bank;
- the institution records minimum capital integration deficits – whether individually or consolidated – (without computing the effects of the individual deductibles established by the SEFyC);
- the integration of the average minimum cash – in Pesos, in foreign currency or in sovereign securities – is smaller than the requirement applicable to the last closed position or the projected position, taking into account the effect of the earnings distribution;
- the institution has failed to comply with the additional capital margins applicable in accordance with Section 4.”

The aforementioned regulation contemplated transitory provision, effective until March 31, 2020, pursuant to which those financial institutions which, in order to determine distributable earnings, have not increased the ranges of CON1 net of deductions (CDCON1) set forth in 1 percentage point, must obtain the prior authorization of the SEFyC for the distribution of earnings. This requirement shall also be applicable to the payment of financial services applicable to the issue of debt securities.

Unless otherwise indicated, the regulations explained in this section should be applied to financial information of the banks calculated in accordance with Central Bank Rules. IFRS differs in certain significant respects from Central Bank Rules.



## Capital Conservation Buffer

It is also stated that financial entities shall maintain a capital conservation margin in addition to the minimum capital requirements in order to ensure the accrual of owned resources to cope with eventual losses, reducing the non-compliance risk.

Financial entities considered D-SIBs or globally systemically important (“G-SIBs”), must have a capital level that permits a greater capacity for loss absorption, by virtue of negative externalities that the effects of insolvency of such entities or their foreign holdings could create in the financial system and the economy.

The conservation capital margin shall be 2.5% of the amount of RWA. In cases of entities considered systemically important, the margin will be increased to 3.5% of the amount of capital risk weighted assets. These margins can be increased once again, according to the counter-cycle margin. The conservation capital margin, increased in the case of entities considered systemically important, must be integrated exclusively with Common Equity Tier 1 (COn1), net from deductible items (CDCOn1).

When such margin is used, the entities must raise capital with new capital contributions, or reduce future distributions.

The dividend distribution shall be limited whenever the level and composition of the computable asset liability, even when it complies with the minimum capital requirements, is within the range of the capital conservation margin. This limitation reaches solely the dividend distribution, but not the operation of the entity. Entities shall be able to operate normally when levels of Con1 are within the range of conservation margin. When the coefficient of Common Equity Tier 1 (Con1 as percentage of RWA) is within the range of margins conservation of capital, the restriction to the results distribution shall be increased whenever the coefficient of Con1 comes close to the minimum required in section 8.5.1 of regulations over “Minimum Capital for Financial Entities”. The following table shows the maximum percentages of dividend distribution, according to the compliance with the conservation margin presented:

Coefficient of Common Equity Tier 1 (COn1) net of deductions (CDcon1) – as percentage of RWA -.		
Financial Entities – That are not categorized as D-SIBs or G-SIBs-	D-SIBs and G-SIBs Financial Entities	Minimum coefficient of capital conservation – as percentage of dividend distribution -
4.5 – 5.13	4.5 – 5.38	100
> 5.13 – 5.75	> 5.38 – 6.25	80
> 5.75 – 6.38	> 6.25 – 7.13	60
> 6.38 – 7.0	> 7.13 – 8	40
> 7	> 8	0

Currently, the minimum limits required by the regulations are:

- COn1/RWA: 4.5%
- NWb/RWA: 6.0%
- RPC/RWA: 8.0%

COn1 must be used in the first place to satisfy the minimum capital requirement of 4.5% of RWA. Subsequently, and in the event the total does not have enough Additional Tier 1 (CAN1) or Tier 2 Capital (NWC), the COn1 shall also be applied to meet requirements of 6% and 8% of Tier 1 Capital and total capital. Only the remaining COn1, if any, can be computed to satisfy the applicable conservation margin, increased in function of the counter-cycle margin, if applicable.

Any entity that desires to exceed the dividend distribution limits shall finance this distribution by new contributions of COn1 in the excess amount.

The Central Bank also establishes the counter-cycle margin in order to allow the financial entities’ capital levels to correspond to the accumulative systematic risk associated with an excessive credit expansion and the macro-financial context. When the Central Bank considers that the credit growth is excessive, creating an increase in systematic risk, it can establish, with a twelve-month advanced notice, the obligation to constitute a counter-cycle margin within a range of 0% to 2.5% of RWA. This margin can be reduced or cancelled by the Central Bank when it considers that the systematic risk has been diminished.

Financial entities with international activity shall consider the geographic location of their credit exposure with local and foreign residents of the private sector and calculate the counter-cycle margin as the mean between the required margins in foreign jurisdictions. This includes all credit exposure to private sectors subject to the requirement of credit risk capital.

In order to determine which jurisdiction corresponds to each exposure, the principle of ultimate risk shall be applied. Pursuant to this principle, one must identify the jurisdiction where the guarantor of the risk resides. The counter-cycle margin shall be observed by means of an increase in the conservation capital margin and shall be satisfied exclusively with Common Equity Tier 1, net of deductible concepts (CDCOn1).

For more information, see Item 8.A “Consolidated Statements and Other Financial Information—Amounts available for distribution and distribution approval process”.

## Credit Risk

The minimum capital requirement in respect of counterparty risk (“CRC”) must be calculated according to the monthly balance. CRC is defined as:

$$CRC = k * (0.08 * RWAc) + INC$$

Variable “k”: Minimum capital requirements also depend on the CAMELBIG rating (1 is the strongest, 5 is the weakest) assigned by the Superintendency, which also determines the “k” value. This rating system complies with international standards and provides a broad definition of the performance, risks and perspectives of financial entities. Financial entities have to adjust their capital requirements according to the following “k” factors:

CAMELBIG Rating	k Factor
1	1.00
2	1.03
3	1.08
4	1.13
5	1.19

For the purposes of the calculation of the capital requirement, the rating will be that of the third month after the month of the most recent rating informed to the entity. For so long as no notice is given, the “k” factor will be equal to 1.03.

“RWAc” stands for capital risk weighted assets calculated by adding the value obtained from applying the following formula:

$$A * p + PFB * CCF * p + no DVP + (DVP + RCD + INC \text{ significant investments in companies}) * 12,5$$

Variable “A” refers to computable assets/exposures;

“PFB” are computable items which are not registered on the balance sheet;

“CCF” the conversion credit factor; and

“p” refers to the weighting factor, expressed on a per unit basis.

DvP” refers to failed delivery against payment transactions (for purposes of these rules, failed payment against payment (PvP) transactions are also included). The amount is determined by the addition of the amounts arrived at by multiplying the current positive exposure by the applicable capital requirement.

In addition, “no DvP” refers to transactions that do not involve delivery against payment. The amount is determined by the addition of the amounts arrived at by applying the weighting factor (p) on the relevant transactions.

“RCD” refers to requirements for counterparty risk in OTC transactions.

“INC” incremental minimum capital requirements based on any excess in the fixed assets and other ratios, the limitations established under “Major Exposure to Credit Risk Regulations”.

“INC (relevant investments in companies)” means the incremental minimum capital requirements based on any excess over the following limits:

- equity interest held in companies: 15%
- total equity interests held in companies: 60%

The established maximum limits will be applied on the financial entity’s computable regulatory capital for the last day before the relevant date, as prescribed in the Central Bank regulations on “Credit Risk Fractioning”.

Each type of asset is weighted according to the level of risk assumed to be associated with it. In broad terms, the weights assigned to the different types of assets are:

Type of Asset	Weighting (%)
Cash and cash equivalents	
Cash held in treasury, in transit (when the financial institution assumes responsibility and risk for transportation), in ATMs, in checking accounts and in special accounts with the Central Bank, gold coins or bars	0
Cash items in the process of collection, cash in armored cars and in custody at financial institutions	20
Exposure to governments and central banks	
To the Central Bank denominated and funded in Pesos	0
To the public non-financial sector denominated and funded in Pesos, including securitized exposures	0
To the public non-financial sector arising from financing granted to social security beneficiaries or public employees (with discount code)	0
To the public non-financial sector and the Central Bank. Other	0

To other sovereign states or their central banks and other foreign public non-financial sector institutions	0
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Type of Asset	Weighting (%)
To the Bank for International Settlements, the IMF, the European Central Bank and the European Community	0
<i>Exposure to the Multilateral Development Banks (MDB)</i>	
The International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the Inter-American Development Bank (IDB), the European Investment Bank (EIB), the Asian Development Bank (ADB), the African Development Bank (AFDB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CBD), the Islamic Development Bank (IDB) and the European Council Development Bank (ECDB)	0
Other	20
<i>Exposure to local financial institutions</i>	
Denominated and funded in Pesos arising from transactions with an initial contractual term of up to 3 months	20
Other	0
<i>Exposure to foreign financial institutions</i>	0
<i>Exposure to local and foreign companies and other entities - including national foreign exchange entities, insurance companies, brokerage houses and other companies considered non-financial private sector entities pursuant to the provisions of Section 1 of the regulations governing the "Financing of the non-financial public sector"</i>	100
<i>Exposures included in the retail portfolio</i>	
Loans to individuals (provided that installments of loans granted by the institution do not exceed, at the time of the agreements, 30% of borrower's income) and to Micro, Small- and Medium-Sized Companies ("MiPyMEs").	75
Other	100
<i>Exposures guaranteed by reciprocal guaranty companies (sociedades de garantía recíproca) or public security funds registered with the registries authorized by the Central Bank</i>	50
<i>Primary mortgages and mortgages of any ranking on residential homes, to the extent the entity is the mortgagee</i>	
If credit facility does not exceed 75% of the appraised value of such real property	
- Sole, permanently-occupied family home	35
- Other	50
On the amount exceeding 75% of the appraised value of such real property	100
<i>Primary mortgages and mortgages of any ranking other than on residential homes, to the extent the entity is the mortgagee</i>	
Up to 50% of the lower of the real property market value or 60% of the mortgage loan.	50
On the remaining portion of the loan.	100
Delinquent loans over 90 days	
Weighting varies according to the loan and specific provisions Created	50-150
Interests in companies	150
<i>Exposures to central counterparty entities (CCP)</i>	0
<i>Other assets and / or items off the balance sheet</i>	100

Excluded items include: (a) securities granted for the benefit of the Central Bank for direct obligations; (b) deductible assets pursuant to RPC regulations and (c) financings and securities granted by branches or local subsidiaries of foreign financial entities by order and on account of their headquarters of foreign branches or the foreign controlling entity, to the extent: (i) the foreign entity has an investment grade rating, (ii) the foreign entity is subject to regulations that entail consolidated fiscalization, (iii) in the case of finance operations, they shall be repaid by the local branch or subsidiary exclusively with funds received from the aforementioned foreign intermediaries; and (iv) in the case of guarantees granted locally, they are in turn guaranteed by their foreign branch headquarters or the foreign controlling entity and foreclosure on such guaranty may be carried out immediately and at the sole requirement of the local entity.

## ***Credit Risk Regulation – Large Exposures***

### *General Overview*

Communication “A” 6599 of the Central Bank, as amended and restated by Communication “A” 6620, effective as of January 1, 2019, abrogated credit risk fractioning regulations (except for the provisions related to the non-financial public sector), and replaced the former regime by regulating “large exposures to credit risk”. The system seeks to limit the maximum loss that a financial entity may suffer upon the occurrence of an unexpected default of a counterparty or group of connected counterparties who do not belong to the non-financial public sector, therefore affecting its solvency. The regulations regarding the exposures to credit risk must be applied at all times with every counterparty of the entity.

In this regard, the regulations have established the concept of group of connected counterparties, which applies to all cases in which one of the counterparties of a financial entity have direct or indirect control over the rest or in those cases in which financial difficulties experimented by one of the counterparties causes a strong likelihood that its subsidiaries may struggle financially as well. According to the regulation, upon the detection of the existence of a group of connected counterparties by the financial entity, such group shall be considered as a single counterparty and the sum of the exposures to credit risk that a financial entity possesses with all the individual counterparties comprehended in that group shall be subject to the information and disclosure requirements provided in section 2.

One of the main aspects of Communication “A” 6599 is the introduction of the concept of large exposure to credit risk in Argentine banking regulations, which is defined as the sum of all values of exposure of a financial entity with a counterparty or group of connected counterparties when it is equal or above 10% of the Tier 1 Capital registered by the financial entity the immediately preceding month of its calculation.

However, the determination of the values of exposure to risk recognize the following exceptions:

- Intraday interbank exposures;
- Exposures of financial entities with qualifying central counterparties, as defined by the Central Bank regulations on minimum capital;
- Exposures with the Central Bank; and
- Exposures with the Argentine non-financial public sector.

Regarding the information regime, the Central Bank has established that the financial entities shall inform the Superintendency of all the values of exposure to credit risk before and after the application of mitigation techniques, detailing:

- Exposures to risk with a value equal or above 10% of Tier 1 Capital of the financial entity;
- Every other exposure to risk which value is equal or above 10% of the Tier 1 Capital of the financial entity, without applying credit risk mitigation techniques;
- Excluded exposures to risk which values are equal or above 10% of the financial entity’s Tier 1 Capital; and
- The financial entity’s 20 largest applicable exposures to risk, regardless of its value in relation with the financial entity’s Tier 1 Capital.

### *Limits*

Communication “A” 6599 sets the global limit of exposure to risk with respect to affiliate counterparties at 20%. In the case of stock held in an investment portfolio, the sum of all the values of exposure to risk corresponding to the total stocks not related to the portfolio shall not exceed 15% (holdings in public services companies or companies dedicated to complementary services to financial activities are excluded). The total limit of stocks and holdings shall be the sum of all the values of exposure to risk corresponding to the total amount of stock in an investment or negotiation portfolio plus the credits for forward operations and sureties entered into in authorized Argentine markets shall not exceed 50%.

### *Minimum controls to exposures of affiliates*

The regulations set forth three stages for the control of the financial entity’s affiliates exposure:

1) Reports for the entity’s management:

- Report by the CEO;

- Report by the supervisory committee; and
- Acknowledgment of the reports by the entity's management.

2) Evidence of the affiliation to the financial entity: the personnel responsible for the analysis and resolution of the credit operations shall expressly register whether or not the client is affiliated with the financial entity.

3) Affidavit evidencing affiliation: affiliated clients shall file an affidavit stating if they belong to the lending entity or if its relationship with such entity implies the existence of a controlling influence.

### ***Interest rate risk***

Until January 1, 2013, financial entities had to comply with minimum capital requirements regarding interest rate risk. These requirements were intended to capture the sensitivity of assets and liabilities to changes in the interest rates. Communication "A" 5369 removed all rules and regulations regarding minimum capital requirements for interest rate risk. Notwithstanding this change, financial entities must continue to calculate the interest rate risk and remain subject to the Superintendence's supervision. By virtue of Communication "A" 6534, dated July 3, 2018, Investment Portfolio Interest Rate (RTCI) shall be calculated.

### ***Market risk***

Overall capital requirements in relation to market risk are based on the sum of the five amounts of capital necessary to cover the risks. Market risk is defined as the possibility of incurring losses in on- and off-balance sheet recorded positions as a result of adverse changes in market prices. The market risk minimum capital requirement is the arithmetic sum of the minimum capital requirement for interest rate (trading portfolio), stock (trading portfolio), exchange rate and options risks (trading portfolio). To meet this capital requirement, entities must apply a "Standard Measurement Method" based on an aggregate of components that separately capture the specific and general market risks for securities positions.

*General considerations.* Risks subject to this minimum capital requirement include risks derived from positions in instruments – such as securities and derivatives – recorded as part of the trading portfolio, and risks from foreign currency positions recorded, indistinctly, as part of the investment or trading portfolio. For the purpose of the above accounting recording, the trading portfolio of financial entities comprises positions in financial instruments included among an entity's assets for purposes of trading or of providing hedging to other items contained in the portfolio. Pursuant to Communication "A" 5889, a financial instrument may be accounted for as part of the trading portfolio – for purposes of meeting the minimum capital requirement for market risk – if such instrument may be traded free from any restriction or if the instrument may be hedged in full. Also, the portfolio must be actively managed, and its positions must be valued on a daily basis and with the required accuracy. Positions kept for trading purposes are those positions that the entity intends to sell in the short term or from which it intends to derive a profit as a result of changes, either actual or expected, in short-term prices, or by means of arbitrage activities. They include both positions that the entities keep for their own use and those they purchase in the course of services performed for customers or "market making" activities". Financial entities must calculate the minimum capital requirement for the counterparty credit risk involved in OTC transactions involving derivatives and securities financing transactions, such as repo transactions (repo agreements), recorded as part of the trading portfolio on a separate and additional basis to the calculation of capital requirements for general market risk and specific market risk of the underlying securities. For this purpose, entities will be required to apply the methods and weighting factors usually applicable when those transactions are recorded as part of the investment portfolio. Entities must have clearly defined policies and procedures in place, designed to determine the exposures that are to be included into or excluded from the trading portfolio in order to calculate their minimum capital requirement for market risk. On the other hand, the investment portfolio will include all securities held by the entity which are not included in the trading portfolio.

The minimum capital requirement for exchange rate risk will apply to the total position in each foreign currency. The minimum capital requirement for securities will be computed in respect of the instruments accounted for as part of the trading portfolio, which must be valued prudently (marked to market or marked to model). Instruments whose yield is determined in relation to CER must be considered fixed-rate securities. Whether recorded as part of the trading or of the investment portfolio, items to be deducted for purposes of calculating the RPC will be excluded from the calculation of the market risk minimum capital requirement.

*Minimum capital requirement for interest rate risk.* The minimum capital requirement for interest rate risk must be calculated in respect of any debt securities and other instruments accounted for as part of the trading portfolio, including any non-convertible preferred shares. This capital requirement is calculated by adding two separately calculated requirements: first, the specific risk involved in each instrument, either a short or a long position, and second, the general market risk related to the effect of interest rate changes on the portfolio. A set off of the long and short positions held in different instruments will be allowed.

*Minimum capital requirement for positions in stock.* The capital requirement for the risk of holding equity positions in the trading portfolio applies to both long and short positions in ordinary shares, convertible debt securities that function like shares and any call or put options for shares, as well as any other instrument with a market behavior similar to that of shares, excluding non-convertible preferred shares, which are subject to the minimum capital requirement for interest rate described in the preceding paragraph. Long and short positions in the same security may be computed on a net basis.

*Minimum capital requirement for exchange rate risk.* The capital requirement for exchange rate risk establishes the minimum capital required to hedge the risk involved in maintaining positions in foreign currency, including gold. To calculate the capital requirement for exchange rate risk, entities must first quantify its exposure in each currency, and then estimate the risks inherent in the combination of long and short positions in different currencies.

*Minimum capital requirement for positions in options.* The calculation of the capital requirement for the risk involved in positions in options may be based on the “simplified method” set forth in Communication “A” 5867 if the entity only purchases options; provided that, the market value of all the options in its portfolio does not exceed 5% of the entity’s RPC for the previous month, or if its positions in sold options are hedged by long positions in options pursuant to exactly the same contractual terms. In all other cases, the entity must use the alternative “delta plus” method, provided for in the regulation.

### ***Consequences of a Failure to Meet Minimum Capital Requirements***

In the event of non-compliance with capital requirements by an existing financial institution, Central Bank Communication “A” 6091, as amended, provides the following:

- (i) *Non-compliance reported by the institution:* the institution must meet the required capital no later than the end of the second month after the date of non-compliance or submit a restructuring plan within thirty (30) calendar days after the end of the month in which such non-compliance was reported. In addition, non-compliance with minimum capital requirements will entail a number of consequences for the financial institution, including a prohibition to open branches in Argentina or in other countries, establish representative offices abroad, or own equity in foreign financial institutions, as well as a prohibition to pay cash dividends. Moreover, the Superintendency may appoint a representative, who shall have the powers set forth by the Financial Institutions Law.
- (ii) *Non-compliance detected by the Superintendency:* the institution may challenge the non-compliance determination within thirty (30) calendar days after being served notice by the Superintendency. If no challenge is made, or if the defense is dismissed, the non-compliance determination will be deemed to be final and the procedure described in the previous item will apply.

Furthermore, pursuant to Communication “A” 5867, as amended by “A” 5889, among others, if a financial institution fails to meet market risk daily minimum capital requirements, except for any failure to meet the requirements on the last day of the month, calculated as a sum of VaR of included assets or derived from the calculation of capital requirements for interest rate, exchange rate and stock risks, the financial institution must replace its capital or decrease its financial position until such requirement is met, and has up to ten (10) business days from the first day on which the requirement was not met to meet the requirement. If the financial institution fails to meet this requirement after ten (10) business days, it must submit a regularization and reorganization plan within the following five (5) business days and may become subject to an administrative proceeding initiated by the Superintendency.

### ***Operational risk***

The regulation on operational risk (“OR”) recognizes the management of OR as a comprehensive practice separated from that of other risks, given its importance. OR is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

Financial institutions must establish a system for the management of OR that includes policies, processes, procedures and the structure for their adequate management. This framework must also allow the financial entity to evaluate capital sufficiency.

Seven OR event types are defined, according to internationally accepted criteria:

- internal fraud;
- external fraud;
- employment practices and workplace safety;
- clients, products and business practices;
- damage to physical assets;
- business disruption and system failures; and
- execution, delivery and process management.

Financial entities are charged with implementing an efficient OR management system following the guidelines provided by the Central Bank. A solid system for risk management must have a clear assignment of responsibilities within the organization of financial entities. Thus, the regulation describes the roles prepared by each level of the organization in managing of OR (such as the roles of the board of directors, senior management and the business units of the financial institution).

A financial institution's size and sophistication, and the nature and complexity of its products and processes, and the extent of the transaction determines the type of "OR unit" required. For small institutions, this unit may even consist of a single person. This unit may functionally respond to the senior management (or similar) or a functional level with risk management decision capacity that reports to that senior management.

An effective risk management will contribute to prevent future losses derived from operational events. Consequently, financial entities must manage the OR inherent in their products, activities, processes and systems. The OR management process comprises:

- a) *Identification and assessment*: the identification process should consider both internal and external factors that could adversely affect the development of the processes and projections created according to the business strategies defined by the financial institution. Financial entities should use internal data, establishing a process to register frequency, severity, categories and other relevant aspects of the OR loss events. This should be complemented with other tools, such as self-risk assessments, risk mapping and key risk indicators.
- b) *Monitoring*: an effective monitoring process is necessary for quickly detecting and correcting deficiencies in the policies, processes and procedures for managing OR. In addition to monitoring operational loss events, banks should identify forward-looking indicators that enable them to act upon these risks appropriately.
- c) *Control and mitigation*: financial entities must have an appropriate control system for ensuring compliance with a documented set of internal policies, which involve periodic reviews (to occur at least annually) of control strategies and risk mitigation, and adjust these as necessary.

Pursuant to Communication "A" 5282, as amended by Communications "A" 6091 and "A" 6638, among others, the minimum capital requirements regarding OR are equal to 15% of the annual average positive gross income of the last thirty-six (36) months.

The OR formula is as follow:

$$C_{RO} = \frac{\sum_{t=1}^n \alpha \cdot IB_t}{n}$$

The variables in the OR formula are defined as follows:

- "C<sub>ro</sub>": the capital requirement for operational risk.
- "α": 15%.
- "n": the number of 12-month consecutive terms with positive IB, based on the 36 months preceding the month of calculation. The maximum value of n is 3.
- "IB<sub>t</sub>": gross income from 12-month consecutive terms; provided that, it is a positive figure, corresponding to the 36 months preceding the month of calculation.

IB is defined as the sum of (a) financial and service income minus financial and service expenses and (b) other income minus other expenses.

The following items are excluded from items (a) and (b) above:

- (i) expenses derived from the creation or elimination of reserves during previous fiscal years and recovered credits during the fiscal year that were written off in previous fiscal years;
- (ii) profits or losses from holding equity in other financial institutions or companies, if these were deductible from RPC;
- (iii) extraordinary or unusual gains (*i.e.*, those arising from unusual and exceptional events that resulted in gains) including income from insurance recovery; and
- (iv) gains from the sale of classified species and measures at amortized cost of fair value with changes in other integral gains.

New financial institutions must comply, in their first month, with an OR minimum capital requirement equivalent to 10% of the aggregate requirements determined for credit and market risks, in the latter case, for the positions on the last day of that month. As from the second and up to the thirty-sixth month, the monthly capital requirement will be equivalent to 10% of the average requirements determined for the months elapsed until, and including, the calculation period based on a consideration of the risks referred to in the preceding paragraph. From the thirty-seventh month onwards, the monthly requirement is calculated based on the OR formula.



### **Minimum cash reserve requirements**

The minimum cash reserve requirement requires that a financial institution keep a portion of its deposits or obligations readily available and not allocated to lending transactions and it is included in the Central Bank “Rules of Minimum Cash”, as amended and supplemented.

Minimum cash requirements are applicable to demand and time deposits and other liabilities arising from financial intermediation denominated in Pesos, foreign currency, or government and corporate securities, and any unused balances of advances in checking accounts under agreements not containing any clauses that permit the bank to discretionally and unilaterally revoke the possibility of using such balances.

Minimum cash reserve obligations exclude (i) amounts owed to the Central Bank, (ii) amounts owed to domestic financial institutions (excluding special deposits related to inflows of funds – Decree No. 616/2005), (iii) amounts owed to foreign banks (including their head offices, entities controlling domestic institutions and their branches) in connection with foreign trade financing facilities, (iv) cash purchases pending settlement and forward purchases, (v) cash sales pending settlement and forward sales (whether or not related to repurchase agreements), (vi) overseas correspondent banking operations and (vii) demand obligations for money orders and transfers from abroad pending settlement to the extent that they do not exceed a seventy-two (72) business hour term as from their deposit.

The liabilities subject to these requirements are computed on the basis of the effective principal amount of the transactions, including differences in rates (either negative or positive), excluding interest accrued, past due, or to become due on the aforementioned liabilities, provided they were not credited to the account of, or made available to, third parties, and, in the case of fixed-term deposit of UVIs and UVAs (as defined below), the accrued amount resulting from the increment of the value of such unit.

The basis on which the minimum cash reserve requirement is computed is the monthly average of the daily balances of the liabilities at the end of each day during each calendar month. Such requirement shall be complied with on a separate basis for each currency and/or security and/or instrument under monetary regulation in which the liabilities are denominated.

The table below shows the percentage rates that should be applied to determine the required minimum cash reserve requirement, depending on whether: (i) entities included in Group “A” and / or branches or subsidiaries of banks abroad classified as systemically important (G-SIB) not included in that group; or (ii) the remaining financial entities. Section 4 of the regulations on “*Authorities of financial entities*” (*Autoridades de entidades financieras*) of the Central Bank classifies the financial entities in: a) Group “A” which includes those entities in which the amount of their assets is greater than or equal to 1% of the total of the assets of the financial system (for the purposes of calculating this indicator, the average of the assets corresponding to the months of July, August and September of the previous year will be considered, according to the data that arise from the corresponding information regime); and b) Group “B” composed of all those entities that are not included in Group “A”. The following fees arise from Communication “A” 6616 dated December 20, 2018, its came into force will depend on the group to which financial entity belongs, being February 2, 2019 for Group “A” and G-SIB and on January 1, 2019 for the remaining entities:

Item	Group A and G-SIB	Foreign Currency	Rate % Group B	
	Pesos		Pesos	Foreign Currency
1- Checking account deposits and demand deposits opened at credit cooperatives	45		20	
2- Savings account, salary/social security accounts, special accounts (except for deposits included on items 7 and 11), and other demand deposits and liabilities, pension and social security benefits credited by ANSES pending collection and immobilized reserve funds for liabilities covered by these regulations	45	25	20	25
3- Unused balances of advances in checking accounts under executed overdraft agreements	45		20	
4- Deposits in checking accounts of non-bank financial institutions, computed for purposes of meeting their required minimum cash reserve	100		100	

Item	Group A and G-SIB		Rate % Group B	
	Pesos	Foreign Currency	Pesos	Foreign Currency
5- Time deposits, liabilities under “acceptances”, (including responsibilities for sale or transfer of credits to agents different from financial institutions), stock-exchange repos (cautions and stock exchange passive repos), constant-term investments, with an option for early termination or for renewal for a specified term and variable income, and other fixed-term liabilities, except rescheduled deposits included in the following items 7, 10 y 12 of this table, securities (including negotiable obligations), according to their outstanding term:				
(i) Up to 29 days	35	23	14	23
(ii) From 30 days to 59 days	25	17	10	17
(iii) From 60 days to 89 days	7	11	5	11
(iv) From 90 days to 179 days		5		5
(v) From 180 days to 365 days		2		2
(vi) More than 365 days				
6- Liabilities owed due to foreign facilities (not including those instrumented by term deposits, unless they are made by residents abroad linked to the entity pursuant to Section 2 of the rules on “Large Exposures to Credit Risk”, nor the acquisition of debt securities, to which they must apply the requirements provided in the previous point)				
(i) Up to 29 days		23		23
(ii) From 30 days to 59 days		17		17
(iii) From 60 days to 89 days		11		11
(iv) From 90 days to 179 days		5		5
(v) From 180 days to 365 days		2		2
(vi) More than 365 days				
7- Demand and time deposits made upon a court order with funds arising from cases pending before the court, and the related immobilized balances	32	15	13	15
8- Special deposits related to inflows of funds. Decree 616/2005		100		100
9- Time deposits in nominative, non-transferable Peso-denominated certificates, belonging to public sector holders, with the right to demand early withdrawal in less than 30 days from its setting up	35		14	
10- Deposits and term investments —including savings accounts and securities (including Notes)— in UVIs and UVAs, according their outstanding term				
(i) Up to 29 days	7		7	
(ii) From 30 days to 59 days	5		5	
(iii) From 60 days to 89 days	3		3	
(iv) More than 90 days				
11- Labor Work Fund for Construction Industry Workers, denominated in UVA	7		7	
12-Deposits and fixed term investments created in the name of minors for funds they receive freely				

In the case of transactions in Pesos, when the jurisdiction of the main office where the transaction takes place, according to what is established in Central Bank’s regulations regarding “Categorization of locations for financial entities”, belongs to the categories II to VI, the rates foreseen for demand deposits will be reduced by 2 percentage points and for term placements by 1 percentage point up to a minimum of zero (including point 11). In both cases, it does not include the impositions in securities.

Entities included in Group “A” and branches or subsidiaries of G-SIB not included in that group, may integrate the period and daily requirement in pesos with “National Treasury Bonds in pesos at fixed rate November 2020” in up to:

- 5 points of the rates described in points 1, 2 (in Pesos), 3, sections (i) and (ii) of point 5 (in Pesos) and points 7 (in Pesos) and 9.
- 2 points of the rate described in section (iii) of point 5 (in Pesos).

Financial entities included in Group “A” and branches or subsidiaries of G-SIB not included in that group may integrate the period and daily requirement in pesos with LELIQ and / or NOBAC up to 13 percentage points of the rate provided in section (i) of point 5 (in Pesos) and 9; in up to 10 percentage points of the rates provided by points 1, 2 (in pesos) and 3 and section (ii) of point 5 (in Pesos) and point 7 (in Pesos).

In order to be admitted the integration with “National Treasury Bonds in pesos at a fixed rate due November 2020”, LELIQ and / or NOBAC as described above, they must be valued at market prices and be deposited in Sub-account 60, minimum cash enabled in the “Central Registry and Settlement of Public Liabilities and Financial Trusts—CRyL” (*Central de Registro y Liquidación de Pasivos Públicos y Fideicomisos Financieros*).

The minimum cash requirement will be reduced:

1. in accordance with the participation in the total of financing operations to the non-financial private sector in pesos in the entity of financing to MiPyMEs in the same currency;
2. depending on the granting of financing under the “Ahora 12” Program (The implementation of the Consumer Promotion Program and the Production of Goods and Services named “Ahora 12” was created by Joint Resolution 671/2014 and 267/2014 of the former Ministry of Economy and Public Finance and the Ministry of Industry), in an amount equivalent to 2% of the sum of the financing in pesos that the entity grants:
  - i. whose destination is the acquisition of goods and services included in the aforementioned resolution and its complementary regulations; or
  - ii. to non-financial companies issuing credit cards at an annual interest rate of up to 17%, insofar as these companies are part of the “Ahora 12” Program.

Whenever there is an excessive concentration of liabilities (in holders and / or terms), which implies a significant risk with respect to the individual liquidity of the financial institution and / or has a significant negative effect on the systemic liquidity, additional minimum cash may be set on the liabilities included in the financial entity and / or those complementary measures that are deemed pertinent.

Likewise, the minimum cash requirement may be increased due to non-compliance with the rules on the “Credit Line for productive investment”.

In addition to the abovementioned requirements, the reserve for any defect in the application of resources in foreign currency net of the balances of cash in the entities, in custody in other entities, in transit and in Transporters of Securities, for a certain month, shall be applied to an amount equal to the minimum cash requirement of the corresponding currency for each month.

The minimum cash reserve must be set up in the same currency or securities or debt instruments for monetary regulation to which the requirement applies, and may include the following:

1. Accounts maintained by financial institutions with the Central Bank in Pesos.
2. Accounts of minimum cash maintained by financial institutions with the Central Bank in U.S. dollars, or other foreign currency.
3. Special guarantee accounts for the benefit of electronic clearing houses and to cover settlement of credit card, vouchers, and ATM transactions and immediate transfer funds.
4. Checking accounts maintained by non-bank financial institutions with commercial banks for the purpose of meeting the minimum reserve requirement.
5. Special accounts maintained with the Central Bank for transactions involving social security payments by the ANSES.
6. Minimum cash sub-account 60, authorized in the Registration and Settlement Central for Public Debt and Financial Trusts – CRyL (“*Central de Registro y Liquidación de Pasivos Públicos y Fideicomisos Financieros* – CRyL”) for public securities and securities issued by the Central Bank at their market value.

These eligible items are subject to review by the Central Bank and may be changed in the future.

Compliance with the minimum cash reserve requirement will be measured on the basis of the monthly average of the daily balances of eligible items maintained during the month to which the minimum cash reserve refers by dividing the aggregate of such balances by the total number of days in the relevant period. The compensation of deficit positions with surplus positions corresponding to different requirements will not be accepted.

The aggregate balances of the eligible items referred to above, maintained as of each daily closing, may not, on any one day during the month, be less than 25% of the total required cash reserve, determined for the next preceding month, recalculated on the basis of the requirements and items in force in the month to which the cash reserves relate, without considering the effects of the application of the provisions of section “1.7 Transfers” of the “Minimum Cash” rules. The daily minimum required is 50% when a deficit to the admitted transfer margin occurs in the previous month.

Any deficiencies in meeting the required minimum cash reserve and the daily minimum reserve in Pesos, in foreign currency, or securities or debt instruments for monetary regulation are subject to a penalty in pesos, equal to 1.5 times the average nominal interest rate of the shorter term peso denominated LELIQs auction published on the last business day of the relevant period or, if not available, the last one available.

#### *LELIQ global daily position*

Pursuant to Communication “A” 6661 of the Central Bank, the LELIQ global daily position of the banks shall not exceed the larger sum between:

- 1) the RPC of the bank in the immediately preceding month; and
- 2) 100% of the monthly average of the total deposits in Pesos, excluding the financial sector’s and the notes in Pesos issued until February 8, 2019 in the current month.

#### **Internal liquidity policies of financial institutions**

Pursuant to the Central Bank regulations on the liquidity coverage ratio (the “LCR”), financial institutions must adopt management and control policies that ensure the maintenance of reasonable liquidity levels to efficiently manage their deposits and other financial commitments and must comply with the liquidity coverage ratio established thereunder, under a 30-day stress test scenario. Such policies should establish procedures for evaluating the liquidity of the institutions in the framework of prevailing market conditions to allow them to revise projections, take steps to eliminate liquidity constraints and obtain sufficient funds, at market terms, to maintain a reasonable level of assets over the long term. Such policies should also address (i) the concentration of assets and liabilities in specific customers, (ii) the overall economic situation, likely trends and the effect on credit availability and (iii) the ability to obtain funds by selling government debt securities and/or own assets.

The organizational structure of the entity must place a specific unit or person in charge of managing liquidity and assign levels of responsibility to the individuals who will be responsible for managing the LCR, which will require daily monitoring. The participation and coordination of the entity’s top management authority (*e.g.*, CEO) will be necessary.

In addition, financial institutions must designate a director or advisor who will receive reports at least weekly, or more frequently if circumstances so require, such as when changes in liquidity conditions require new courses of action to safeguard the entity. In the case of branches of foreign financial institutions, the reports must be delivered to the highest authority in the country.

Appointed officers and managers will be responsible for managing the liquidity policy that, in addition to monitoring the LCR, includes taking the necessary steps to comply with minimum cash requirements.

Financial institutions must report the list of such officers and directors, as well as any subsequent changes, to the Superintendency within ten (10) calendar days from the date of any such change.

#### ***Liquidity Parameters***

In addition to the LCR, there are other parameters that are used as systematic tools of control. These policies contain specific information regarding cash flows, balance structure and available underlying assets free of charge. These parameters, along with the LCR, offer basic information to evaluate the liquidity risk. The included parameters are:

- gaps in contractual terms;
- funding concentration;
- available assets free of restrictions;
- LCR for relevant currency; and
- Market-related monitoring tools.

Additionally, Communication “A” 6209, as amended, sets forth that financial institutions must have an adequate stock of high-quality liquid assets (“HQLA”) free of any restrictions which can be immediately converted into cash in order to cover their liquidity needs during a period of 30 days in case of a stress scenario. Also, financial institutions must carry out their own stress tests so as to determine the liquidity level they should maintain in other scenarios, considering a period higher than 30 calendar days.

The LCR must be equal to or greater than 1 (that is to say, the stock of HQLA must not be lower than the total net cash outlays) in the absence of a financial stress scenario. If this is not the case, the LCR may fall below 1.

The Central Bank describes how to categorize a stress scenario, taking into account the following: the partial loss of retail deposits; the partial loss of wholesale non-guaranteed funding capacity; the partial loss of guaranteed funding; additional fund outlays due to situations contractually provided for as a consequence of a significant decline in the financial institution's credit quality; market volatility increases that have an effect on the quality of guarantees or on the potential future exposure of positions in derivatives; the unforeseen use of credit and liquidity facilities compromised and available but not used that the financial institution may have granted to its clients; and/or the need that the financial institution may experience to repurchase debt or to comply with non-contractual obligations so as to mitigate its reputational risk.

Pursuant to Communication "A" 5724, for implementing the above, the financial institutions must consider the following schedule:

Period	Ratio
From January 30, 2015 to December 2015	0.60
January 2016 to December 2016	0.70
January 2017 to December 2017	0.80
January 2018 to December 2018	0.90
As of January 2019	1

The LCR calculation must be made on a permanent basis and informed to the Central Bank on a monthly basis.

The HQLA can only be made up of the following portfolio assets (consider as Tier 1 (An1)) at the day of the calculation of the LCR: cash in hand, in transit, in armored transportation companies and ATMs; deposits with the Central Bank; certain national public bonds in Pesos or in foreign currency; securities issued or guaranteed by the International Payments Bank, the IMF, the European Central Bank, the European Union or Multilateral Development Banks that comply with certain conditions and debt securities issued by other sovereign entities (or their central banks).

### ***Net Stable Funding Ratio (NSFR)***

The purpose of the net stable funding ratio ("NSFR") is to allow financial institutions to finance their activities with sufficiently stable sources to mitigate the risk of future stress situations derived from their funding requirements. By requiring financial institutions to maintain a stable funding profile relative to the breakdown of their off-balance sheet assets and transactions, the NSFR limits the strong dependence on short term wholesale funding, promotes a better assessment of balance sheet and off-balance sheet items funding risk, and favors funding sources stability. The definitions of the components of the NSFR are similar to those set forth in the "Liquidity Coverage Ratio" regulations, unless otherwise expressly set forth herein.

The NSFR is defined as the available amount of stable funding relative to the required amount of stable funding, where: AASF (Available Amount of Stable Funding) is the capital and liabilities of the financial institution – calculated in the manner set forth in Section 2 – that are expected to be available over a one-year term. RASF (Required Amount of Stable Funding) is the amount of funding necessary for such period – calculated in the manner set forth in Section 3 – based on its liquidity and remaining life of the institution's assets and its off-balance sheet obligations.

The NSFR shall be at all times greater than or equal to 1 (NSFR 1). It shall be supplemented with the assessment made by the SEFyC. The SEFyC may demand the institution to adopt stricter standards to reflect its funding risk profile, also taking into account the assessment made in connection with the "Risk Management Guidelines for Financial Institutions" in connection with the institution's liquidity.

### ***Leverage Ratio***

Through Communication "A" 6431, effective as of March 1, 2018, the Central Bank incorporated a ratio to limit the leverage of financial institutions in order to avoid the adverse consequences of an abrupt reduction in leverage in the supply of credit and the economy in general, and reinforce the minimum capital requirement with a minimum capital requirement simple and not based on risk.

The leverage ratio, which must be greater than or equal to 3%, arises from the following expression:

Ratio (as %) = Measure of capital / Measure of exposure where the measure of capital will be the basic net worth, and the measure of the exposure will be the sum of (i) the exposures in the asset (excluding the items corresponding to derivatives and Securities Financing Transactions (SFT)), (ii) exposures by derivatives; (iii) exposures for SFT transactions and (iv) off-balance-sheet items. Both measures must be calculated based on the closing balances of each quarter.

### ***Fee regulations***

Central Bank regulations granted broad protection to customers in 2013. The protection includes, among other things, the regulation of fees and commissions charged by financial institutions for services provided. Fees and charges must represent a real, direct and demonstrable cost and should be supported by a technical and economic justification. It is worth noting that Communication “A” 5514 sets forth an exception to the enforcement of Communication “A” 5460 for certain credit agreements that have pledges as collateral and are issued before September 30, 2018.

On June 10, 2014, the Central Bank issued Communications “A” 5591 and “A” 5592, through which established new rules regarding fees and charges for basic financial products and services. Beginning on the effective date of the rule, financial institutions must have prior authorization from the Central Bank to implement increases to the cost of those services. The rule also specifically defines which financial services are considered basic.

On December 23, 2014, the Central Bank issued Communication “A” 5685 amending Communication “A” 5460, setting forth that any increase in commissions of new products or services must have the prior authorization of the Central Bank.

On August 21, 2015, the Central Bank issued Communication “A” 5795, as amended and supplemented by several regulations, including but not limited to Communication “A” 5828, establishing additional rules aimed at protecting financial services customers by reinforcing regulations that prohibit financial institutions from charging fees and commissions related to insurance products that financial services customers purchase as accessories of financial services, regardless of whether it is a customer request or a condition set by the financial institution to access the financial service. In this regard, beginning on November 13, 2015, financial institutions may not receive remunerations or profits from such insurance products or receive remunerations or profits, directly or indirectly, from insurance companies with respect to such products.

Furthermore, Communication “A” 5828 creates a distinction between “life insurance on debit balances” and “other insurance,” establishing for the former that financial institutions cannot charge users any fee and /or charge associated with such kind of insurance. Financial institutions must purchase life insurance on debit balances with coverage for death or permanent total disability with respect to financings granted to human beings. Alternatively, they can self-insure the risks of death and permanent total disability of financial services clients. In both cases, coverage must fully cover the amount due in case of death or total permanent disability of the beneficiary.

On March 21, 2016, the Central Bank issued Communication “A” 5927 (as supplemented by Communication “A” 5928) that established new rules aimed at protecting the financial user and an increase of the banking services use. In this regard, beginning on April 1, 2016, the electronic transfers ordered or received by clients categorized as financial services costumers will not be charged with fees or commissions. For clients that do not meet this category, as companies, transfers of funds up to Ps.250,000, ordered or received by electronic means, will not be charged fees or commissions. Communication “A” 5927 also established that immediate transfers of funds up to Ps.100,000 per day and account can be made via Home Banking every day of the year.

On March 21, 2016, the Central Bank issued Communication “A” 5928, pursuant to which all saving accounts shall be free, including the use of the corresponding debit card. In this regard, all existing saving accounts shall be now free of charge, as well as for new clients. The saving accounts shall not have amount limits, or any charge related to their creation, maintenance or renovation. In addition, pursuant to such regulation, commissions could be increased up to 20%, but such increase must be informed to the client sixty (60) days in advance. Furthermore, as of September 1, 2016 commissions’ caps are eliminated, but financial institutions will have to inform their customers in advance about the commissions that other financial entities are charging.

Central Bank issued Communication “A” 6212, effective as of April 1, 2017, which reduces credit card and debit card sales commissions on a gradual annual plan. Pursuant to Communication “A” 6212, the maximum credit card sales commission rate for 2017 is 2.0% and for 2018, 2019, 2020 and 2021 and after, will be 1.85%, 1.65%, 1.50% and 1.30%, respectively. The maximum debit card sales commissions for 2017 is 1.0% and for 2018, 2019, 2020 and 2021 and after, will be 0.90%, 0.80%, 0.70% and 0.60%, respectively.

### ***Mandatory extension of credit facilities for productive investments***

On July 5, 2012, the Central Bank issued Communication “A” 5319, mandating financial entities to extend credit facilities for productive investments, according to the terms and conditions described therein. Recently, the Central Bank issued Communications “A” 5874 and 5975 (the “2016 Quota”), “A” 6352 “A” 6259 (the “2017 Quota”) and “A” 6352 (the “2018 Quota”), establishing the regulations applicable to credit facilities for productive investments corresponding for those years. The 2017 Quota and the 2018 Quota are not cumulative and must be complied with, independently, in each year.

Financial institutions subject to this regime are those operating as financial agents of the national, provincial, City of Buenos Aires and/or municipal governments and/or those whose participation in the deposits of the non-financial private sector in Pesos, are equal to or greater than 1% of the total deposits in the financial system. Through Communication “A” 6352 issued on November 3, 2017, the Central Bank started to gradually reduce the percentage of these facilities, until its complete elimination scheduled in December 2018.

#### *2016 and 1S 2017 Quota – Credit Lines for Production and financial inclusion*

Financial entities acting as financial agents for the national, provincial, City of Buenos Aires' and/or municipal governments and/or whose share in the non-financial private sector deposits in Pesos in the financial system is equal to or greater than 1% (based on the simple average of daily balances of the non-financial private sector deposit in Pesos for the previous calendar nine-month period), will be required to extend certain credit lines, pursuant to the Central Bank regulations on "Credit lines for Financial Production and Inclusion" up to an annual quota, calculated based on deposits from the non-financial private sector in Pesos, computed based on the average and daily balances for: (i) November 2015 (for the first half of 2016), 14%; (ii) May 2016 (for the second half of 2016), 15.5% and (iii) November 2016 (for the first half of 2017), 18%.

In addition, not less than 75% of the 2016 Quota must be allocated to credit facilities intended for MiPyMEs. The amount of the financing arises from applying to the disbursed capital a weight per category and location of the company.

Communication "A" 5874, as amended, sets forth the type of financing which may be considered eligible to be computed as part of the 2016 Quota, which includes the following:

- (i) financing of investment projects (meaning financing extended for the purchase of capital goods and/or the construction of facilities necessary for the production of goods and/or services and for the commercialization of goods and/or services; financing of working capital for investment projects for up to an amount equivalent to 20% of the total project amount; the purchase of real estate, provided the financing amount does not exceed 70% of the value attributable to the constructions built on the land; and financing for the purchase of motor vehicles and machinery, provided that the purchase transaction be carried out at the selling price applied to cash transactions; among others);
- (ii) discount of deferred payment checks, certificates of public works (or any documentation that may replace them) and invoices and promissory notes for customers that are MiPyMEs for up to an amount equivalent to 30% of the first tranche of the 2016 Quota and for the whole quota of the second tranche of the 2016 Quota;
- (iii) inclusion, by means of an assignment or discount, of financing facilities provided to users of financial services, or of receivables in respect of trusts whose trust assets consist primarily of such financing provided by financial entities not included within the scope of the above mentioned rules, with a total nominal annual financial cost not exceeding 27%, for the financings granted as of October 31, 2016 and 21% for the financings granted from November 1, 2016, which may amount to up to 5% of the 2016 Quota;
- (iv) microcredit extended to micro entrepreneurs that meet certain requirements (including that, either individually or as a family group, they do not have revenues exceeding two adjustable minimum living wages and are not registered as value added tax, income tax and personal assets tax payers with AFIP). On a supplemental basis, micro entrepreneurs may be granted loans for the purchase of consumption goods or services;
- (v) loans extended to individuals at an interest rate of up to a nominal annual 22% for the first year and as from the second year, if the above rate is not maintained, at a variable interest rate equivalent to the Peso BADLAR rate charged by private banks, plus 150 basis points. The proceeds of these loans must be used directly for the purchase of a sole family dwelling for the respective family group, and must be implemented by means of a collateral assignment of rights in the trusts created for the construction of those properties, subject to certain conditions. This type of financing may collectively amount to up to 10% of the 2016 Quota;
- (vi) mortgage loans extended to individuals for the purchase, construction or enlargement of dwellings, at an interest rate of up to a nominal annual 22% for the first year and as from the second year, if the above rate is not maintained, at a variable interest rate equivalent to the Peso BADLAR rate charged by private banks, plus 150 basis points. These loans may collectively amount to up to 10% of the 2016 Quota;
- (vii) assistance provided to natural persons and/or legal entities in areas where an emergency situation prevails as a result of natural disasters. This assistance may amount to up to 15% of the 2016 Quota;
- (viii) financing extended by financial entities that do not fall within the scope of these rules and/or to companies that provide financial assistance through capital lease transactions, provided the proceeds of such transactions are applied to funds, as of the effective date of the legal regulation, to provide financing to MiPyMEs for the purchase of motor vehicles and/or machinery at prices not exceeding cash transaction prices (*i.e.*, list price, net of any general discounts) and pursuant to the conditions of the 2016 Quota. The proceeds must be used within a term of ten (10) business days between the date when financial assistance is received from the financial entity and the date the funds are used for lending to MiPyMEs (Communication "A" 5929);
- (ix) financing extended to financial institutions regarding assistances mentioned in item (vii) and incorporations made from those assistances if granted by financial institutions. The entity which provides financing or its assignee, may compute such assistance, for which a report from the external auditor is required;

- (x) working capital financing to MiPyMEs, extended from August 1, 2016, for working capital allocated to livestock farming (*i.e.*, for the purchase and/or production of cattle, sheep, pigs, poultry, apiculture, etc.), dairy farming or other productive activities carried out in regional economies within the scope of section 2.2.9. of the “Minimum loan loss provisions” regulations, for up to an amount equivalent to 10% of the 2016 Quota; and
- (xi) financing to non-financial institutions that issue credit cards and have joined the *Ahora 12* Program.

The maximum interest rate to be applied, except for the financing facilities described in items (iii), (v), (vi) and (vii) above, will be a nominal annual fixed rate of 22% for the financings granted as of October 31, 2016 and of 17% for the financings granted from November 1, 2016. In the case of financings restated in “Purchasing Power Units”, CER adjustable, or UVA, the maximum interest rate is a nominal annual fixed rate of 1%. The rate will be free for transactions with customers who do not meet the conditions of a MiPyMEs.

Financing facilities must be denominated in Pesos and have – at the time of disbursement – an average maturity period equal to or longer than 24 months, based on weighted principal maturities, and the total maturity period must not be less than 36 months. Financing facilities described in item (i) above and to be used for working capital purposes must have an effective weighted average maturity period equal to or longer than 24 months. The discount transactions contemplated in items (ii) and (iii) will not be subject to a minimum maturity period requirement. The mortgage loans referred to in item (vi) must have a minimum term of 10 years. The working capital financing facilities for MiPyMEs described in item (x) must have an effective weighted average term equal to or longer than 18 months for financings through October 31, 2016 and a minimum term of 12 months as from November 1, 2016.

The entities may make up this portfolio with loans extended on a joint basis with other entities, in the relevant proportion. In case early pre-payment is accepted, only debtors will be entitled to such pre-payment right.

#### *2017 Quota*

Financial entities were required to extend credit facilities from January 1, 2017 to June 30, 2017, equivalent to at least 18% of the non-financial private sector deposits in Pesos, calculated on the basis of the monthly average of daily balances in November 2016.

In the case of entities falling within the above scope whose share of total non-financial private sector deposits in Pesos is lower than 0.25% (calculated as described in the preceding paragraph) the percentage applied was not less than 10%, from January 1, 2017 to June 30, 2017. According to Communication “A” 6217, at least 75% of the 2017 quota was required to be granted to MiPyMEs and/or financial services customers.

With respect to the second half of 2017, the financial entities subject to this requirement had to maintain, from July 1, 2017 until December 31, 2017, a balance of comprised financings equal to at least 18% of private sector deposits in Pesos, calculated on the basis of the monthly average daily balances from May 2017. For financial entities whose participation in deposits in the non-financial private sector in Pesos amounts to less than 0.25%, the percentage applied, from July 1, 2017 and until December 31, 2017, was not less than 10%, and at least 75% of the 2017 quota was required to be granted to MiPyME and/or financial services customers.

#### *2018 Quota*

The financial entities subject to this requirement have to maintain, in each of the months in 2018, a balance of comprised financings equal to at least the amount that results from applying the percentages provided in the following table to the monthly average daily balances of November 2017 of total non-financial private sector deposits in Pesos:

Month	Percentage
January	16.50%
February	15.00%
March	13.50%
April	12.00%
May	10.50%
June	9.00%
July	7.50%
August	6.00%
September	4.50%
October	3.00%
November	1.50%
December	0.00%



For financial entities whose total non-financial private sector deposits in Pesos is less than 0.25%, the applicable percentage to apply will be derived from the table below:

Months of 2018	Percentage
January	9.17%
February	8.33%
March	7.50%
April	6.66%
May	5.83%
June	5.00%
July	4.17%
August	3.33%
September	2.50%
October	1.66%
November	0.83%
December	0.00%

### ***Loans and Housing Units***

The Central Bank has adopted measures for taking deposits and extending loans expressed in a special measuring unit adjustable by the CER. These special units are referred to as UVAs”.

In addition, Law No. 27,271 provides for the adjustment of deposits and loans by reference to the construction index, expressed in a special measuring unit referred to as Housing Units (*Unidades de Vivienda* or “UVIs”).

Consequently, UVAs and UVIs coexist and may be used both with respect to bank loans and deposits. The initial value of the UVI was Ps.14.05 (the same as the UVA), representing the cost of construction of one thousandth square meter of housing as of March 31, 2016. As of May 3, 2019 the value of UVI and UVA are 33.34% and 35.59%, respectively.

Both units are amended based on the indices published by the INDEC and the Central Bank on its website.

### ***Foreign Exchange System***

As of mid- December 2015, there have been significant changes to the legal framework applicable to the foreign exchange market aiming at granting greater flexibility to foreign exchange transactions.

These changes, initially contemplated under Communication “A” 5850, Communication “A” 5899 and Communication “A” 5955, among others, allowed those entities authorized to operate in the exchange market to engage in foreign currency arbitrage and exchange transactions with their customers. In addition, these regulations made it less burdensome for residents to access the foreign exchange market in order to acquire external assets, and for the repatriation by nonresidents of both portfolio and direct investment.

Effective as of August 9, 2016, the Central Bank continued to establish more flexible rules for foreign exchange transactions, for example through the issuance of Communication “A” 6037, followed by Communication “A” 6244, which resulted in a simplification of the rules that had been in place since 2002.

The new regulations provide that foreign exchange transactions may be performed under a sworn statement detailing the subject matter of the transaction, insofar no specific requirements apply to the transaction, and eliminated the obligation to produce documents supporting each foreign exchange transaction.

In addition, transactions involving the creation of external assets by residents are no longer limited by a specific amount, and regulations restricting market access to transactions involving derivative instruments with foreign counterparties have been suppressed. The new regulations also provided greater flexibility to the requirements needed to engage in exchange transactions during extended schedule hours.

### ***Foreign Currency Lending Capacity***

The Regulations on the allocation of deposits in foreign currencies, (including Communication “A” 6428 as amended), establish that the lending capacity from foreign currency deposits, must be applied in the corresponding deposit currency to the following categories:

- a. pre-financing and financing of exports to be made directly or through principals, trustees or other brokers, acting on behalf of the owner of the merchandise;
- b. other financing to exporters, who have a flow of future income in foreign currency and verify, in the year prior to granting the financing, a billing in foreign currency for an amount that is reasonably related to that financing
- c. financing to producers, processors or goods collectors, provided that:
  - i. They have sale contracts of their merchandise to an exporter, with a fixed price or fixed in foreign currency -independently of the currency in which the operation is settled- and in the case of fungible merchandise with quotation, in foreign currency, normal and customary in local or foreign markets, with wide diffusion and easy access to public knowledge;
  - ii. Its main activity is the production, processing and / or collection of fungible goods with quotation, in foreign currency, normal and usual in foreign markets, widely disseminated and easy access to public knowledge, and it is found, in the year prior to the granting of financing, a total billing of these merchandise for an amount that is reasonably related to that activity and its financing; and also operations aimed to finance service providers directly used in exporting process of goods (such as those provided at port terminals, international loading and unloading services, leasing containers or port warehouses, international freights ). This, provided it is verified that the flow of future income linked to sales to exporters registers a periodicity and magnitude that it is enough for the cancellation of the financing and it is verified, in the year prior to the granting of the financing, a billing to exporters for an amount that is reasonably related to that activity and its financing.
- d. financing for manufacturers of goods to be exported, as final products or as part of other goods, by third-party purchasers, provided that such transactions are secured or collateralized in foreign currency by third-party purchasers;
- e. financing to suppliers of goods and / or services that are part of the merchandise production process fungibles with quotation, in foreign currency, normal and usual in local or foreign markets, widely disseminated and easy access to public knowledge, provided they have firm sales contracts for those goods and / or services in foreign currency and / or on said merchandise;
- f. financing of investment projects, working capital and / or acquisition of all kinds of goods, including temporary imports of inputs, which increases or are linked to the production of exporting products. Even though the total income of the exporting companies does not come from their sales abroad, the financing may be imputed when the cash flow in foreign currency from their exports, is enough for its cancellation.
- g. financing for commercial and commercial portfolio clients of credits for consumption or housing -according to the provisions established in the rules on "Classification of debtors", whose destination is the importation of capital goods ("BK" in accordance with the Mercosur's Common Nomenclature established in Annex I to Decree No. 690/02 and other complementary provisions), which increase the production of merchandise destined for the domestic market.
- h. foreign currency debt securities or financial trust participation certificates including other payment rights specifically recognized on trust agreements whose underlying assets are loans made by the financial entities in the manners set forth in (a) to (d) above and first sentence of (f), or documents in which cash flows in Pesos or foreign currency have been assigned to the trustee, in foreign currency credit agreements, under the terms and conditions set forth in items mentioned before.;
- i. financings for purposes other than those mentioned in (a) to (d) above, included under the IDB credit program ("Préstamos BID N° 119/OC-AR"), not exceeding 10% of the lending capacity;
- j. inter-financing loans;
- k. Central Bank bills (*Letras y Notas*) denominated in dollars;
- l. direct investments abroad by companies that reside in Argentina, that seek the development of productive activities of non-financial goods and/or services, either through contributions and/or purchases of shares in companies, to the extent that they are constituted in countries or territories considered cooperators for the purposes of fiscal transparency according to the provisions of article 1 of Decree No. 589/13 as amended;
- m. financing of investment projects, including working capital, which allows the increase of production in the energy sector and have firm sales contracts and/or endorsements or guarantees in foreign currency.
- n. National Treasury bills in foreign currency, up to an amount equivalent to one third of the total of the applications made in accordance with the provisions of this section;
- o. financing of investment projects for bovine cattle, including their working capital, without exceeding 5% of deposits in foreign currency of the entity;
- p. financing of foreign importers for the acquisition of goods and / or services produced in the country, either directly or through credit lines to foreign banks; and
- q. Financing of local residents that are secured by letters of credit ("stand-by letters of credit") issued by foreign banks or multilateral development banks that comply with the provisions of point 3.1. of regulations on "Credit assessments", requiring for that purpose an international rating of investment grade risk, to the extent that such letters of credit are unrestricted and that the accreditation of the funds is made immediately at the simple request of the beneficiary entity.

The lending capacity shall be determined for each foreign currency raised, such determination being made on the basis of the monthly average of daily balances recorded during each calendar month. Any defect in the application shall give rise to an increase in the minimum cash requirement in the relevant foreign currency.

### ***General Exchange Position***

The general exchange position (“GEP”) includes all the liquid external assets of the institution, such as gold, currency and foreign currency notes reserves, sight deposits in foreign banks, investments in securities issued by Organization for Economic Co-operation and Development (OECD) members’ governments with a sovereign debt rating not below “AA,” certificates of time deposits in foreign institutions (rated not less than “AA”), correspondents’ debit and credit balances and the third parties funds pending of settlement. It also includes purchases and sales of these assets already arranged and pending settlement involving foreign exchange purchases and sales performed with customers within a term not exceeding two (2) business days and correspondent balances for third-party transfers pending settlement.

It does not include, however, foreign currency notes held in custody, term sales and purchases of foreign currency or securities nor direct investments abroad.

Pursuant to Communication “A” 6244, as amended, which entered into force on July 1, 2017, entities can freely determine the level and use of their GEP, thus allowing such entities to manage their exchange positions, both regarding the composition of its assets, as well as the possibility to maintain or transfer their holdings out of the country, with its subsequent impact in the reserves.

Furthermore, the aforementioned regulation foresees that the entities shall carry out arbitrage and foreign exchange operations, to the extent that the counterparty is a branch or agency of local official banks, a foreign financial institution, total or majority ownership of an entity in foreign states, a foreign financial or exchange entity that is not incorporated in countries or territories where the Recommendations of the Financial Action Task Force, or a foreign company dedicated to the trading of banknotes from different countries and/or precious metals in coins or bars of good delivery and whose head office is located in a member country of the Basel Committee for Banking Supervision.

### ***Foreign Currency Net Global Position***

All assets and liabilities from financial intermediation in foreign currency and securities in foreign currency (originating in spot and forward transactions) are included in the net global position, including related derivatives and agreements contemplating variations in the rate of exchange, the items included in the computation of the “General Foreign Exchange Position,” foreign currency deposits in accounts maintained with the Central Bank as well as gold, Central Bank Bills in foreign currency, subordinated debt in foreign currency and debt securities issued in foreign currency.

Forward transactions under master agreements executed in authorized domestic markets paid by settlement of the net amount without delivery of the underlying asset are also included. Likewise, certificates or notes issued by financial trusts and claims under common trusts are also included in the relevant proportion, provided that the underlying assets are denominated in foreign currency. The value of the position in currencies other than Dollars shall be expressed in that currency, at the respective exchange rate published by the Central Bank.

Deductible assets when determining a bank’s RPC and Argentine government bonds linked to the growth of the GDP are excluded from the ratio.

### ***Limits***

Negative Foreign Currency Net Global Position (liabilities exceeding assets): as of June 21, 2018 (Communication “A” 6529) the limit is 30% of the RPC of the immediately preceding month.

Positive Foreign Currency Net Global Position (assets exceeding liabilities): This daily position (monthly average of the daily balance converted to Pesos at the reference exchange rate) cannot exceed 5% of the lesser of the RPC or the entity’s own liquid assets (own liquid assets meaning the RPC surplus over fixed assets and other concepts to be computed in accordance with Central Bank regulation related to the “fixed assets and other concepts ratio”) of the immediately preceding month.

As of June 18, 2018 the Central Bank allows that the Positive Foreign Currency Net Global Position may reach up to 30% of the RCP or the entity's own liquid assets whichever is less, while the total excess over the general limit originates only as a result of:

- a) increase in the position in US Treasury bills in US dollars with respect to those held as of June 15, 2018, and/or
- b) position in National Treasury bills in US dollars as of June 15, 2018, maintained as excess admitted to the current limit as of that date.

The excesses of these ratios are subject to a charge equal to 1.5 times the average nominal interest rate of the shorter term Peso-denominated LELIQs auction published on the last business day of the relevant period or, if not available, the last one available for a shorter term. Charges not paid when due are subject to a charge equal to one and a half times the charge established for excesses.

In addition to the above-mentioned charge, sanctions set forth in section 41 of the Financial Institutions Law shall apply (including: caution; warning; fine; temporary or permanent disqualification to dispose of a banking current account; temporary or permanent disqualification to act as promoters, founders, directors, administrators, members of surveillance committees, comptrollers, liquidators, managers, auditors, partner or shareholders; and license revocation).

#### ***Assignment of foreign exchange positions by financial and foreign exchange entities***

On December 17, 2015, Communication "A" 5852 provided that financial entities authorized to deal in exchange transactions and foreign exchange entities were required to sell to the Central Bank their respective positive foreign currency positions at closing on December 16, 2015, valued at the reference exchange rate of such date, and then repurchase them in full. The repurchase transaction could be effective as of December 17, 18 or 21, 2015, at the Central Bank's discretion, at the reference exchange rate prevailing on the day of the repurchase.

In particular, an open purchase position in U.S. dollar futures traded on the *Mercado a Término de Rosario S.A.* (Rosario Futures Exchange, or "ROFEX") and having had its original price adjusted as provided under Item II of Communication 657 of Argentina Clearing S.A. was required to be sold to the Central Bank at the adjusted original price resulting from the enforcement of such Communication, and then repurchased in full at the reference exchange rate prevailing on the day of the repurchase.

For the purpose of exercising the repurchase date option contemplated in the first paragraph, the entities were required to submit a letter signed by its president or chief local officer to the General Operations Sub-department before 10:00 a.m. of the selected day, expressly stating the decision it had adopted.

If an entity failed to exercise the option contemplated in the first paragraph or to comply with any of the formal requirements set forth above, the repurchase was to be completed on December 22, 2015 at the reference exchange rate prevailing on such date.

The notion of "foreign currency position" referred to above was determined as follows: (i) for foreign exchange bureaus, agencies and offices: their GEP; and (ii) for financial entities authorized to deal in foreign exchange transactions: their net global foreign currency position, less any net assets corresponding to their liabilities in foreign-currency denominated government securities, based on the currency in which the respective financial services were paid (either a foreign currency or U.S. dollar-linked Argentine Pesos).

If the determined foreign currency position was negative, no sale to the Central Bank and repurchase was required.

#### ***Fixed Assets and Other Items***

The Central Bank determines that the fixed assets and other items maintained by the financial entities must not exceed 100% of the entity's RPC.

Such fixed assets and other items include the following:

- Shares of local companies;
- Miscellaneous receivables;
- Property and equipment; and
- Other assets.

The calculation of such assets will be effected according to the month-end balances, net of depreciations, accumulated amortizations and allowances for loan losses.

Non-compliance with the ratio produces an increase in the minimum capital requirements equal to 100% of the excess on the ratio.

### ***Credit Ratings***

Since November 28, 2014, Communication “A” 5671, as amended by Communication “A” 6162, supersedes the provisions issued by the Central Bank containing ratings requirements assigned by a local risk rating company. Where provisions require certain international ratings, the criteria set forth by Communication “A” 5671 govern.

The provisions of Communication “A” 5671 are basic guidelines to properly assess the credit risk that financial institutions must observe when implementing Central Bank Rules including the requirement of a particular rating and do not replace the credit assessment that each financial institution must make to their counterparts. International credit ratings that refer to these provisions shall be issued by rating agencies that have a code of conduct based on the “Principles of the Code of Conduct for Agents Rate Risk” issued by the International Organization of Securities Commissions.

Annex II of Communication “A” 5671 provides a table regarding the new qualification requirements for financial institutions. This table classifies the credit ratings requirements for different transactions.

### ***Debt Classification and Loan Loss Provisions***

Unless otherwise indicated, the regulations explained in this section should be applied to financial information of the banks calculated in accordance with Central Bank Rules. IFRS differs in certain significant respects from Central Bank Rules.

### ***Credit Portfolio***

The regulations on debt classification are designed pursuant to Central Bank Rules, which differ from IFRS to establish clear guidelines for identifying and classifying the quality of assets, as well as evaluating the actual or potential risk of a lender sustaining losses on principal or interest, in order to determine (taking into account any loan security) whether the provisions against such contingencies are adequate. Banks must classify their loan portfolios into two different categories: (i) consumer or housing loans and (ii) commercial loans. Consumer or housing loans include housing loans, consumer loans, credit-card financings, loans of up to Ps.7,920,000 to micro-credit institutions and commercial loans of up to Ps.7,920,000 with or without preferred guarantees when the institution elected. All other loans are considered commercial loans. Consumer or housing loans in excess of Ps.7,920,000, the repayment of which is linked to the evolution of its productive or commercial activity, are classified as commercial loans. If a customer has both kinds of loans (commercial and consumer or housing loans), the consumer or housing loans will be added to the commercial portfolio to determine under which portfolio they should be classified based on the amount indicated. In these cases, the loans secured by preferred guarantees shall be considered to be at 50% of its face value.

Under the current debt classification system, each customer, as well as the customer’s outstanding debts, are included within one of six sub-categories. The debt classification criteria applied to the consumer loan portfolio are primarily based on objective factors related to customers’ performance of their obligations or their legal standing, while the key criterion for classifying the commercial loan portfolio is each borrower’s paying ability based on their future cash flow.

### ***Commercial loans classification***

The principal criterion used to evaluate a loan pertaining to the commercial portfolio is its borrower’s ability to repay it, whose ability is mainly measured by such borrower’s future cash flow. Pursuant to Central Bank Rules, commercial loans are classified as follows:

<b>Classification</b>	<b>Criteria</b>
Normal Situation	Borrowers that demonstrate their ability to comply with their payment obligations. High repayment capacity.
Subject to special Monitoring/Under observation	Borrowers that, among other criteria, are up to 90 days past due and, although considered to be able to meet all their financial obligations, are sensitive to changes that could compromise their ability to honor debts absent timely corrective measures.

<b>Classification</b> Subject to special Monitoring/ Under negotiation or refinancing agreement	<b>Criteria</b> Borrowers who are unable to comply with their obligations as agreed with the bank and, therefore, formally state, within 60 calendar days after the maturity date, their intention to refinance such debts. The borrower must enter into a refinancing agreement with the bank within 90 calendar days (if up to two lenders are involved) or 180 calendar days (if more than two lenders are involved) after the payment default date. If no agreement has been reached within the established deadline, the borrower must be reclassified to the next category according to the indicators established for each level.
Troubled	Borrowers with difficulties honoring their financial obligations under the loan on a regular basis, which, if uncorrected, may result in losses to the bank.
With high risk of insolvency	Borrowers who are highly unlikely to honor their financial obligations under the loan.
Irrecoverable	Loans classified as irrecoverable at the time they are reviewed (although the possibility might exist that such loans might be collected in the future). The borrower will not meet its financial obligations with the financial institution.
Irrecoverable according to Central Bank's Rules	(a) Borrower has defaulted on its payment obligations under a loan for more than 180 calendar days according to the corresponding report provided by the Central Bank, which report includes: (1) financial institutions liquidated by the Central Bank, (2) residual entities created as a result of the privatization of public financial institutions, or in the privatization or dissolution process, (3) financial institutions whose licenses have been revoked by the Central Bank and find themselves subject to judicial liquidation or bankruptcy proceedings and (4) trusts in which <i>Seguro de Depósitos S.A.</i> (SEDESA) is a beneficiary; or (b) certain kinds of foreign borrowers (including banks or other financial institutions that are not subject to the supervision of the Central Bank or similar authority of the country in which they are incorporated) that are not classified as "investment grade" by any of the rating agencies approved by the Central Bank.

#### ***Consumer or housing loans classification***

The principal criterion applied to loans in the consumer and housing portfolio is the length of period for which such loans remain overdue. Under Central Bank Rules, consumer and housing borrowers are classified as follows:

<b>Classification</b> Normal Situation	<b>Criteria</b> If all payments on loans are current or less than 31 calendar days overdue and, in the case of checking account overdrafts, less than 61 calendar days overdue.
Low Risk	Loans upon which payment obligations are overdue for a period of more than 31 and up to 90 calendar days.
Medium Risk	Loans upon which payment obligations are overdue for a period of more than 90 and up to 180 calendar days.
High Risk	Loans in respect of which a legal action seeking collection has been filed or loans having payment obligations overdue for more than 180 calendar days, but less than 365 calendar days.
Irrecoverable	Loans in which payment obligations are more than one year overdue or the debtor is insolvent or in bankruptcy or liquidation.
Irrecoverable Loans	Loans in which payment obligations are more than one year overdue or the debtor is insolvent or in bankruptcy or liquidation.
Irrecoverable according to Central Bank's Rules	Same criteria as for commercial loans in the Irrecoverable according to Central Bank Rules.

## Minimum Credit Provisions

Unless otherwise indicated, the financial regulations described in this section have been prepared in accordance with Central Bank Rules. IFRS differs in certain significant respects from Central Bank Rules. See Item 5B. “*Critical accounting policies*” and note 3 to our audited consolidated financial statements as of December 31, 2018 and 2017.

The following minimum credit provisions are required to be made by Argentine banks in relation to the credit portfolio category:

Category	With Preferred Guarantees	Without Preferred Guarantees
“Normal situation”	1%	1%
“Under observation” and “Low risk”	3%	5%
“Under negotiation or refinancing agreement”	6%	12%
“With problems” and “Medium Risk”	12%	25%
“With high risk of insolvency” and “High Risk”	25%	50%
“Irrecoverable”	50%	100%
“Irrecoverable according to Central Bank’s Rules”	100%	100%

The Superintendency may require additional provisioning if it determines that the current level is inadequate.

Financial institutions are entitled to record allowances for loan losses in amounts larger than those required by Central Bank Rules. In such cases and despite the existence of certain exceptions, recording a larger allowance for a commercial loan, to the extent the recorded allowance amount falls into the next credit portfolio category set forth by Central Bank Rules, shall automatically result in the corresponding debtor being recategorized accordingly.

### *Minimum frequency for classification review*

In accordance with Central Bank Rules financial institutions are required to develop procedures for the analysis of the credit facilities assuring an appropriate evaluation of a debtor’s financial situation and a periodic revision of its situation concerning objective and subjective conditions of all the risks taken. The procedures established have to be detailed in a manual called “Manual of Procedures for Classification and Allowances” which shall be permanently available for the Superintendency. The frequency of the review of existing classifications must answer to the importance considering all facilities. The classification analysis shall be duly documented.

In the case of commercial loans, applicable regulations require a minimum frequency of review. Such review must take place: (i) quarterly for clients with indebtedness equal or greater than 5% of the financial entity’s RPC for the prior month and (ii) semi-annually for clients whose indebtedness is (x) higher than the lower of 1% and Ps. 19.800.000 of the financial entity’s RPC for the prior month, and (y) lower than 5% of the financial entity’s RPC for the prior month. At the end of the first calendar semester, the total review under (i) and (ii) should have covered no less than 50% of the financial entity’s commercial loan portfolio and, if less, it shall be completed by incorporating clients (in descending order) whose total indebtedness is inferior to the limits described in the preceding point (ii)(x).

In addition, financial institutions have to review the rating assigned to a debtor in certain instances, such as when another financial institution reduces the debtor classification in the “Credit Information Database” (the “Credit Information Database”) and grants 10% or more of the debtor’s total financing in the financial system. Only one-level discrepancy is allowed in relation to the information submitted by financial institutions to the Credit Information Database and the lower classification awarded by at least two other banks and total lending from such banks account for 40% or more of the total informed; if there is a greater discrepancy, the financial institution will be required to reclassify the debtor.

### *Allowances for loan losses*

The Central Bank Rules establishes minimum requirements for allowances for loan losses, in accordance with the category assigned to the client and the type of guarantee. Entities may have allowances for amounts higher than the minimum requirements, as deemed reasonable. Allowances are designed pursuant to the Central Bank Rules which differ from IFRS. See Item 5B. “*Critical accounting policies*” and note 3 to our audited consolidated financial statements as of December 31, 2018 and 2017.

Increases in the allowance are based on the level of growth of the loan portfolio, as well as on the deterioration of the quality of existing loans, while decreases in the allowance are based on regulations requiring the write-off of non-performing loans classified as irrecoverable after a certain period of time and on decisions of the management to write off non-performing loans evidencing a very low probability of recovery.

### ***Priority rights of depositors***

Under section 49 of the Financial Institutions Law, in the event of judicial liquidation or bankruptcy of a bank all depositors, irrespective of the type, amount or currency of their deposits, will be senior to the other remaining creditors (such as shareholders of the bank), with exceptions made for certain labor liens (section 53 paragraphs (a) and (b)) and for those creditors backed by a pledge or mortgage, in the following order of priority: (a) deposits of up to Ps.1,000,000 per person (including all amounts such person deposited in one financial entity), or its equivalent in foreign currency, (b) all deposits of an amount higher than Ps. 1,000,000 or its equivalent in foreign currency, and (c) the liabilities originated in commercial lines granted to the financial institution and which directly affect international commerce. Furthermore, pursuant to section 53 of the Financial Institutions Law, as amended, Central Bank claims have absolute priority over other claims, except for pledged or mortgaged claims, certain labor claims, the depositors' claims pursuant to section 49, paragraph e), points i) and ii), debt granted under section 17, paragraphs (b), (c) and (f) of the Central Bank's Charter (including discounts granted by financial entities due to a temporary lack of liquidity, advances to financial entities with security interest, assignment of rights, pledges or special assignment of certain assets) and debt granted by the Banking Liquidity Fund backed by a pledge or mortgage.

The amendment to section 35 bis of the Financial Institutions Law by Law No. 25,780 sets forth that if a bank is in a situation where the Central Bank may revoke its authorization to operate and become subject to dissolution or liquidation by judicial resolution, the Central Bank's Board of Directors may take certain actions. Among these actions, in the case of excluding the transfer of assets and liabilities to financial trusts or other financial entities, the Central Bank may totally or partially exclude the liabilities mentioned in section 49, paragraph (e), as well as debt defined in section 53, giving effect to the order of priority among creditors. Regarding the partial exclusion, the order of priority of paragraph (e), section 49 must be followed without treating liabilities of the same grade differently.

### ***Mandatory deposit insurance system***

Law No. 24,485, passed on April 12, 1995, as amended, created a Deposit Insurance System, or "SSGD," which is mandatory for bank deposits, and delegated the responsibility for organizing and implementing the system to the Central Bank. The SSGD is a supplemental protection to the privilege granted to depositors by means of section 49 of the Financial Institutions Law, as mentioned above.

The SSGD has been implemented through the establishment of a Deposit Guarantee Fund, or "FGD," managed by a private-sector corporation called *Seguro de Depósitos Sociedad Anónima*, (Deposit Insurance Corporation, or "SEDESA"). According to Decree No. 1292/96, the shareholders of SEDESA are the government through the Central Bank and a trust set up by the participating financial institutions. These institutions must pay into the FGD a monthly contribution determined by Central Bank Rules. The SSGD is financed through regular and additional contributions made by financial institutions, as provided for in Central Bank Communication "A" 4271, dated December 30, 2004.

The SSGD covers deposits made by Argentine individuals and legal entities in Pesos and foreign currency and maintained in accounts with the participating financial institutions, including checking accounts, savings accounts, and time deposits up to the amount of Ps.350,000, as set forth by Central Bank Communication "A" 5659, dated October 31, 2014, as amended, which pursuant to Communication "A" 6654 of the Central Bank, dated February 26, 2019, as of March 1, 2019 the amount covered by the SSGD is currently Ps.1,000,000.

Effective payment on this guaranty will be made within thirty (30) business days after revocation of the license of the financial institution in which the funds are held; such payments are subject to the exercise of the depositor's priority rights described above.

In view of the circumstances affecting the financial system, Decree No. 214/2002 provided that SEDESA may issue registered securities for the purpose of offering them to depositors in payment of the guarantee in the event it should not have sufficient funds available.

The SSGD does not cover: (i) deposits maintained by financial institutions in other financial institutions, including certificates of deposit bought in the secondary market, (ii) deposits made by persons directly or indirectly affiliated with the institution, (iii) time deposits of securities, acceptances or guarantees, (iv) any transferable time deposits that have been transferred by endorsement, (v) any deposits in which the agreed-upon interest rate is higher than the reference interest rates periodically released by the Central Bank for time deposits and demand deposit account balances and available amounts from overdue deposits or closed accounts, and (vi) immobilized credit from deposits and excluded transactions.



Pursuant to Communication “A” 5710, every financial institution is required to contribute to the FGD a monthly amount of 0.06% of the monthly average of daily balances of deposits in local and foreign currency, as determined by the Central Bank.

When fixed term deposits in U.S. dollars of the private non-financial sector are used to purchase Central Bank bills denominated in U.S. dollars, financial institutions must contribute 0.015% of the monthly average of daily balances of the net position of such bills. Prompt contribution of such amounts is a condition precedent to the continuing operation of the financial institution. The first contribution was made on May 24, 1995. The Central Bank may require financial institutions to advance the payment of up to the equivalent of two years of monthly contributions and debit the past due contributions from funds of the financial institutions deposited with the Central Bank. The Central Bank may require additional contributions by certain institutions, depending on its evaluation of the financial condition of those institutions. Pursuant to Communication “A” 5943, effective as of April 7, 2016, the monthly contribution to the FDG was established as 0.015%.

When the contributions to the FGD reach the greater of Ps.2 billion or 5.0% of the total deposits of the system, the Central Bank may suspend or reduce the monthly contributions, and reinstate them when the contributions subsequently fall below that level.

#### ***Other restrictions***

Pursuant to the Financial Institutions Law, financial institutions cannot create any kind of rights over their assets without the Central Bank’s authorization. Furthermore, in accordance with section 72 of Capital Markets Law, publicly offered companies are forbidden to enter into transactions with their directors, officers or affiliates in terms more favorable than arms-length transactions.

#### ***Capital Markets***

Commercial banks are authorized to subscribe for and sell shares and debt securities. At present, there are no statutory limitations as to the amount of securities for which a bank may undertake to subscribe. However, under Central Bank Rules, underwriting of debt securities by a bank would be treated as “financial assistance” and, accordingly, until the securities are sold to third parties, such underwriting would be subject to limitations.

On September 9, 2013, the CNV published Resolution No. 622/2013 (the “CNV Rules”) supplementing the Capital Markets Law. The CNV Rules have been in force since September 18, 2013. On May 9, 2018, the Argentine Congress approved the Argentine Productive Financing Law No. 27,440, which amended the Capital Markets Law, the Mutual Funds Law No. 24,083 and the Negotiable Obligations Law, among other regulations and introduced substantial changes to regulations governing markets, stock exchanges and the various agents operating in capital markets, as well as certain amendments to the CNV’s powers. *For more information, please see, “Risk Factors—Risks relating to Argentina—The Argentine economy remains vulnerable and any significant decline could adversely affect our financial condition.”*

#### ***TM20***

Beginning October 5, 2017, the Central Bank has begun to publish on a daily basis a survey of the average interest rates paid by Banks for their fixed-term deposits of over Ps.20 million, for terms of between 30 and 35 days (the “TM20”), in order to reflect the behavior of wholesale depositors.

A TM20 denominated in dollars will also be published for deposits for the same term that are for U.S.\$20 million or more.

The information published by the Central Bank is broken down by public vs. private banks, both for operations in Pesos and foreign currencies.

#### ***Financial institutions with economic difficulties***

The Financial Institutions Law provides that any financial institution, including a commercial bank, operating at less than certain required technical ratios and minimum net worth levels, in the judgment of the Central Bank adopted by members representing the majority of the board of directors, with impaired solvency or liquidity or in any of the other circumstances listed in Section 44 of the Financial Institutions Law, must (upon request from the Central Bank and in order to avoid the revocation of its license) prepare a restructuring plan or a remediation and regularization plan. The plan must be submitted to the Central Bank on a specified date, no later than thirty (30) calendar days from the date on which a request to that effect is made by the Central Bank. If the institution fails to submit, secure regulatory approval of, or comply with, a restructuring plan, the Central Bank will be empowered to revoke the institution’s license to operate as such.

The Central Bank's charter authorizes the Superintendency to fully or partially suspend, exclusively subject to the approval of the President of the Central Bank, the operations of a financial institution for a term of thirty (30) days if the liquidity or solvency thereof is adversely affected. Such term could be renewed for up to ninety (90) additional days, with the approval of the Central Bank's Board of Directors. During such suspension term an automatic stay of claims, enforcement actions and precautionary measures is triggered, any commitment increasing the financial institution's obligations shall be null and void, and debt acceleration and interest accrual shall be suspended.

If a financial institution meets the Central Bank's criteria and is found to be in a situation covered by the Financial Institutions Law, then the Central Bank is authorized to revoke the institution's operation license. The Central Bank may order a restructuring plan before revoking an institution's license. The restructuring plan may consist of certain steps, including, among others:

- adoption of a list of measures to capitalize or increase the capital of the financial institution;
- revoke the approval granted to the shareholders of the financial institution to hold interests therein;
- restructure or transfer assets and liabilities;
- grant temporary exemptions to comply with technical regulations or payment of charges and penalties arising from such flawed compliance; or
- appoint a delegate or auditor ("*intervenor*") that may prospectively replace the board of directors of the financial institution.

#### ***Revocation of the license to operate as a financial institution***

The Central Bank may revoke the license to operate as a financial institution in the situations outlined in the Financial Institutions Law. These situations include if a restructuring plan fails or is not deemed feasible, local laws and regulations are violated, the solvency or liquidity of the financial institution is affected, significant changes occur in the institution's condition from when the original authorization was granted, if any decision by the financial institution's legal or corporate authorities concerning its dissolution is adopted, among other circumstances set forth in the Financial Institutions Law. In addition, pursuant to the Central Bank regulations on "Incorporation of Financial Entities," sanctions imposed by the Central Bank, the UIF, the CNV and/or the National Superintendency of Insurance (*Superintendencia de Seguros de la Nación*) on financial institutions and/or their authorities, may result in the revocation of their licenses to operate as financial institutions. Such revocation may occur when, in the opinion of the Board of Directors of the Central Bank, there was a material change in the conditions deemed necessary to maintain such license, including those relating to the suitability, experience, moral character or integrity of:

- (i) the members of a financial institution's board of directors (directors, counselors or equivalent authorities),
- (ii) its shareholders,
- (iii) the members of its supervisory committee and
- (iv) others, such as its managers.

For such purposes, the Superintendency also takes into consideration information that it receives from, and/or sanctions imposed by, equivalent foreign agencies or authorities. When weighing the significance of the sanctions, the Superintendency takes into account the type of sanctions, the underlying reason for such sanctions and the amount of sanctions imposed on the financial institution. Additionally, the Superintendency factors in the degree of participation in the events leading up to the sanction, the economic effects of the violation, the degree of damage caused to third parties, the economic benefit that the sanctioned party received from the violation, the sanctioned party's operating volume, its liability and the title or function that such party holds.

Once the license to operate as a financial institution has been revoked, the financial institution will be liquidated.

#### ***Liquidation of financial institutions***

As provided in the Financial Institutions Law, the Central Bank must notify the revocation decision to a competent court, which will then determine who will liquidate the entity: the corporate authorities (extrajudicial liquidation) or an independent liquidator appointed by the court for that purpose (judicial liquidation). The court's decision will be based on whether there are sufficient assurances that the corporate authorities are capable of carrying out such liquidation properly.

#### ***Bankruptcy of financial institutions***

According to the Financial Institutions Law, financial institutions are not allowed to file their own bankruptcy petitions. In addition, the bankruptcy shall not be adjudged until the license to operate as a financial institution has been revoked.

Once the license to operate as a financial institution has been revoked, a court of competent jurisdiction may adjudge the former financial institution in bankruptcy, or a petition in bankruptcy may be filed by the Central Bank or by any creditor of the bank, in this case after a period of sixty (60) calendar days has elapsed since the license was revoked.

Once the bankruptcy of a financial institution has been adjudged, provisions of the Bankruptcy Law No. 24,522 (the “Bankruptcy Law”) and the Financial Institutions Law shall be applicable. In certain cases, specific provisions of the Financial Institutions Law shall supersede the provisions of the Bankruptcy Law (*i.e.*, priority rights of depositors).

#### ***Merger, consolidation and transfer of goodwill***

Merger, consolidation and transfer of goodwill may be arranged between entities of the same or different type and will be subject to the prior approval of the Central Bank. The new entity must submit a financial-economic structure profile supporting the project in order to obtain authorization from the Central Bank.

#### ***Financial system restructuring unit***

The Financial System Restructuring Unit was created to oversee the implementation of a new approach towards those banks that benefit from assistance provided by the Central Bank. This unit is in charge of rescheduling maturities, determining restructuring strategies and action plans, approving transformation plans, and accelerating repayment of the facilities granted by the Central Bank.

#### ***Anti-money laundering***

The concept of money laundering is generally used to denote transactions aimed at introducing funds from illicit activities into the institutional system and thus transform gains from illegal activities into assets of a seemingly legitimate source.

Terrorist financing is the act of providing funds for terrorist activities. This may involve funds raised from legitimate sources, such as personal donations and profits from businesses and charitable organizations, as well as from criminal sources, such as drug trade, weapons and other goods smuggling, fraud, kidnapping and extortion.

On April 13, 2000, the Argentine Congress passed Law No. 25,246, as amended by Laws No. 26,087, 26,119, 26,286, 26,683, 26,734, 26,831 and 26,860 (together the “Anti-Money Laundering Law”), which sets forth an administrative criminal system and supersedes several sections of the Argentine Criminal Code related to money laundering.

The Anti-Money Laundering Law defines money laundering as a crime committed whenever a person converts, transfers, manages, sells, encumbers, disguises or in any other way commercializes goods obtained through a crime, with the possible consequence that the original assets or the substitute may appear to be of a legitimate origin. The value of the assets must exceed Ps.300,000. This amount may be the product of one or more related transactions.

Money laundering is a separate crime from concealment. Money laundering is a crime against the economic and financial order, whereas concealment is considered an offense against the public administration. Therefore, an individual or entity can be prosecuted for money laundering even if they did not participate in the underlying crime to illegally obtain goods.

To comply with recommendations made by the FATF on money laundering prevention, on June 1, 2011, the Argentine Congress enacted Law No. 26,683. Under this law, money laundering is a crime *per se*. Laundering one’s own money is also sanctionable. This law extends reporting duties to certain members of the private sector who were formerly not under such an obligation.

The Anti-Money Laundering Law created the UIF, under the Argentine Ministry of Justice, Security and Human Rights, which is responsible for the handling and transmitting of information to prevent (a) the laundering of assets mainly originated from:

- (i) crimes related to illegal trafficking and commercialization of narcotics (Law No. 23,737);
- (ii) crimes related to arms trafficking (Law No. 22,415);
- (iii) crimes related to the activities of an illegal association as defined in Section 210 bis of the Argentine Criminal Code;
- (iv) illegal acts committed by illegal associations (section 210 of the Argentine Criminal Code) organized to commit crimes with political or racial objectives;
- (v) crimes of fraud against the Public Administration (section 174, paragraph 5 of the Argentine Criminal Code);
- (vi) crimes against the Public Administration under Chapters VI, VII, IX and IX bis of Title XI of the Second Book of the Argentine Criminal Code;
- (vii) crimes of underage prostitution and child pornography under Sections 125, 125 bis, 127 bis and 128 of the Argentine Criminal Code;

- (viii) crimes involving terrorist financing (sections 41 and 306 of the Argentine Criminal Code);
- (ix) extortion (section 168 of the Argentine Criminal Code),
- (x) crimes contemplated by Law No. 24,769; and
- (xi) human trafficking.

The UIF is also responsible for transmitting information to prevent (b) terrorism financing (sections 41 and 306 of the Argentine Criminal Code).

With the passage of Law No. 27,260 and its Regulatory Decree No. 895/2016, the UIF fell under the scope of the then Ministry of Treasury and Public Finance, currently the Ministry of Treasury.

The Anti-Money Laundering Law, like anti-money laundering laws of other countries, does not place sole responsibility on the Argentine government to monitor these criminal activities, but rather it also places certain duties on various private sector entities, such as banks, shareholders, stock markets and insurance companies. Under the Anti-Money Laundering law, these private sector entities are now legally bound reporting parties. These obligations essentially consist of information gathering functions, such as:

- a) obtaining from clients' documents that indisputably prove the identity, legal status, domicile and other information, concerning their operations needed to accomplish the intended activity (*know your customer policy*);
- b) reporting to the UIF any transaction considered suspicious (as such term is explained below), as well as any transaction that lacks economic or legal justification, or is unnecessarily complex, whether performed on isolated occasions or repeatedly; and
- c) keeping any monitoring activities in connection with a proceeding pursuant to the Anti-Money Laundering Law confidential from both clients and third parties.

Argentine financial institutions must comply with all applicable anti-money laundering regulations as provided by the UIF, the Central Bank, and, if applicable (as is the case of Banco Macro), by the CNV. In this regard, in accordance with Resolution No. 229/2014 of the UIF, both the Central Bank and the CNV are considered "Specific Control Agencies" (*Órganos de Contralor Específico*). In such capacity, Specific Control Agencies must cooperate with the UIF in the evaluation of compliance with the anti-money laundering proceedings of the legally bound reporting those parties subject to their control which have infringed the prevention regime. In that respect, they are entitled to supervise, monitor and inspect such entities, and if necessary, take disciplinary action against infringers.

Resolution 30/2017 and Resolution 21/2018 of the UIF ("Resolution 30" and "Resolution 21", respectively), determine the minimum compliance requirements which a system designed to prevent the crimes of money laundering and terrorism financing should include, as is the case of the "*know your customer*" duties, as well as the obligations and restrictions for compliance with the reporting duty regarding suspicious money laundering and terrorist financing transactions. These two resolutions have been issued by the UIF as a result of its new risk-oriented approach, pursuant to which the UIF has shifted its formalist approach while attempting to implement a more efficient regime to prevent money laundering and terrorism financing, based on the revised FATF recommendations of 2012. Under current regulations, Reporting Parties (*Sujetos Obligados*) have to first evaluate their risks and then adopt administrative and effective measures in order to prevent money laundering within their organizations.

Resolution 30 also provides that financial entities, such as us, are required to take certain actions embracing a risk-oriented approach, aimed at identifying and assessing their respective exposure to money laundering and terrorism financing, in respect of their customers, countries and geographic areas, products and services, operations or distribution channels, including but not limited to:

- (a) implementing an Anti-Money Laundering and Terrorism Financing System;
- (b) establishing policies, procedures and controls approved by the entity's board of directors or utmost authority that allow for identifying, assessing, mitigating and monitoring their respective risk exposures to money laundering and terrorism financing. To such ends, financial entities will be required to determine, for each of their business lines, the entity's risk profile and its inherent level of exposure, and to assess how effective the controls in place are in mitigating the identified risks in respect of, at least, their customers, products and/or services, distribution channels, and geographic areas;
- (c) developing a manual of procedures;
- (d) appointing a Compliance Officer who shall watch for the implementation of and adherence to the procedures and obligations set forth in Resolution 30;
- (e) setting up a Committee on Anti-Money Laundering and Terrorism Financing to give support to the Compliance Officer in embracing and fulfilling the required policies and procedures for the sound operation of the Anti-Money Laundering and Terrorism Financing System;
- (f) paying special attention to the risk inherent to business relationships and operations with countries or jurisdictions where the recommendations of the Financial Action Task Force (FATF) are not sufficiently enforced, or are not enforced at all;
- (g) developing an annual training plan for the entity's directors and employees with special emphasis on the Risk-Based Approach;

(h) having policies and procedures in place to gain sufficient, timely and current knowledge about all clients, verifying the information submitted by them, and adequately monitoring their operations. Such identification techniques will have to be executed at the beginning of the business relationship and will be applied on an ongoing basis, in order to maintain updated data, records and/or copies of the entity's customer database. The entity's failure or inability to comply with the identification duty as set forth in Resolution 30 shall be understood as a barrier to initiate a business relationship or, if already existent, to continue pursuing it. In addition, on the basis of the applicable Money Laundering and Terrorist Financing Management policies, it should be analyzed whether or not such business relationship should be reported as suspicious activity.

The due diligence procedures aimed at gaining customer knowledge will be applied according to Money Laundering and Terrorist Financing ratings, determined on the basis of the risk model in place at the entity. To such end, consideration will be given to customer-related risk criteria, including type of customer (individual or legal entity), business activity, source of funds, actual and estimated volume of transactions, nationality and residence. The rating should be determined upon accepting new customers and keep updated throughout the relationship with them;

(i) enforcing and establishing the scope and intensity of the due diligence procedures on a tiered basis, according to, at least, High, Medium and Low Risk levels of customers. Such procedures will involve: (a) for Medium Risk customers, in addition to the minimum required information for identification purposes, securing the appropriate supporting documents in respect of (i) the customer's business activity, and (ii) the customer's source of income, funds and/or wealth. The entity may also request for such other additional data which, at its discretion, may be useful to identify and know their customers in order to understand and appropriately manage the risk associated to each type, according to the entity's risk management system; (b) for High Risk customers, applying reinforced customer due diligence procedures. In addition to the minimum required information, the entity will also be required to secure the following documents in respect of High Risk customers, namely: (i) copies of invoices, title deeds or other documents that serve as irrefutable evidence of the customer's domicile; (ii) copies of documents supporting the customer's source of funds, wealth, revenue or earned income; (iii) copy of the decision-making body with designation of authorities; (iv) copies of other documents useful to adequately know and manage the risk associated to this type of customer; (v) check the customer's potential history of money laundering and terrorist financing and penalties imposed by the UIF, the applicable oversight authority or the judiciary; and (vi) all such other documents as the entity may deem appropriate; and (c) for Low Risk customers, applying simplified customer due diligence procedures including, at least, the minimum requirements set forth in Resolution No. 30 for client identification purposes (both individuals and legal entities);

(j) preparing a prospective (*ex ante*) Transactional Profile, notwithstanding subsequent adjustments and calibrations thereto, on the basis of the requested information and documents, according to the transactions actually executed. Such profile will be based on the understanding of the expected purpose and nature of the business relationship, the transactional information, and the documents in respect of the financial position furnished by the customer or gathered by the entity itself, according to the due diligence procedures that may apply in each case;

(k) performing transactional monitoring, establishing to such end transaction control rules and automated alerts in order to appropriately and timely monitor the execution of transactions and their alignment with the Transactional Profile and risk level of the entity's customers. To such ends, all unusual transactions will be regarded as transactions subject to review;

(l) in operating with accounts of other reporting parties, an entity should deploy reasonable due diligence policies and procedures from a risk-based approach and shall request from the UIF the reporting parties' registration certificate. In the case of failure or unjustified unwillingness to cooperate, the entity should apply reinforced know-your-customer due diligence procedures and will have to conduct a special review of the account and, if so warranted, issue a suspicious transaction report;

(m) applying reinforced follow-up on cash deposits. In this regard, for deposits equal to or in excess of Ps.200,000 or its equivalent in other currencies, the financial entity should identify the person conducting the transaction, request for information and register whether the transaction is conducted on its own account or on behalf of third parties, in which case, the entity should gather the full name and/or corporate name and taxpayer identification number of such third parties;

(n) conducting certain actions during the course of the contractual or business relationship, including but not limited to:

- (i) verifying adequate compliance with Resolution No. 29/2013 handed down by the UIF, as amended, in particular, with such policies and procedures to check whether or not the names of candidate customers, payors and beneficiaries of international transfers, customers and beneficial owners appear in anti-terrorist lists and in lists against the proliferation of weapons of mass destruction;
- (ii) verifying whether customers meet the conditions to be regarded as a politically exposed person and comply with the rules handed down by the UIF in that regard;

(iii) maintaining an internal record of transactions subject to review, which shall include, at least, the following data: (a) transaction identification; (b) date, time and origin of the alert or other transaction identification system; (c) analyst in charge of the alert resolution; (d) actions taken leading to the alert resolution; (e) final decision, including the validation of the supervisor or higher-level officer, date and time of the final decision. In addition, all documentary files supporting such records should be kept in custody.

If unusual transactions are identified, a deeper analysis should be performed in order to obtain additional information to confirm the unusual nature of the transaction, recording in writing the findings of such analysis and the supporting documents that have been verified;

(iv) developing consistent reports as set forth in the rules handed down by the UIF;

(v) maintaining each customer's file; and

(o) reporting to the UIF unusual transactions regarded as suspicious of money laundering or terrorist financing activities, with special consideration to the circumstances listed in Resolution No. 30. The report should be founded and should describe the rationale for which the transaction has been regarded as such; and

(p) maintaining the following elements for the term of 10 years: (i) the documents supporting the transactions carried out by the entity's customers, in which case the 10-year term should be counted as from the transaction date; (ii) the customers' and beneficial owners' documents gathered through due diligence processes, in which case the 10-year term should be counted as from the date of termination of the relationship with the customer; (iii) the documents gathered to conduct the analysis and all such other documents gathered and/or produced in applying due diligence procedures.

Resolution No. 21/2018 of the UIF, which replaced Resolution 229/2011 and replaced partially Resolution 140/2012 ("Resolution 21") establishes certain measures to be observed by stockbrokers and brokerage houses, managers of mutual investment funds, over-the-counter agents, intermediaries in the purchase, lease or borrowing of securities operating under the orbit of stock exchanges with or without adherent markets and intermediary agents registered in the futures and options markets ("Reporting Parties under Resolution 21"). This Resolution incorporated as Reporting Parties the persons included in section 22.20 of the Anti-Money Laundering Law acting as financial trustees whenever their securities are authorized by CNV. Resolution 21 also complement Resolution 30, directed at the financial sector, including the guidelines for money laundering and terrorist financing Risk Management and minimum compliance that the legally bound financial reporting parties of the Capital Markets sector must adopt and apply to manage, in accordance with their policies, procedures and controls, the risk of being used by third parties with criminal objectives of money laundry and terrorist financing.

Fundamentally, the aforementioned resolution shifts the formalistic regulatory compliance approach to a risk-based approach, in order to ensure that the actions implemented are proportional to the identified risks. Therefore, the legally bound financial reporting parties must identify and evaluate their risks and, depending on this, adopt management and mitigation measures in order to more effectively prevent money laundry and terrorist financing. Thus, they are enabled to implement certified technological platforms that allow carrying out procedures at a distance, without personal display of the documentation, while complying with the Due Diligence duties.

Furthermore, new categories of agents have been contemplated, that is, the Liquidation and Compensation Agents, the Negotiation Agents (in activities carried out in the field of Capital Markets) and the Collective Investment Products Management Agents of the Mutual Funds, as well as the financial trusts with public offer, their fiduciaries, trustors and any natural or legal person directly or indirectly related to them, are also covered by the regulation, partially repealing the UIF Res. 140/2012 only on such parties, continuing the provisions of it for the remaining trusts.

On December 28, 2018, by means of Resolution 156/2018, the amended and restated texts of Resolutions 30/2017, Resolution 21 and Resolution 28/2018, according to the terms of Decree 891/2017 of Good Practices with regard to Simplification. By virtue of Resolution 156/18, the measures, procedures and controls that the reporting parties listed in those resolutions must adopt and re-apply to manage the risk of being used by third parties with criminal purposes of money laundering and financing of the terrorism. It is also established that those reporting parties must establish a chronogram of digitization of the bundles of pre-existing clients, taking into account the risk they present.

The Central Bank and the CNV must also comply with anti-money laundering regulations set forth by the UIF, including reporting suspicious transactions. Pursuant to Resolution No. 229/2014 of the UIF, the Central Bank and the CNV are considered "Specific Enforcement Agencies." As such, they must cooperate with the UIF in assessing compliance with the anti-money laundering procedures by the reporting parties subject to their control. To such end, they are entitled to supervise, monitor and inspect such entities and, if necessary, implement certain corrective actions and measures.

In particular, the Central Bank must comply with UIF Resolution No. 12/2011, as supplemented, among others, by Resolutions No. 1/2012 and No. 92/2012, which sets forth the Central Bank's obligation to evaluate the anti-money laundering controls implemented by Argentine financial institutions (with the limitation of the access to the reports and records of suspicious operations, which are, as aforementioned, confidential and subject only to the UIF's supervision), and lists examples of what circumstances should be specially considered in order to establish if a particular transaction may be considered unusual and eventually qualified as suspicious.

The listed transactions are closely reviewed by the Central Bank. Such transactions include, any transaction involving financial institutions, regular transactions involving securities (specially daily purchases and sales of the same amount of securities), capital contributions into financial institutions that have been paid-in in cash (or means other than bank transfers), and capital contributions by companies incorporated or domiciled in jurisdictions that do not allow for information relating to family relations of its shareholders, board members or members of its supervisory committee, deposits or withdrawals in cash for unusual amounts by entities or individuals that normally use checks or other financial instruments and/or whose declared business does not correspond with the type or amount of the transaction; subsequent cash deposits for small amounts that, in total, add up to a relevant sum; a single client holding numerous accounts that, in the aggregate, hold relevant sums inconsistent with such client's declared business; transfers of funds for amounts inconsistent with the client's business or usual kind of transaction; accounts with several authorized signatories that hold no apparent relation (in particular when domiciled or acting off-shore or in tax havens); clients that unexpectedly cancel loans; frequent cash deposits or withdrawals for relevant amounts without commercial justification. The CNV must comply with UIF Resolution No. 22/2011, as supplemented, by Resolutions No. 1/2012 and No. 92/2012, which sets forth the CNV's obligation to evaluate the anti-money laundering controls implemented by entities subject to its control (with the limitation of the access to the reports and records of suspicious operations, which are confidential and subject only to the UIF's supervision), and also lists some examples of what circumstances should be specially considered in order to establish if a particular transaction may be considered unusual and eventually qualified as suspicious.

Central Bank Rules require Argentine banks to take certain precautions to prevent money laundering. In this regard, the Central Bank recommends financial institutions create an anti-money laundering committee to assist in the compliance of the anti-money laundering regulations.

Each financial institution must appoint a member of the board of directors as the person responsible for money laundering prevention. This board member is in charge of centralizing any information the Central Bank may require or information that any other competent authority may request. They must also report any suspicious transactions to the UIF.

The guidelines issued by the Central Bank to detect unusual or suspected money laundering or terrorist financing transactions require the reporting of suspicious transactions and are based on the resources of the entity subject to the reporting obligation and on the type of analysis performed. In particular, the following circumstances are considered:

- (a) if the amount, type, frequency and nature of a transaction made by a customer bears no relationship to such customer's previous history and financial activity;
- (b) amounts that are unusually high or transactions that are of a complexity and type not usual for the relevant customer;
- (c) if a customer refuses to provide information or documents required by the entity or the information furnished is found to have been altered;
- (d) if a customer fails to comply with any applicable regulation;
- (e) if a customer appears to show an unusual disregard for risks it may be assuming and/or costs involved in the transactions, and this is incompatible with the customer's financial profile;
- (f) if a country or jurisdiction that is not a territory or associated state included in the cooperating countries list contained in Executive Decree No. 589/2013, section 2(b) is involved;
- (g) if a same address appears registered for different legal entities or the same natural persons have been empowered by and/or act as attorneys-in-fact for different legal entities and such circumstance is not justified by any financial or legal reason, in particular taking into account whether any such companies or entities are not organized, domiciled or resident in dominions, jurisdictions, territories or associated states included in the cooperating countries list contained in Executive Decree No. 589/2013, section 2(b), and their main business involves off-shore transactions;
- (h) if transactions of a similar nature, amount, type or which are conducted simultaneously, it may be presumed that a single transaction has been split into several for the purpose of avoiding the application of transaction detection and/or reporting procedures;
- (i) if continued profits or losses are derived from transactions repeatedly conducted between the same parties; or
- (j) if certain signs suggest an illegal source, handling or use of funds involved in the transactions, and the entity subject to the legal obligation does not have any explanation for this.

Pursuant to Communication “A” 5738, as amended and supplemented, including without limitation, by Communication “A” 6060 and 6399, of the Central Bank, Argentine financial institutions must comply with certain additional “*know your customer policies*.” New commercial relationships cannot be initiated if the “*know your customer policies*” and the risk management legal standards have not been met. Regarding existing clients, if the “*know your customer policies*” cannot be complied with, the Argentine financial institution must discontinue operations with such client (*i.e.* cease the relationship with the client in accordance with Central Bank’s regulations for each type of product) within 150 calendar days as of the notice of such circumstances. Operations do not have to be discontinued when the “*know your customer policies*” are complied with in such period or when simplified due diligence procedures were implemented pursuant to the applicable laws. Further, under this Communication, Argentine financial entities must keep the documentation related to the discontinuance for 10 years and include in their prevention manuals the detailed procedures to initiate and discontinue operations with clients in accordance with the above-mentioned additional “*know your customer policies*” in place.

In August 2018, by means of Resolution 97/2018, the UIF approved the regulation for the Central Bank’s collaboration duty with the UIF, in order to adapt it to the new parameters established in resolution 30/2017 for supervisory procedures of financial and exchange entities.

The CNV Rules also includes a specific chapter regarding “Prevention of Money Laundering and the Financing of Terrorism” and state that the persons set forth therein (including, among others, Negotiation Agents, Clearing and Settlement Agents (which are stockbrokers), and Distribution and Placement Agents) are to be considered legally bound reporting under the Anti-Money Laundering Law, and therefore must comply with all the laws and regulations in force in connection with anti-money laundering and terrorism financing, including resolutions issued by the UIF, presidential decrees referring to resolutions issued by the United Nations Security Council in connection with the fight against terrorism and the resolutions (and its annexes) issued by the Ministry of Foreign Affairs. In addition, CNV Rules impose certain restrictions in connection with payment arrangements (restricting, among others, to Ps.1,000 the cash amount that the entities set forth therein could receive or pay per day and per client) and impose certain reporting obligations.

The CNV Rules establish that the above-mentioned entities shall only be allowed to carry out any transactions contemplated under the public offering system, if such transactions are carried out or ordered by persons organized, domiciled or resident in dominions, jurisdictions, territories or associated States included in the cooperating countries list contained in Executive Decree No. 589/2013, section 2(b). When such persons are not included in such list and in their home jurisdiction qualify as registered intermediaries in an entity under control and supervision of a body that carries out similar functions to those carried out by the CNV, they will only be allowed to carry out such transactions if they provide evidence indicating that the relevant securities and exchange commission in their home jurisdiction has signed a memorandum of understanding for cooperation and exchange of information with the CNV.

Regarding terrorism financing, Decree No. 918/2012 established the procedures for the freezing of assets linked to terrorism financing (including automatic freezing), and the creation and maintenance procedures (including the inclusion and removal of suspected persons) for registries created in accordance with the relevant United Nations Security Council’s resolutions.

Additionally, UIF Resolution No. 29/2013, regulates following the guidelines of Decree No. 918/2012 (i) the method of reporting suspicious transactions of terrorism financing and the persons obligated to do so, and (ii) the administrative freezing of assets on natural or legal persons or entities designated by the United Nations Security Council pursuant to Resolution 1267 (1999) and subsequent, or linked to criminal actions under Section 306 of the Argentine Criminal Code, both prior to the report issued pursuant to UIF Resolutions No. 121 and 229, and as mandated by the UIF after receiving such report.

On February 17, 2016, the “National Coordination Program for the Prevention of Asset Laundering and the Financing of Terrorism” was created by Executive Decree No. 360/2016 as an instrument of the Ministry of Justice and Human Rights. This Program is responsible for reorganizing, coordinating and strengthening the national system for the prevention of money laundering and the financing of terrorism. The program considers in particular the specific risks that may have an effect on Argentine territory and the global demand for a more effective compliance with international obligations and recommendations established under United Nations Conventions and the standards of the FATF. The National Coordinator leads the program and ensures its responsibilities are performed and implemented. Applicable statutory rules were also modified and the Ministry of Justice and Human Rights were placed primarily in charge of the inter-institutional coordination among all public and private agencies and entities with competent jurisdiction on this matter, while the UIF will retain the ability to perform operating coordination activities at the national, provincial and municipal levels in relation to matters strictly within its jurisdiction as a financial intelligence agency.

Law No. 27,260 and its supplemental Decree No. 895/2016, allow the UIF to provide information to other public entities who also have intelligence or investigation rights, so long as the sharing of this information has been previously authorized by the president of the UIF and if there is reasonable, precise and serious evidence of the commission of any of the crimes contemplated under the Anti-Money Laundering Law. The entities receiving the communications of the UIF providing this information will be subject to the confidentiality obligations of Section 22 of the Anti-Money Laundering Law, and will be subject to the criminal penalties of such law if they breach their duty of confidentiality and reveal secret information. The UIF is not entitled to exercise this right with respect to voluntary and exceptional declarations made pursuant to Law No. 27,260. In addition, pursuant to the UIF Resolution No. 92/2016, reporting agents have to implement a special risk management system. The UIF implemented a special reporting system for operations carried out under the abovementioned tax amnesty disclosure prior to March 31, 2017.



On January 11, 2017, the UIF published Resolution No. 4/2017 (“Resolution 4/2017”), which allows the legally bound reporting parties detailed in subsections 1, 4 and 5 of section 20 of Law No. 25,246, as amended, (the “Legally Bound Reporting Parties of Res. 4/2017”), to apply special due diligence identification measures to foreign and national investors (which must comply with the requirements established by Resolution 4/2017 to qualify) to Argentina when at-distance opening special investment accounts (the “Accounts”). The special due diligence regime shall not exempt the Legally Bound Reporting Parties of Res. 4/2017 from monitoring and supervising the transactions performed during the course of the commercial relationship, according to a risk-based approach.

Resolution 4/2017 also regulates the due diligence measures between legally bound financial reporting parties. It requires that when the opening of the Accounts is requested by settlement and clearing agents, or the ALyCs, the local financial entity will have complied with current anti-money laundering and counter terrorist financing regulations after performing due diligence with respect to the ALyCs. The ALyCs shall be responsible for performing due diligence with respect to its customers. Resolution 4/2017 expressly establishes that, even though the financial entities are not responsible for performing due diligence with respect to the ALyCs’ customers, they are not exempt from monitoring and supervising the transactions performed by their clients (the ALyCs) during the course of the commercial relationship, according to a risk-based approach.

In November 2018, the UIF issued Resolution 134/2018, which updates the list of persons that should be considered “politically exposed” (PEP) in Argentina, taking into account the functions in which they perform or have performed, as well as its relationship of closeness or affinity with third parties who perform or have performed in such functions.

On December 26, 2018, the UIF issued resolution 154/2018 modifying the existing supervision procedures, for new designs that are adapted and according to the international standards promoted by the FATF, which must be applied on compliance with risk-based approach. As a result, the UIF approved its “Risk Based Supervision Procedure of the UIF”, repealing the provisions of Annexes II, III and IV of Resolution 104/2010, article 7 and the provisions of the Annexes V and VI of Resolution 165/2011 and of Annex III of Resolution 229/2014.

### ***Anti-Money Laundering and Prevention of Terrorist Financing Program of the Bank***

One of the most significant operational risks that is monitored is that of the activities of “Anti-Money Laundering and Prevention of Terrorist Financing.” There is a program designed to safeguard us against any unintentional involvement or participation in criminal or illicit activities or terrorist financing, and to reaffirm the policy of fully cooperating with the strict application of law and cooperation with the authorities and regulatory bodies.

In order to ensure that the financial system is not used as a channel of funds from criminal activities, employees must determine the true identity of all customers and final beneficiaries of the contracted products and services.

The term terrorism means any premeditated and politically motivated violent act perpetrated against non-combatant targets by clandestine agents or anti-national groups, usually aimed at influencing one or more sectors.

Our regulatory framework categorizes commercializing goods obtained through a crime, with the possible consequence that the original assets or the substitute thereof may appear to be of a legitimate origin, as money laundering. Terrorist financing refers to the funding of a criminal activity, whether through money obtained illegally or legally.

### ***Roles and responsibilities of the program***

The term “Anti-Money Laundering Program” refers to the procedures and policies we have adopted to comply with the Anti-Money Laundering Law.

All employees have roles and responsibilities in the implementation of the Anti-Money Laundering Program. These roles and responsibilities vary depending on the employee’s business line or business area.

### ***Elements of the Anti-Money Laundering Program***

We adopt specific procedures for our various operational and commercial areas as applicable.

The following are the most important components of the Bank's Anti-Money Laundering Program:

1. Prevention: We carry out different tasks in order to mitigate the risk of money laundering:
  - a. Generation of policies and procedures
  - b. Reliable identification of customers and knowledge of their activities ("Know Your Customer" process).
  - c. Specific risk analysis in the product and process approval process.
  - d. Training and ongoing communication to update all relevant staff.
  - e. Existence of a responsible Officer and a Committee for Money Laundering and Terrorist Financing Prevention."
2. Monitoring: We monitor the activity of clients, suppliers, etc., by setting parameters and alerts to be able to identify cases that must be reported to the appropriate authorities.
3. Relationship with regulatory agencies or industry: We maintain relations with the Central Bank/UIF/CNV by carrying out all necessary actions in order to collect and maintain adequate identification of clients and transaction records, in accordance with regulatory requirements. Likewise, we respond to the information requirements of the mentioned entities.
4. Audits and Reviews: this program will be periodically reviewed through by its own assurance program and different types of audits (internal, external, comptroller) to identify opportunities for improvement.
5. Training and Communication: All our staff (including executive staff) who have a relationship with clients or handle their transactions must receive training in anti-money laundering. This training is institutional and mandatory.
6. Know Your Client (KYC): Similar to our efforts to prevent money laundering, and terrorist financing begins with an appropriate "Know Your Customer" process.
  - a. Customer awareness allows financial institutions to determine if certain customers are included on terrorist lists issued by governments and regulatory agencies. This process also allows us to establish whether we are facing high-risk clients (e.g., Politically Exposed Persons) in order to carry out an Improved Due Diligence process (EDD).
  - b. We will not enter into any relationship with any individual or entity who cannot prove their true identity.
7. Recognition and reporting of unusual or suspicious activities: When employees receive indications that make them assume that clients' funds come from criminal activities, they should report this to the Money Laundering and Terrorist Financing Committee for evaluation in accordance with established procedure.

For a thorough analysis of money laundering regulations in effect as of the date of this document, please consult with your own legal counsel and to read Title XIII, Second Book of the Argentine Criminal Code and any regulations issued by the UIF, the CNV and the Central Bank in their entirety. For this purpose, interested parties may visit the websites of the Argentine Ministry of Economy and Public Finance, [www.economia.gob.ar](http://www.economia.gob.ar), the UIF, [www.argentina.gob.ar/uif](http://www.argentina.gob.ar/uif), the CNV, [www.cnv.gob.ar](http://www.cnv.gob.ar) or the Central Bank, [www.bcra.gov.ar](http://www.bcra.gov.ar) none of which websites are incorporated by reference herein.

### **Corporate Criminal Liability Law**

The Corporate Criminal Liability Law sets forth a criminal liability regime applicable to legal entities involved in corruption and international bribery directly or indirectly committed in their name, on their behalf or in their interest and from which a benefit may arise, when commission of the crime is the consequence of an ineffective control or supervision by such legal entity.

In accordance with such law, the Board of Directors has designed a Corruption and Anti-Bribery Policy that sets forth the ethical and compliance standards regarding officer corruption practices, under the scope of the Corporate Criminal Liability Law and the applicable international laws. The Board of Directors expressly prohibits this kind of practices and applies the same criterion in similar cases where private sector individual acts as counterparty.

In turn, the Board of Directors has implemented a code of conduct applicable to employees, contractors, suppliers and agents, with the prohibitions, restrictions and conditions imposed upon them under the Integrity Program approved by the Bank. It was discussed by the Appointment and Corporate Government Committee, and Ernesto Medina, Human Resources Manager, has been appointed Anti-Bribery Policy Officer and the Compliance Department is responsible for the implementation of the Monitoring Program.

### **C. Organizational Structure**

#### **Subsidiaries**

We have five subsidiaries: (i) Banco del Tucumán, our retail and commercial banking subsidiary in the province of Tucumán; (ii) Macro Bank Limited, our subsidiary in the Bahamas through which we primarily provide private banking services; (iii) Macro Securities S.A., which is a member of the BYMA, and through which we provide investment research, securities trading and custodial services to our customers; (iv) Macro Fiducia S.A., a subsidiary that acts as trustee and provides financial advisory and analysis services; and (v) Macro Fondos S.G.F.C.I. S.A., an asset management subsidiary.



<i>Subsidiary</i>	<i>Banco Macro's direct and indirect interest</i>	
	<i>Percentage of Capital Stock</i>	<i>Percentage of possible votes</i>
Banco del Tucumán S.A. (1)	99.945%	99.945%
Macro Bank Limited (2)	99.999%	100.000%
Macro Securities S.A. (1)	99.921%	99.932%
Macro Fiducia S.A. (1)	98.605%	98.605%
Macro Fondos S.G.F.C.I. S.A. (1)	99.936%	100.000%

(1) Country of residence: Argentina

(2) Country of residence: The Bahamas

## D. Property, plants and equipment

### Property

Our headquarters consist of 54,461 square meters of office area that is used by our management, accounting and administrative personnel. As of December 31, 2018, our headquarters consisted of 53,713 square meters that we own and 748 square meters that are leased. Our headquarters are split between offices located in Avenida Eduardo Madero 1172, Sarmiento 731 and Leandro N. Alem 1110, all in the City of Buenos Aires. As of December 31, 2018, we have a branch network that consists of 471 branches in Argentina, of which 200 were leased properties.

In 2011 we acquired a site, located at Avenida Eduardo Madero No. 1180, in the City of Buenos Aires, from the Government of the City of Buenos Aires, for an aggregate original amount of Ps.110 million, in which we have developed our headquarters. We have developed a project to build our new corporate offices on this site. Work on the site began in 2012 and was completed as of the date of this annual report.

The new corporate headquarters were designed to take full advantage of natural light and maximize energy efficiency, while also using materials that do not adversely affect the environment and was built in compliance with the Leed International Sustainability Standards of the "U.S. Green Building Council". As of December 31, 2018, the total aggregate amount invested in the project was approximately U.S.\$172 million at the applicable exchange rates at the end of the month as of the respective dates of such investments.

### Selected Statistical Information

The following information is included for analytical purposes and should be read in conjunction with our audited consolidated financial statements as well as Item 5 "Operating and Financial Review and Prospects." This information has been extracted from the Bank's internal documentation that supports our financial records.

### Average balance sheets, interest earned on interest-earning assets and interest paid on interest-bearing liabilities.

The following tables show average balances, interest amounts and nominal and real rates for our interest-earning assets and interest-bearing liabilities for the years ended December 31, 2017 and 2018 based on results adjusted for inflation as of December 31, 2018, as explained in our consolidated financial statements.

The nominal interest rate has been calculated by dividing the amount of interest gain or loss during the period by the related average balance, both amounts not adjusted for inflation. The nominal rates calculated for each period have been converted into real rates using the following formulas:

$$Rp = \frac{1 + Np}{1 + I} - 1$$

$$Rp = \frac{(1 + Nd)(1 + D)}{1 + I} - 1$$

Where:

Rp = real average rate for peso-denominated assets and liabilities ( in Ps.) for the period;

Rd = real average rate for foreign currency denominated assets and liabilities for the period;

Np = nominal average rate for peso - denominated assets and liabilities for the period;

Nd = nominal average rate for foreign currency denominated assets and liabilities for the period;

D = devaluation rate of the Argentine peso to the dollar for the period; and

I = inflation rate in Argentina for the period based on the variation of the Consumer Price Index.

I 2017 = 24.79%

I 2018 = 47.65%

D 2017 = 18.45%

D 2018 = 101.38%

	2017				2018			
	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate
	(in thousands of Pesos)							
ASSETS								
Interest-earning assets								
Loans and other financing								
Non-financial Public Sector								
Pesos	1,936,833	293,716	3.30%	28.91%	2,523,506	1,065,836	(7.94)%	35.93%
Foreign currency	—	—	0.00%	0.00%	2	—	0.00%	0.00%
Total	1,936,833	293,716	3.30%	28.91%	2,523,508	1,065,836	(7.94)%	35.93%
Other Financial Entities								
Pesos	3,921,386	802,257	(3.25)%	20.73%	4,516,616	1,405,779	(14.13)%	26.78%
Foreign currency	268,381	11,568	-0.95%	4.35%	440,093	22,612	42.38%	4.39%
Total	4,189,767	813,825	(3.10)%	19.68%	4,956,709	1,428,391	(9.11)%	24.79%
Non-financial Private Sector and Foreign Residents								
Pesos	151,866,510	43,387,897	3.25%	28.84%	151,808,342	49,399,413	(12.75)%	28.83%
Foreign currency	26,425,022	993,090	(1.47)%	3.80%	37,908,669	1,814,449	41.97%	4.09%
Total	178,291,532	44,380,987	2.55%	25.13%	189,717,011	51,213,862	(1.82)%	23.89%
Other Debt Securities								
Pesos	42,132,088	9,094,144	(2.22)%	22.02%	51,668,338	20,485,413	(9.16)%	34.13%
Foreign currency	2,736,105	124,806	(0.60)%	4.72%	2,043,084	62,318	39.87%	2.55%
Total	44,868,193	9,218,950	(2.12)%	20.97%	53,711,422	20,547,731	(7.29)%	32.93%
Repo Transactions								
Pesos	5,540,772	1,119,217	(4.33)%	19.39%	937,607	449,871	(2.18)%	44.43%
Foreign currency	—	—	0.00%	0.00%	—	—	0.00%	0.00%
Total	5,540,772	1,119,217	(4.33)%	19.39%	937,607	449,871	(2.18)%	44.43%
Total interest-earning assets								
Pesos	205,397,589	54,697,231	1.80%	27.03%	211,454,409	72,806,312	(11.80)%	30.23%
Foreign currency	29,429,508	1,129,464	(1.38)%	3.89%	40,391,848	1,899,379	41.87%	4.02%
Total	234,827,097	55,826,695	1.40%	24.13%	251,846,257	74,705,691	(3.19)%	26.03%
Non interest-earning assets								

	2017				2018			
	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate
	(in thousands of Pesos)							
<b>Cash and Deposits in Banks</b>								
Pesos	22,304,577	—	—	—	28,148,908	—	—	—
Foreign currency	34,232,086	—	—	—	30,919,150	—	—	—
<b>Total</b>	<b>56,536,663</b>	—	—	—	<b>59,068,058</b>	—	—	—
<b>Property, Plant and Equipment</b>								
Pesos	14,579,732	—	—	—	15,375,020	—	—	—
Foreign currency	—	—	—	—	—	—	—	—
<b>Total</b>	<b>14,579,732</b>	—	—	—	<b>15,375,020</b>	—	—	—
<b>Intangible Assets</b>								
Pesos	1,566,273	—	—	—	1,873,423	—	—	—
Foreign currency	—	—	—	—	—	—	—	—
<b>Total</b>	<b>1,566,273</b>	—	—	—	<b>1,873,423</b>	—	—	—
<b>Investment in associates and joint arrangements</b>								
Pesos	233,093	—	—	—	202,614	—	—	—
Foreign currency	102	—	—	—	—	—	—	—
<b>Total</b>	<b>233,195</b>	—	—	—	<b>202,614</b>	—	—	—
<b>Debt Securities at fair value through profit or loss</b>								
Pesos	1,300,255	—	—	—	1,520,555	—	—	—
Foreign currency	155,189	—	—	—	290,216	—	—	—
<b>Total</b>	<b>1,455,444</b>	—	—	—	<b>1,810,771</b>	—	—	—
<b>Derivative Financial Instruments</b>								
Pesos	8,065	—	—	—	29,739	—	—	—
Foreign currency	215	—	—	—	582	—	—	—
<b>Total</b>	<b>8,280</b>	—	—	—	<b>30,321</b>	—	—	—
<b>Financial Assets delivered as guarantee</b>								
Pesos	6,584,536	—	—	—	6,780,144	—	—	—
Foreign currency	292,971	—	—	—	673,314	—	—	—
<b>Total</b>	<b>6,877,507</b>	—	—	—	<b>7,453,458</b>	—	—	—
<b>Investments in Equity Instruments</b>								
Pesos	281,473	—	—	—	114,038	—	—	—
Foreign currency	5,992	—	—	—	6,719	—	—	—
<b>Total</b>	<b>287,465</b>	—	—	—	<b>120,757</b>	—	—	—
<b>Other financial assets</b>								
Pesos	2,759,238	—	—	—	2,265,687	—	—	—
Foreign currency	1,077,278	—	—	—	1,581,397	—	—	—
<b>Total</b>	<b>3,836,516</b>	—	—	—	<b>3,847,084</b>	—	—	—
<b>Deferred income Tax Assets</b>								
Pesos	104	—	—	—	106	—	—	—

	2017				2018			
	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate
	(in thousands of Pesos)							
Foreign currency	—	—	—	—	—	—	—	—
<b>Total</b>	<b>104</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>106</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Other Non-financial Assets</b>								
Pesos	1,795,999	—	—	—	2,945,043	—	—	—
Foreign currency	—	—	—	—	—	—	—	—
<b>Total</b>	<b>1,795,999</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,945,043</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Non current assets held for sale</b>								
Pesos	285,305	—	—	—	151,855	—	—	—
Foreign currency	—	—	—	—	—	—	—	—
<b>Total</b>	<b>285,305</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>151,855</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total non interest-earning assets</b>								
Pesos	51,698,650	—	—	—	59,407,132	—	—	—
Foreign currency	35,763,833	—	—	—	33,471,378	—	—	—
<b>Total</b>	<b>87,462,483</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>92,878,510</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>TOTAL ASSETS</b>								
Pesos	257,096,239	—	—	—	270,861,541	—	—	—
Foreign currency	65,193,341	—	—	—	73,863,226	—	—	—
<b>Total</b>	<b>322,289,580</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>344,724,767</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>LIABILITIES</b>								
<b>Interest-bearing liabilities</b>								
Deposits								
Non financial Public Sector								
Pesos	11,416,977	1,349,695	(10.35)%	11.88%	12,499,172	2,688,590	(19.44)%	18.95%
Foreign currency	334,117	796	(4.85)%	0.24%	448,625	2,918	37.18%	0.58%
<b>Total</b>	<b>11,751,094</b>	<b>1,350,491</b>	<b>(10.19)%</b>	<b>11.55%</b>	<b>12,947,797</b>	<b>2,691,508</b>	<b>(17.48)%</b>	<b>18.32%</b>
Non financial Private Sector and Foreign Residents								
Pesos	119,890,331	13,668,226	(10.67)%	11.48%	119,515,713	23,073,770	(20.74)%	17.03%
Foreign currency	35,382,559	135,576	(4.71)%	0.39%	47,768,961	542,962	37.77%	1.01%
<b>Total</b>	<b>155,272,890</b>	<b>13,803,802</b>	<b>(9.31)%</b>	<b>8.95%</b>	<b>167,284,674</b>	<b>23,616,732</b>	<b>(4.03)%</b>	<b>12.46%</b>
<b>Financing received from the Central Bank of Argentina and other financial entities</b>								
Pesos	190,219	43,088	(1.19)%	23.30%	879,571	145,939	(22.65)%	14.21%
Foreign currency	1,325,256	60,196	(0.81)%	4.50%	1,426,239	55,821	41.22%	3.54%

	2017				2018			
	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate
	(in thousands of Pesos)							
<b>Total</b>	<b>1,515,475</b>	<b>103,284</b>	<b>(0.86)%</b>	<b>6.86%</b>	<b>2,305,810</b>	<b>201,760</b>	<b>16.86%</b>	<b>7.61%</b>
<b>Issued Corporate Bonds</b>								
Pesos	5,754,416	782,313	(8.53)%	14.15%	8,196,112	1,812,532	(19.82)%	18.38%
Foreign currency	—	—	0.00%	0.00%	—	—	0.00%	0.00%
<b>Total</b>	<b>5,754,416</b>	<b>782,313</b>	<b>(8.53)%</b>	<b>14.15%</b>	<b>8,196,112</b>	<b>1,812,532</b>	<b>(19.82)%</b>	<b>18.38%</b>
<b>Subordinated Corporate Bonds</b>								
Pesos	—	—	0.00%	0.00%	—	—	0.00%	0.00%
Foreign currency	11,249,049	750,003	1.27%	6.69%	14,088,682	994,991	44.45%	5.91%
<b>Total</b>	<b>11,249,049</b>	<b>750,003</b>	<b>1.27%</b>	<b>6.69%</b>	<b>14,088,682</b>	<b>994,991</b>	<b>44.45%</b>	<b>5.91%</b>
<b>Repo Transactions</b>								
Pesos	1,157,590	181,685	(7.08)%	15.96%	582,936	218,635	(10.82)%	31.68%
Foreign currency	—	—	0.00%	0.00%	—	—	0.00%	0.00%
<b>Total</b>	<b>1,157,590</b>	<b>181,685</b>	<b>(7.08)%</b>	<b>15.96%</b>	<b>582,936</b>	<b>218,635</b>	<b>(10.82)%</b>	<b>31.68%</b>
<b>Total interest-earning liabilities</b>								
Pesos	138,409,533	16,025,007	(10.51)%	11.68%	141,673,504	27,939,466	(20.54)%	17.32%
Foreign currency	48,290,981	946,571	(3.21)%	1.97%	63,732,507	1,596,692	39.32%	2.15%
<b>Total</b>	<b>186,700,514</b>	<b>16,971,578</b>	<b>(8.62)%</b>	<b>9.17%</b>	<b>205,406,011</b>	<b>29,536,158</b>	<b>(1.97)%</b>	<b>12.61%</b>
<b>Non-interest bearing liabilities and Shareholders' equity</b>								
<b>Deposits</b>								
<b>Non financial Public Sector</b>								
Pesos	6,760,571	—	—	—	6,470,675	—	—	—
Foreign currency	3,182,513	—	—	—	1,581,447	—	—	—
<b>Total</b>	<b>9,943,084</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>8,052,122</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Financial Sector</b>								
Pesos	41,134	—	—	—	65,584	—	—	—
Foreign currency	58,004	—	—	—	92,529	—	—	—
<b>Total</b>	<b>99,138</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>158,113</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Non financial Private Sector and Foreign Residents</b>								
Pesos	30,214,724	—	—	—	25,368,692	—	—	—
Foreign currency	4,351,080	—	—	—	7,929,721	—	—	—
<b>Total</b>	<b>34,565,804</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>33,298,413</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Liabilities at fair value through profit or loss</b>								
Pesos	2,462	—	—	—	21,475	—	—	—
Foreign currency	—	—	—	—	31,576	—	—	—
<b>Total</b>	<b>2,462</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>53,051</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Derivative Financial Instruments</b>								
Pesos	9,309	—	—	—	67,096	—	—	—



	2017				2018			
	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate
	(in thousands of Pesos)							
Foreign currency	—	—	—	—	635	—	—	—
<b>Total</b>	<b>9,309</b>	—	—	—	<b>67,731</b>	—	—	—
<b>Other Financial Liabilities</b>								
Pesos	11,378,620	—	—	—	12,713,132	—	—	—
Foreign currency	2,005,154	—	—	—	2,912,427	—	—	—
<b>Total</b>	<b>13,383,774</b>	—	—	—	<b>15,625,559</b>	—	—	—
<b>Current Income Tax Liabilities</b>								
Pesos	4,223,273	—	—	—	3,506,918	—	—	—
Foreign currency	—	—	—	—	—	—	—	—
<b>Total</b>	<b>4,223,273</b>	—	—	—	<b>3,506,918</b>	—	—	—
<b>Provisions</b>								
Pesos	767,918	—	—	—	993,977	—	—	—
Foreign currency	—	—	—	—	—	—	—	—
<b>Total</b>	<b>767,918</b>	—	—	—	<b>993,977</b>	—	—	—
<b>Deferred Income Tax Liabilities</b>								
Pesos	2,395,878	—	—	—	2,108,467	—	—	—
Foreign currency	—	—	—	—	—	—	—	—
<b>Total</b>	<b>2,395,878</b>	—	—	—	<b>2,108,467</b>	—	—	—
<b>Other Non-financial Liabilities</b>								
Pesos	5,375,207	—	—	—	5,734,367	—	—	—
Foreign currency	24,519	—	—	—	65,861	—	—	—
<b>Total</b>	<b>5,399,726</b>	—	—	—	<b>5,800,228</b>	—	—	—
<b>Shareholders' equity</b>								
Pesos	64,798,700	—	—	—	69,654,177	—	—	—
Foreign currency	—	—	—	—	—	—	—	—
<b>Total</b>	<b>64,798,700</b>	—	—	—	<b>69,654,177</b>	—	—	—
<b>Total non-interest bearing liabilities and shareholders' equity</b>								
Pesos	125,967,796	—	—	—	126,704,560	—	—	—
Foreign currency	9,621,270	—	—	—	12,614,196	—	—	—
<b>Total</b>	<b>135,589,066</b>	—	—	—	<b>139,318,756</b>	—	—	—
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Pesos	264,377,329	—	—	—	268,378,064	—	—	—
Foreign currency	57,912,251	—	—	—	76,346,703	—	—	—
<b>Total</b>	<b>322,289,580</b>	—	—	—	<b>344,724,767</b>	—	—	—

#### Changes in interest income and interest expense; volume and rate analysis

The following tables allocate, by currency of denomination, changes in our interest income and interest expense segregated for each major category of interest-earning assets and interest-bearing liabilities into amounts attributable to changes in their average volume and their respective nominal interest rates for fiscal year ended December 31, 2018 compared to the fiscal year ended December 31, 2017 all based on information adjusted for inflation as of December 2018.

	2017	2018	December 2018 / December 2017 Increase (Decrease) Due to Changes in		
	Interest Earned / (Paid)	Interest Earned / (Paid)	Net Change	Volume	Rate
<b>ASSETS</b>	<i>(in thousands of Pesos)</i>				
<b>Interest-earning assets</b>					
<b>Loans and other financing</b>					
<b>Non-financial Public Sector</b>					
Pesos	293,716	1,065,836	772,120	435,830	336,290
Foreign currency	—	—	—	—	—
<b>Total</b>	<b>293,716</b>	<b>1,065,836</b>	<b>772,120</b>	<b>435,830</b>	<b>336,290</b>
<b>Other Financial Entities</b>					
Pesos	802,257	1,405,779	603,522	134,037	469,485
Foreign currency	11,568	22,612	11,044	7,576	3,468
<b>Total</b>	<b>813,825</b>	<b>1,428,391</b>	<b>614,566</b>	<b>141,614</b>	<b>472,952</b>
<b>Non-financial Private Sector and Foreign Residents</b>					
Pesos	43,387,897	49,399,413	6,011,516	393,629	5,617,887
Foreign currency	993,090	1,814,449	821,359	447,439	373,920
<b>Total</b>	<b>44,380,987</b>	<b>51,213,862</b>	<b>6,832,875</b>	<b>841,068</b>	<b>5,991,807</b>
<b>Other Debt Securities</b>					
Pesos	9,094,144	20,485,413	11,391,269	2,283,224	9,108,045
Foreign currency	124,806	62,318	(62,488)	(28,372)	(34,116)
<b>Total</b>	<b>9,218,950</b>	<b>20,547,731</b>	<b>11,328,781</b>	<b>2,254,852</b>	<b>9,073,929</b>
<b>Repo Transactions</b>					
Pesos	1,119,217	449,871	(669,346)	(937,415)	268,069
Foreign currency	—	—	—	—	—
<b>Total</b>	<b>1,119,217</b>	<b>449,871</b>	<b>(669,346)</b>	<b>(937,415)</b>	<b>268,069</b>
<b>Total interest-earning assets</b>					
Pesos	54,697,231	72,806,312	18,109,081	2,309,305	15,799,776
Foreign currency	1,129,464	1,899,379	769,915	426,643	343,272
<b>Total</b>	<b>55,826,695</b>	<b>74,705,691</b>	<b>18,878,996</b>	<b>2,735,948</b>	<b>16,143,048</b>
<b>LIABILITIES</b>					
<b>Interest-bearing liabilities</b>					
<b>Deposits</b>					

	2017	2018	December 2018 / December 2017 Increase (Decrease) Due to Changes in		
	Interest Earned / (Paid)	Interest Earned / (Paid)	Net Change	Volume	Rate
<b>Non financial Public Sector</b>					
Pesos	1,349,695	2,688,590	1,338,895	135,207	1,203,688
Foreign currency	796	2,918	2,122	281	1,841
<b>Total</b>	<b>1,350,491</b>	<b>2,691,508</b>	<b>1,341,017</b>	<b>135,487</b>	<b>1,205,530</b>
<b>Non financial Private Sector and Foreign Residents</b>					
Pesos	13,668,226	23,073,770	9,405,544	52,178	9,353,366
Foreign currency	135,576	542,962	407,386	50,723	356,663
<b>Total</b>	<b>13,803,802</b>	<b>23,616,732</b>	<b>9,812,930</b>	<b>102,901</b>	<b>9,710,029</b>
<b>Financing received from the Central Bank of Argentina and other financial entities</b>					
Pesos	43,088	145,939	102,851	161,852	(59,001)
Foreign currency	60,196	55,821	(4,375)	3,985	(8,360)
<b>Total</b>	<b>103,284</b>	<b>201,760</b>	<b>98,476</b>	<b>165,837</b>	<b>-67,361</b>
<b>Issued Corporate Bonds</b>					
Pesos	782,313	1,812,532	1,030,219	377,437	652,782
Foreign currency	—	—	—	—	—
<b>Total</b>	<b>782,313</b>	<b>1,812,532</b>	<b>1,030,219</b>	<b>377,437</b>	<b>652,782</b>
<b>Subordinated Corporate Bonds</b>					
Pesos	—	—	—	—	—
Foreign currency	750,003	994,991	244,988	192,530	52,458
<b>Total</b>	<b>750,003</b>	<b>994,991</b>	<b>244,988</b>	<b>192,530</b>	<b>52,458</b>
<b>Repo Transactions</b>					
Pesos	181,685	218,635	36,950	-88,648	125,598
Foreign currency	—	—	—	—	—
<b>Total</b>	<b>181,685</b>	<b>218,635</b>	<b>36,950</b>	<b>-88,648</b>	<b>125,598</b>
<b>Total interest-earning liabilities</b>					
Pesos	16,025,007	27,939,466	11,914,459	522,458	11,392,001
Foreign currency	946,571	1,596,692	650,121	308,959	341,162
<b>Total</b>	<b>16,971,578</b>	<b>29,536,158</b>	<b>12,564,580</b>	<b>831,418</b>	<b>11,733,162</b>

#### Interest-earning assets: net interest margin and spread

The following table analyzes, by currency of denomination, the levels of our average interest-earning assets and net interest income, and illustrates the comparative margins and spreads for each of the years indicated all based on information adjusted for inflation as of December 31, 2018.

	Year Ended December 31,	
	2017 (1)	2018
	(in thousands of Pesos, except percentages)	
<b>Average interest-earning assets</b>		
Pesos	205,397,589	211,454,409
Foreign currency	29,429,508	40,391,848
<b>Total</b>	<b>234,827,097</b>	<b>251,846,257</b>
<b>Net interest income (2)</b>		
Pesos	38,672,224	44,866,846
Foreign currency	182,893	302,687
<b>Total</b>	<b>38,855,117</b>	<b>45,169,533</b>
<b>Net interest margin (3)</b>		
Pesos	(4.78)%	(17.90)%
Foreign currency	(4.49)%	37.41%
<b>Weighted average rate</b>	<b>(4.74)%</b>	<b>(9.03)%</b>
<b>Yield spread real basis (4)</b>		
Pesos	12.31%	8.75%
Foreign currency	1.83%	2.55%
<b>Weighted average rate</b>	<b>10.02%</b>	<b>(1.22)%</b>

(1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See "Presentation of certain financial information".

(2) Defined as interest earned less interest paid.

(3) The nominal interest rate is calculated by dividing the amount of net interest income/(loss) by the interest-earning assets, both amounts not adjusted for inflation. The nominal rates calculated for each period have been converted into real rates using the formulas disclosed in "Item 4. Selected Statistical Information—Average balance sheet, interest earned on interest-earning assets and interest paid on interest-bearing liabilities."

(4) Defined as the difference between the average real rate on interest-earning assets and the average real rate on interest-bearing liabilities.

#### Investment portfolio: government and private securities

We own, manage and trade a portfolio of securities issued by the Argentine and other governments and private issuers. The following table analyzes, by currency of denomination, our investments in Argentine and other governments and private securities as of December 31, 2017 and 2018 all based on information adjusted for inflation as of December 31, 2018.

	Year Ended December 31,	
	2017 (1)	2018
	(in thousands of Pesos)	
<b>DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>Government securities</b>		
<b>In Pesos:</b>		
Consolidation bonds 8° Serie - Maturity: 10-04-2022	156,330	169,663
Debt Securities of Province of Río Negro - Badlar Private + 500 basis point - Maturity: 07-06-2020	416,185	122,869
National treasury bills capitalized - Maturity: 01-31-2019	—	120,690
National treasury bills capitalized - Maturity: 02-28-2019	—	103,193
Debt Securities of Province of Buenos Aires - Badlar Private + 375 basis point - Maturity: 04-12-2025	—	82,429
Federal government treasury bonds - Maturity: 10-03-2021	—	79,622
Federal government treasury bonds adjustment by CER - Maturity: 07-22-2021	—	77,240

	Year Ended December 31,	
	2017 (1)	2018
	(in thousands of Pesos)	
Consolidation bonds 6° Series at 2% - Maturity: 03-15-2024	6	48,396
National treasury bills capitalized - Maturity: 03-29-2019	—	45,155
Federal government bonds - Badlar Private + 200 basis point - Maturity: 04-03-2022	431	38,419
Others	466,600	184,450
<b>In Foreign Currency:</b>		
Federal government bonds at 8.75% - Maturity: 05-07-2024	13,191	61,833
International bonds of the Argentina Republic at 7.5% - Maturity: 04-22-2026	—	55,358
Federal government bonds at 8% - Maturity: 10-08-2020	—	34,844
Discount Bonds at 8.28% - Maturity: 2033 (governed by New York State legislation)	6	15,403
Federal government treasury at 5.75% - Maturity: 07-26-2019	—	1,965
Federal government bonds at 5.75% - Maturity: 04-18-2025	—	1,289
Federal government bonds at fixed rate - Maturity: 12-31-2033	483	31
Federal government bonds in US dollars - Maturity: 01-26-2022	7,500	—
Federal government bonds dollars - Maturity: 01-26-2027	1,404	—
Treasury Bill in US dollars - Maturity: 02-09-2018	933	—
<b>Subtotal Government securities</b>	<b>1,063,069</b>	<b>1,242,849</b>
<b>Private securities</b>		
<b>In Pesos:</b>		
Debt Securities in Financial Trust provisional Consubond	—	377,725
Debt Securities in Financial Trusts Megabono Series 180 Class A - Maturity: 12-24-2019	—	165,980
Debt Securities in Financial Trusts PVCRED Series 038 Class A - Maturity: 08-12-2019	—	112,600
Debt Securities in Financial Trusts Consubond Series 149 Class A - Maturity: 10-25-2019	—	111,017
Debt Securities in Financial Trust provisional Secubond	—	79,203
Debt Securities in Financial Trusts Consubond Series 147 Class A - Maturity: 12-26-2019	—	39,576
Debt Securities in Financial Trusts Secubono Series 180 - Maturity: 11-28-2019	—	34,635
Debt Securities in Financial Trust provisional Accicom Personales	—	32,716
Corporate Bonds Province of Buenos Aires Class 2 - Maturity: 11-08-2019	—	30,429
Corporate Bonds Province of Buenos Aires Class 9 - Maturity: 04-18-2021	—	29,487
Corporate Bonds Banco de Inversión y Comercio Class 6 - Maturity: 06-27-2020	145,583	—
Others	343,244	161,478
<b>In Foreign Currency:</b>		
Debt Securities in Financial Trusts provisional Agrocap	—	130,735
Debt Securities in Financial Trusts Chubut Regalías Hidrocarburíferas - Maturity: 07-01-2020	51,576	48,366
Corporate Bonds John Deere Credit financial company Series A Class 016 -Maturity: 04-06-2019	—	38,451
<b>Subtotal Private securities</b>	<b>540,403</b>	<b>1,392,398</b>
<b>TOTAL DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>1,603,472</b>	<b>2,635,247</b>
<b>OTHER DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b>		
<b>Government securities</b>		
<b>In Pesos:</b>		
Discount bonds at 5.83% -Maturity: 2033	2,145	146,446

	Year Ended December 31,	
	2017 (1)	2018
	(in thousands of Pesos)	
Consolidation bonds 8° Serie - Maturity: 10-04-2022	73,418	—
Secured bonds under Presidential Decree 1579/02 at 2% - Maturity 02-04-2018	16,811	—
<b>In Foreign Currency:</b>		
Federal government bonds at 8.75% - Maturity: 05-07-2024	492,431	530,833
International bonds of the Argentina Republic at 7.125 - Maturity: 06-28-2117	—	81,630
US Treasury Bill - Maturity: 01-03-2019	—	226,836
US Treasury Bill - Maturity: 01-02-2019	—	189,042
US Treasury Bill - Maturity: 01-15-2019	—	188,888
US Treasury Bill - Maturity: 01-18-2018	664,910	—
US Treasury Bill - Maturity: 01-11-2018	360,248	—
<b>Subtotal Government securities</b>	<b>1,609,963</b>	<b>1,363,675</b>
<b>Instruments Issued by Central Bank</b>		
<b>In Pesos:</b>		
Liquidity letters of Central Bank of Argentina - Maturity: 01-04-2019	—	15,546,415
Liquidity letters of Central Bank of Argentina - Maturity: 01-08-2019	—	13,787,546
Liquidity letters of Central Bank of Argentina - Maturity: 01-02-2019	—	12,404,850
Liquidity letters of Central Bank of Argentina - Maturity: 01-03-2019	—	7,926,384
Liquidity letters of Central Bank of Argentina - Maturity: 01-07-2019	—	5,404,713
Central Bank of Argentina Internal Bills - Maturity: 03-21-2018	9,350,534	—
Central Bank of Argentina Internal Bills - Maturity: 01-17-2018	8,957,070	—
Central Bank of Argentina Internal Bills - Maturity: 05-16-2018	8,518,595	—
Central Bank of Argentina Internal Bills - Maturity: 04-18-2018	8,307,994	—
Central Bank of Argentina Internal Bills - Maturity: 02-21-2018	7,894,139	—
Others	5,186,673	—
<b>Subtotal Instruments Issued by Central Bank</b>	<b>48,215,005</b>	<b>55,069,908</b>
<b>Private securities</b>		
<b>In Foreign Currency:</b>		
Corporate Bonds Chevron Corp - Maturity: 03-03-2019	27,439	—
<b>Subtotal Private securities</b>	<b>27,439</b>	<b>—</b>
<b>Total Other debt securities measured at fair value through other comprehensive income</b>	<b>49,852,407</b>	<b>56,433,583</b>
<b>MEASURED AT AMORTIZED COST</b>		
<b>Government securities</b>		
<b>In Pesos:</b>		
Federal government bonds - Fixed rate 26% - Maturity: 11-21-2020	—	7,991,383
Discount bonds at 5.83% - Maturity: 2033	173,415	157,044
Secured bonds under Presidential Decree 1579/02 at 2% - Maturity 02-04-2018	6,304	—
<b>Subtotal Government securities</b>	<b>179,719</b>	<b>8,148,427</b>
<b>Private securities</b>		

	Year Ended December 31,	
	2017 (1)	2018
	(in thousands of Pesos)	
<b>In Pesos:</b>		
Debt Securities in Financial Trust SAT SAPEM—Maturity: 01-10-2019	11,178	2,749
Debt Securities in Financial Trust provisional Consubond	532,062	—
Debt Securities in Financial Trust provisional Secubond	163,228	—
Debt Securities in Financial Trust provisional Garbarino	100,502	—
Debt Securities in Financial Trust provisional Accicom Personales	75,360	—
Debt Securities in Financial Trust provisional Credicuotas Consumo	74,152	—
Debt Securities in Financial Trust provisional Mila	48,657	—
Debt Securities in Financial Trust provisional Best Consumer Directo	47,447	—
Debt Securities in Financial Trust provisional Best Consumer Finance	47,374	—
Debt Securities in Financial Trust provisional Credimas	37,865	—
<b>In Foreign Currency:</b>		
Debt Securities in Financial Trusts provisional Agrocap	68,629	—
<b>Subtotal Private securities</b>	<b>1,206,454</b>	<b>2,749</b>
<b>Total Other debt securities measured at amortized cost</b>	<b>1,386,173</b>	<b>8,151,176</b>
<b>TOTAL OTHER DEBT SECURITIES</b>	<b>51,238,580</b>	<b>64,584,759</b>
<b>EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>In Pesos:</b>		
Mercado Abierto Electrónico SA	30,632	25,078
C.O.E.L.S.A	4,500	4,826
Argentina Clearing SA	4,750	4,569
Sedesa	5,771	3,975
Mercado a Término Rosario SA	3,793	3,663
Laboratorios Richmond SACIF	3,489	1,256
Provincanje SA	800	758
Sanatorio Las Lomas SA	596	600
Proin SA	757	513
El Taura SA	273	185
Others	356,063	349
<b>In Foreign Currency:</b>		
Banco Latinoamericano de Comercio Exterior SA	5,445	4,777
Sociedad de Telecomunicaciones Financieras Interbancarias Mundiales	465	969
<b>TOTAL EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>417,334</b>	<b>51,518</b>
<b>TOTAL</b>	<b>53,259,386</b>	<b>67,271,524</b>

(1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See “Presentation of certain financial information”.

#### Remaining maturity of government and private securities

The following table analyzes the remaining maturities of our investment portfolio as of December 31, 2018 in accordance with issuance terms (before allowances).

	Maturing within 1 year	Maturing after 1 year but within 5 years	Maturing after 5 year but within 10 years	Maturing after 10 years	Without due date	Total
Book Value (in thousands of Pesos, except percentages)						
<b>DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>						
<b>Government securities</b>						
<b>In Pesos:</b>						
Consolidation bonds 8° Serie—Maturity: 10-04-2022	16,966	152,697	—	—	—	169,663
Debt Securities of Province of Río Negro—Badlar Private + 500 basis point—Maturity: 07-06-2020	1,029	121,840	—	—	—	122,869
National treasury bills capitalized—Maturity: 01-31-2019	120,690	—	—	—	—	120,690
National treasury bills capitalized—Maturity: 02-28-2019	103,193	—	—	—	—	103,193
Debt Securities of Province of Buenos Aires—Badlar Private + 375 basis point—Maturity: 04-12-2025	1,123	—	81,306	—	—	82,429
Federal government treasury bonds —Maturity: 10-03-2021	—	79,622	—	—	—	79,622
Federal government treasury bonds adjustment by CER—Maturity: 07-22-2021	—	77,240	—	—	—	77,240
Consolidation bonds 6° Series at 2%—Maturity: 03-15-2024	9,149	36,593	2,654	—	—	48,396
National treasury bills capitalized—Maturity: 03-29-2019	45,155	—	—	—	—	45,155
Federal government bonds—Badlar Private + 200 basis point—Maturity: 04-03-2022	109	38,310	—	—	—	38,419
Others	58,743	52,346	35,555	37,806	—	184,450
<b>In Foreign Currency:</b>						
Federal government bonds at 8,75%—Maturity: 05-07-2024	5,156	20,622	36,055	—	—	61,833
International bonds of the Argentina Republic at 7,5%—Maturity: 04-22-2026	—	—	55,358	—	—	55,358
Federal government bonds at 8%—Maturity: 10-08-2020	—	34,844	—	—	—	34,844
Discount Bonds at 8,28% – Maturity: 2033 (governed by New York State legislation)	—	—	7,701	7,702	—	15,403
Federal government treasury at 5,75%—Maturity: 07-26-2019	1,965	—	—	—	—	1,965
Federal government bonds at 5,75%—Maturity: 04-18-2025	—	213	1,076	—	—	1,289
Federal government bonds at fixed rate – Maturity: 12-31-2033	—	—	16	15	—	31
<b>Subtotal Government securities</b>	<b>363,278</b>	<b>614,327</b>	<b>219,721</b>	<b>45,523</b>	<b>—</b>	<b>1,242,849</b>
<b>Private securities</b>						
<b>In Pesos:</b>						
Debt Securities in Financial Trust provisional Consubond	377,725	—	—	—	—	377,725



	Maturing within 1 year	Maturing after 1 year but within 5 years	Maturing after 5 year but within 10 years	Maturing after 10 years	Without due date	Total
Book Value (in thousands of Pesos, except percentages)						
Debt Securities in Financial Trusts Megabono Series 180 Class A—Maturity: 12-24-2019	165,980	—	—	—	—	165,980
Debt Securities in Financial Trusts PVCRED Series 038 Class A—Maturity: 08-12-2019	112,600	—	—	—	—	112,600
Debt Securities in Financial Trusts Consubond Series 149 Class A—Maturity: 10-25-2019	111,017	—	—	—	—	111,017
Debt Securities in Financial Trusts provisional Secubond	79,203	—	—	—	—	79,203
Debt Securities in Financial Trusts Consubond Series 147 Class A—Maturity: 12-26-2019	39,576	—	—	—	—	39,576
Debt Securities in Financial Trusts Secubono Series 180—Maturity: 11-28-2019	34,635	—	—	—	—	34,635
Debt Securities in Financial Trust provisional Accicom Personales	32,716	—	—	—	—	32,716
Corporate Bonds Province of Buenos Aires Class 2—Maturity: 11-08-2019	30,429	—	—	—	—	30,429
Corporate Bonds Province of Buenos Aires Class 9—Maturity: 04-18-2021	—	29,487	—	—	—	29,487
Others	135,079	25,173	—	—	1,226	161,478
<b>In Foreign Currency:</b>						
Debt Securities in Financial Trusts provisional Agrocap	130,735	—	—	—	—	130,735
Debt Securities in Financial Trusts Chubut Regalias Hidrocarburíferas—Maturity: 07-01-2020	28,028	20,338	—	—	—	48,366
Corporate Bonds John Deere Credit financial company Series A Class 016 -Maturity: 04-06-2019	38,451	—	—	—	—	38,451
<b>Subtotal Private securities</b>	<b>1,316,174</b>	<b>74,998</b>	<b>—</b>	<b>—</b>	<b>1,226</b>	<b>1,392,398</b>
<b>TOTAL DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>1,679,452</b>	<b>689,325</b>	<b>219,721</b>	<b>45,523</b>	<b>1,226</b>	<b>2,635,247</b>
<b>OTHER DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b>						
<b>Government securities</b>						
<b>In Pesos:</b>						
Discount bonds at 5,83% – Maturity: 2033	—	—	73,223	73,223	—	146,446
<b>In Foreign Currency:</b>						
Federal government bonds at 8,75%—Maturity: 05-07-2024	43,583	174,331	312,920	—	—	530,833
International bonds of the Argentina Republic at 7,125—Maturity: 06-28-2117	3,963	—	—	77,667	—	81,630
US Treasury Bill – Maturity: 01-03-2019	226,836	—	—	—	—	226,836

	Maturing within 1 year	Maturing after 1 year but within 5 years	Maturing after 5 year but within 10 years	Maturing after 10 years	Without due date	Total
	Book Value (in thousands of Pesos, except percentages)					
US Treasury Bill – Maturity: 01-02-2019	189,042	—	—	—	—	189,042
US Treasury Bill – Maturity: 01-15-2019	188,888	—	—	—	—	188,888
<b>Subtotal Government securities</b>	<b>652,312</b>	<b>174,331</b>	<b>386,143</b>	<b>150,890</b>	<b>—</b>	<b>1,363,675</b>
<b>Instruments Issued by Central Bank</b>						
<b>In Pesos:</b>						
Liquidity letters of Central Bank of Argentina—Maturity: 01-04-2019	15,546,415	—	—	—	—	15,546,415
Liquidity letters of Central Bank of Argentina—Maturity: 01-08-2019	13,787,546	—	—	—	—	13,787,546
Liquidity letters of Central Bank of Argentina—Maturity: 01-02-2019	12,404,850	—	—	—	—	12,404,850
Liquidity letters of Central Bank of Argentina—Maturity: 01-03-2019	7,926,384	—	—	—	—	7,926,384
Liquidity letters of Central Bank of Argentina—Maturity: 01-07-2019	5,404,713	—	—	—	—	5,404,713
<b>Subtotal Instruments Issued by Central Bank</b>	<b>55,069,908</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>55,069,908</b>
<b>Total Other debt securities measured at fair value through other comprehensive income</b>	<b>55,722,220</b>	<b>174,331</b>	<b>386,143</b>	<b>150,890</b>	<b>—</b>	<b>56,433,583</b>
<b>MEASURED AT AMORTIZED COST</b>						
<b>Government securities</b>						
<b>In Pesos:</b>						
Federal government bonds—Fixed rate 26%—Maturity: 11-21-2020	782,214	7,209,169	—	—	—	7,991,383
Discount bonds at 5,83% – Maturity: 2033	—	—	78,522	78,522	—	157,044
<b>Subtotal Government securities</b>	<b>782,214</b>	<b>7,209,169</b>	<b>78,522</b>	<b>78,522</b>	<b>—</b>	<b>8,148,427</b>
<b>Private securities</b>						
<b>In Pesos:</b>						
Debt Securities in Financial Trust SAT SAPEM—Maturity: 01-10-2019	2,749	—	—	—	—	2,749
<b>Subtotal Private securities</b>	<b>2,749</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,749</b>
<b>Total Other debt securities measurement at amortized cost</b>	<b>784,963</b>	<b>7,209,169</b>	<b>78,522</b>	<b>78,522</b>	<b>—</b>	<b>8,151,176</b>
<b>TOTAL OTHER DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT AND LOSS</b>	<b>56,507,183</b>	<b>7,383,500</b>	<b>464,665</b>	<b>229,412</b>	<b>—</b>	<b>64,584,759</b>

	Maturing within 1 year	Maturing after 1 year but within 5 years	Maturing after 5 year but within 10 years	Maturing after 10 years	Without due date	Total
Book Value (in thousands of Pesos, except percentages)						
<b>EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>						
<b>Measured at fair value through profit or loss</b>						
<b>In Pesos:</b>						
Mercado Abierto Electrónico SA	—	—	—	—	25,078	25,078
COELSA	—	—	—	—	4,826	4,826
Argentina Clearing SA	—	—	—	—	4,569	4,569
Sedesa	—	—	—	—	3,975	3,975
Mercado a Término Rosario SA	—	—	—	—	3,663	3,663
Laboratorios Richmond SACIF	—	—	—	—	1,256	1,256
Provincanaje SA	—	—	—	—	758	758
Sanatorio Las Lomas SA	—	—	—	—	600	600
Proin SA	—	—	—	—	513	513
El Taura SA	—	—	—	—	185	185
Others	—	—	—	—	349	349
<b>In Foreign Currency:</b>						
Banco Latinoamericano de Comercio Exterior SA	—	—	—	—	4,777	4,777
Sociedad de Telecomunicaciones Financieras Interbancarias Mundiales	—	—	—	—	969	969
<b>TOTAL EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>51,518</b>	<b>51,518</b>
<b>TOTAL</b>	<b>58,186,635</b>	<b>8,072,825</b>	<b>684,386</b>	<b>274,935</b>	<b>52,744</b>	<b>67,271,524</b>

## Loan portfolio

The following table analyzes our loan portfolio (without considering other financings) by type as of December 31, 2017 and 2018. Due to IFRS 9, as of December 31, 2018 we calculate the allowances included in our financial statements under expected credit losses approach. For further information see note 3 to our audited consolidated financial statements.

	As of December 31,	
	2017 (1)	2018
	(in thousands of Pesos)	
To the non-financial government sector	2,653,205	1,683,726
To the financial sector (2)	4,829,136	5,625,090
To the non-financial private sector and foreign residents		
Overdrafts (3)	13,032,123	16,893,917
Documents (4)	25,497,785	24,211,165
Mortgages loans	11,832,772	12,631,680
Pledged loans (5)	6,039,573	4,295,242
Consumer loans (6)	106,675,743	85,858,634
Other loans	24,805,146	24,997,760
Accrued Interest, adjustments, foreign exchange and quoted price differences receivables	3,778,822	6,900,146
Less: Unearned discounts	(762,116)	(983,905)
Less: Allowances	(3,919,381)	(3,855,695)
<b>Total Loans</b>	<b>194,462,808</b>	<b>178,257,760</b>

- (1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See "Presentation of certain financial and other information."
- (2) Includes loans to financial institutions, interfinancing (granted call) and other financing to Argentine financial institutions.
- (3) Includes overdraft lines of credit resulting from checking accounts.
- (4) Includes the face values of drafts, promissory notes and other bills transferred to us by endorsement for which the assignor is liable, whenever the latter is part of the non-financial private sector.
- (5) Includes the principal amounts actually lent of automobile and other collateral granted, for which the obligor is part of the non-financial private sector and productive investment loans.
- (6) Includes personal loans, credit card loans and other consumer loans. Overdrafts to individuals are included under "Overdrafts".

## Maturity composition of the loan portfolio

The following table analyzes our loan portfolio (without considering other financings) as of December 31, 2018 by type and by the time remaining to maturity. Loans are stated before deduction of the allowance for loan losses. We expect most loans to be repaid at maturity in cash or through refinancing at market terms.

	Amount as of December 31, 2018	Maturing Within 1 Year	After 1 Year but Within 5 Years	After 5 Years
		(in thousands of Pesos, except percentages)		
To the non-financial government sector	1,683,726	842,892	840,834	—
To the financial sector (1)	5,625,090	5,173,585	451,505	—
To the non-financial private sector and foreign residents				
Overdrafts (2)	17,821,923	17,802,133	19,790	—
Documents (3)	24,094,477	20,154,604	3,939,703	170
Mortgages loans	15,852,607	2,807,774	4,817,928	8,226,905
Pledged loans (4)	4,367,040	1,976,565	2,390,475	—
Consumer loans (5)	86,944,547	44,388,353	40,378,351	2,177,843
Other loans	25,724,045	22,846,389	2,551,129	326,527
<b>Total Loans</b>	<b>182,113,455</b>	<b>115,992,295</b>	<b>55,389,715</b>	<b>10,731,445</b>
<b>Percentage of total loan portfolio</b>	<b>100%</b>	<b>64%</b>	<b>30%</b>	<b>6%</b>

- (1) Includes loans to financial institutions, interfinancing (granted call) and other financing to Argentine financial institutions.
- (2) Includes overdrafts lines of credit resulting from checking accounts.
- (3) Includes the face value of drafts, promissory notes and other bills transferred to us by endorsement for which the assignor is liable, whenever the latter is part of the non-financial private sector.
- (4) Includes the principal amount actually lent of automobile and other collateral granted, for which the obligor is part of the non-financial private sector and productive investment loans.
- (5) Includes personal loans, credit card loans and other consumer loans. Overdrafts to individuals are included under "Overdrafts".

#### Interest rate sensitivity of outstanding loans

The following table presents the interest rate sensitivity of our outstanding loans (without considering other financings) with maturities over one year as of December 31, 2018:

	<u>As of December 31, 2018</u> <i>(in thousands of Pesos)</i>
<b>Loans with maturities over one year:</b>	
<b>Variable Rate</b>	
To the non-financial government sector	804,661
To the financial sector	49
To the non-financial private sector and foreign residents	10,230,263
<b>Total</b>	<b>11,034,973</b>
<b>Fixed rate</b>	
To the non-financial government sector	36,178
To the financial sector	451,456
To the non-financial private sector and foreign residents	54,598,553
<b>Total</b>	<b>55,086,187</b>
<b>Total Loans with maturities over one year</b>	<b>66,121,160</b>
<b>Loans with terms of less than 1 year:</b>	
To the non-financial government sector	842,887
To the financial sector	5,173,585
To the non-financial private sector and foreign residents	109,975,823
<b>Total</b>	<b>115,992,295</b>
<b>Total Loans</b>	<b>182,113,455</b>

#### Loans—portfolio classification

The following table presents our loan portfolio (without considering other financings), before deduction of the allowance for loan losses, using the classification system of the Central Bank in effect at the end of each year. As of December 31, 2018 this classification is not used by us to calculate the allowances included in our financial statement. Due to IFRS 9 the allowances have to be determined under expected credit losses approach. For further information see note 3 to our audited consolidated financial statements:

Loan Portfolio	As of December 31,			
	2017 (1)		2018	
	(in thousands of Pesos, except percentages)			
<b>Classification</b>				
1—Normal situation/Performing	194,262,336	97.92%	176,338,868	96.83%
2—Subject to special monitoring – in observation – in negotiation or with rollover agreement/Low risk	1,981,342	1.00%	2,262,898	1.24%
3—Troubled/Medium risk	1,004,618	0.51%	2,038,795	1.12%
4—With high risk of insolvency/High risk	916,504	0.46%	1,239,630	0.68%
5—Irrecoverable	217,020	0.11%	232,360	0.13%
6—Irrecoverable according to Central Bank's Rules	369	0.00%	904	0.00%
<b>Total Loans</b>	<b>198,382,189</b>	<b>100.00%</b>	<b>182,113,455</b>	<b>100.00%</b>

(1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See "Presentation of certain financial and other information."

### Non-performing loans

The following table presents our non-performing loan portfolio (without considering other financings), before deduction of the allowance for loan losses. As of December 31, 2017, non-performing loans are calculated using the classification system of the Central Bank. As of December 31, 2018 this classification is not used by us to calculate the allowances included in our financial statement. Due to IFRS 9 the allowances have to be determined under expected credit losses approach. Therefore, non-performing lending includes all lending classified as "Non-Performing" according to our internal credit rating grades disclosed in note 50.1 to our consolidated financial statements.

Non-performing Loans	As of December 31,	
	2017 (1)	2018
	(in thousands of Pesos)	
With preferred guarantees	241,739	1,288,127
Unsecured	1,896,772	2,142,122
<b>Total non-performing loans</b>	<b>2,138,511</b>	<b>3,430,249</b>

(1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See "Presentation of certain financial and other information."

For additional information on non-accrual loans, past due loans and restructured loans please see note 50.1 to our audited consolidated financial statements as of and for the years ended December 31, 2017 and 2018.

### Analysis of the allowance for loan losses and other financing

The Central Bank Rules establishes minimum requirements for allowances for loan losses, in accordance with the category assigned to the client and the type of guarantee, but allow us to establish additional allowances based on management's risk policies. The allowances for the year 2017 were calculated based on Central Bank Rules and the allowances for the year 2018 were calculated based on the expected credit loss ("ECL") according to IFRS.

The table below sets forth the activity in the allowance for loan losses and other financing for the years ended December 31, 2017 and 2018:

	Commercial portfolio	Consumer portfolio (in thousands of Pesos)	Total
<b>As of January 1, 2017</b>	<b>803,369</b>	<b>2,585,862</b>	<b>3,389,231</b>
Increases	276,034	2,571,678	2,847,712
Reversals	(33,732)	(3,554)	(37,286)
Charge off	(15,001)	(1,413,010)	(1,428,011)
Monetary effect	(181,116)	(653,209)	(834,325)
<b>As of December 31, 2017</b>	<b>849,554</b>	<b>3,087,767</b>	<b>3,937,321</b>

	Commercial portfolio	Consumer portfolio (in thousands of Pesos)	Total
<b>ECL as at January 1, 2018</b>	<b>611,544</b>	<b>3,351,258</b>	<b>3,962,802</b>
New assets originated or purchased	665,315	2,448,529	3,113,844
Assets derecognized or repaid	(176,916)	(1,223,042)	(1,399,958)
Amounts Written Off	(58,507)	(307,751)	(366,258)
Monetary effects	(288,488)	(1,152,905)	(1,441,393)
<b>At December 31, 2018</b>	<b>752,948</b>	<b>3,116,089</b>	<b>3,869,037</b>

#### Allocation of the allowances for loan losses

The following table allocates the allowance for loan losses (without considering other financings) by each category of loans and sets forth the percentage distribution of the total allowance for each of the fiscal years ended December 31, 2017 and 2018. The allowances for the year 2017 were calculated based on Central Bank Rules and the allowances for the year 2018 were calculated based on the expected credit loss according to IFRS.

	As of December 31,			
	2017 (1)		2018	
	(in thousands of Pesos, except percentages)			
Overdrafts	206,440	5.27%	265,783	6.89%
Documents	298,991	7.63%	525,016	13.62%
Mortgage loans	224,591	5.73%	248,285	6.44%
Pledged loans	109,816	2.80%	210,049	5.45%
Consumer Loans	2,653,947	67.71%	2,190,475	56.81%
Other loans	425,596	10.86%	416,087	10.79%
<b>TOTAL ALLOWANCES</b>	<b>3,919,381</b>	<b>100.00%</b>	<b>3,855,695</b>	<b>100.00%</b>

(1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See "Presentation of certain financial and other information."

#### Loans by economic activities

The table below analyzes our loan portfolio (without considering other financing) according to the borrowers' main economic activity as of December 31, 2017 and 2018.

	As of December 31,			
	2017 (1)		2018	
	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio
Retail Loans	97,749,358	49.27%	83,559,617	45.88%
Agricultural livestock- Forestry – Fishing – Mining—Hunting	20,357,572	10.26%	25,511,855	14.01%
Construction	8,857,733	4.46%	3,611,247	1.98%
Other services	5,229,676	2.64%	4,246,776	2.33%
Retail and consumer products	15,437,157	7.78%	12,416,239	6.82%
Foodstuff and beverages	10,987,630	5.54%	9,980,625	5.48%
Financial services	5,767,639	2.91%	6,994,567	3.84%
Governmental services	5,411,122	2.73%	3,831,291	2.10%
Real estate, business and leases	3,211,525	1.62%	2,266,751	1.25%
Transportation, storage and communications	4,353,677	2.19%	3,131,138	1.72%
Manufacturing and wholesales	5,221,832	2.63%	8,877,450	4.88%
Chemicals	3,561,718	1.80%	5,287,945	2.90%
Electricity, oil, water	2,107,319	1.06%	2,645,162	1.45%
Hotels and restaurants	300,186	0.15%	230,324	0.13%
Other	9,828,045	4.96%	9,522,468	5.23%
<b>Total Loans</b>	<b>198,382,189</b>	<b>100.00%</b>	<b>182,113,455</b>	<b>100.00%</b>

(1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See “Presentation of certain financial and other information.”

## Deposits

The following table sets out the composition of each category of deposits that exceeded 10% of average total deposits in each of the years ended December 31, 2017 and 2018.

	Year Ended December 31,	
	2017 (1)	2018
<i>(in thousands of Pesos)</i>		
<b>Deposits in Domestic Bank Offices</b>		
Non-interest bearing Demand Deposits (2)		
Average		
Pesos	39,476,428	34,433,925
Foreign currency	3,320,750	1,800,177
Total	42,797,178	36,234,102
Non-interest bearing Other Deposits		
Average		
Pesos	3,811,238	3,939,036
Foreign currency	4,496,224	1,192,031
Total	8,307,462	5,131,067



	Year Ended December 31,	
	2017 (1)	2018
	(in thousands of Pesos)	
Savings Accounts		
Average		
Pesos	39,686,617	35,791,731
Foreign currency	17,438,512	27,630,875
Total	57,125,129	63,422,606
Average real rate		
Pesos	(19.63)%	(31.62)%
Foreign currency	(5.07)%	36.40%
Total	(15.19)%	(1.99)%
Time Deposits		
Average		
Pesos	85,349,454	89,755,144
Foreign currency	15,466,429	25,526,655
Total	100,815,883	115,281,799
Average real rate		
Pesos	(11.31)%	(15.66)%
Foreign currency	(4.57)%	39.10%
Total	(10.28)%	(3.53)%
Deposits in Foreign Bank Offices		
Non-interest bearing Demand Deposits		
Average		
Pesos	—	—
Foreign currency	2,586,358	1,671,545
Total	2,586,358	1,671,545

(1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See "Presentation of certain financial and other information."

(2) Non-interest-bearing demand deposits consist of checking accounts.

#### **Maturity of deposits at December 31, 2018**

The following table sets forth information regarding the maturity of our deposits at December 31, 2018.

	<b>Maturing</b>				
	<b>Total</b>	<b>Within 3 Months</b>	<b>After 3 but within 6 months</b>	<b>After 6 but within 12 months</b>	<b>After 12 months</b>
	<i>(in thousands of Pesos)</i>				
Checking accounts	33,299,188	33,299,188	—	—	—
Savings accounts	68,696,031	68,696,031	—	—	—
Time deposits	129,778,284	121,828,870	6,715,917	1,162,963	70,534
Investment accounts	1,903,037	1,793,037	110,000	—	—
Other	4,277,879	4,277,843	36	—	—
<b>Total Deposits</b>	<b>237,954,419</b>	<b>229,894,969 (1)</b>	<b>6,825,953</b>	<b>1,162,963</b>	<b>70,534</b>

(1) Includes a total amount of Ps.103,394,451 corresponding to deposits without due date.

### Maturity of outstanding time deposits and investment accounts in amount of U.S.\$100,000 or more at December 31, 2018

The following table sets forth information regarding the maturity of our time deposits and investment accounts in denominations of U.S.\$100,000 or more at December 31, 2018.

	Total	Within 3 Months	Maturing After 3 but Within 6 Months	After 6, but Within 12 Months	After 12 Months
		<i>(in thousands of Pesos)</i>			
<b>Domestic Bank Offices</b>					
Time deposits	48,880,661	44,172,459	4,148,547	554,536	5,119
Investment accounts	1,873,675	1,763,675	110,000	—	—
<b>Total</b>	<b>50,754,336</b>	<b>45,936,134</b>	<b>4,258,547</b>	<b>554,536</b>	<b>5,119</b>

### Return on equity and assets

The following table presents certain selected financial information and ratios for the years indicated.

	Year Ended December 31,	
	2017 (1)	2018
	<i>(in thousands of Pesos, except percentages)</i>	
Net income/(loss) from continuing operations	6,019,606	(734,113)
Average total assets	322,289,580	344,724,767
Average shareholders' equity	64,798,700	69,654,177
Shareholders' equity at the end of the fiscal year	71,751,594	60,910,834
Net income/(loss) from continuing operations as a percentage of:		
Average total assets	1.87%	(0.21)%
Average shareholders' equity	9.29%	(1.05)%
Declared nominal cash dividends	3,348,315	6,393,977
Dividend payout ratio (2)	32.98%	40.53%
Average shareholders' equity as a percentage of Average total assets	20.11%	20.21%

- (1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See "Presentation of certain financial and other information."
- (2) Declared nominal cash dividends stated as percentage of net income calculated under Central Bank Rules. Net income in nominal value calculated under Central Bank Rules as of December 31, 2017 of Ps. 10,151,813 and as of December 31, 2018 of Ps. 15,776,892.

### Short-term borrowings

Our short-term borrowings totaled approximately Ps. 17,172.2 million and Ps. 18,470.9 million for the years ended December 31, 2017 and 2018 respectively. The table below shows the breakdown of those amounts at the end of each year:

	Year Ended December 31,			
	2017 (1)		2018	
	Amount	Annualized Nominal Rate (in thousands of Pesos, except percentages)	Amount	Annualized Nominal Rate
<b>Financing received from the Central Bank of Argentina and other financial entities:</b>				
Total amount outstanding at the end of the reported period	1,543,950	5.65%	2,827,666	10.99%
Average during year (2)	1,316,441	4.27%	2,060,072	9.70%
Maximum month-end balance (3)	2,507,048		3,458,924	
<b>Issued Corporate Bonds:</b>				
Total amount outstanding at the end of the reported period	174,747	17.50%	305,759	47.87%
Average during year (2)	298,864	13.18%	327,710	27.04%
Maximum month-end balance (3)	499,846		404,697	
<b>Subordinated Corporate Bonds:</b>				
Total amount outstanding at the end of the reported period	118,123	6.75%	165,070	6.75%
Average during year (2)	187,351	6.75%	226,182	6.75%
Maximum month-end balance (3)	297,190		437,688	
<b>Other Financial Liabilities:</b>				
Total amount outstanding at the end of the reported period	15,335,332	0.02%	15,172,438	0.01%
Average during year (2)	12,493,491	0.01%	11,515,364	0.02%
Maximum month-end balance (3)	15,335,332		15,172,438	
<b>Total short-term borrowings</b>	<b>17,172,152</b>		<b>18,470,933</b>	

- (1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See "Presentation of certain financial and other information."
- (2) Average balances are calculated from quarterly-end balances.
- (3) Maximums are calculated from quarterly-end balances.

#### Interest rate sensitivity

The following table shows the interest rate sensitivity of our interest-earning assets and interest-bearing liabilities based on contractual maturities all based on information adjusted for inflation as of December 31, 2018. Variations in interest rate sensitivity may also arise within the repricing periods presented.

	Remaining Maturity at December 31, 2018					Total
	0-1 Year	1-5 Years	5-10 Years	Over 10 years	Without due date	
Interest-earning assets:						
Loans to non-financial government Sector (1)	842,892	840,834	—	—	—	1,683,726
Loans to non-financial Private Sector and Foreign Residents (1)	109,975,818	54,097,376	4,156,229	6,575,216	—	174,804,639
Loans to other Financial Entities (1)	5,173,585	451,505	—	—	—	5,625,090
Other Debt Securities	56,507,183	7,383,500	464,665	229,412	—	64,584,759
Total Interest-Earning Assets	172,499,478	62,773,215	4,620,894	6,804,628	—	246,698,214

	Remaining Maturity at December 31, 2018					Without due date	Total
	0-1 Year	1-5 Years	5-10 Years	Over 10 years			
<b>Interest-bearing liabilities:</b>							
Non financial Public Sector deposits	12,942,356	150	—	—	70,534		12,942,506
Non financial Private Sector and Foreign Residents deposits	183,985,360	70,012	67	305	—		184,055,744
Financing received from the Central Bank of Argentina and other financial entities	2,827,666	131,773	38,571	—	—		2,998,010
Issued Corporate Bonds	305,759	2,690,500	3,381,052	—	—		6,377,311
Subordinated Corporate Bonds	165,070	—	—	15,123,320	—		15,288,390
<b>Total Interest-Bearing Liabilities</b>	<b>200,226,211</b>	<b>2,892,435</b>	<b>3,419,690</b>	<b>15,123,625</b>	<b>—</b>		<b>221,661,961</b>
<b>Asset (Liability) Gap</b>	(27,726,733)	59,880,780	1,201,204	(8,318,997)	—		25,036,253
Cumulative Asset/Liability Gap	(27,726,733)	32,154,046	33,355,250	25,036,253	25,036,253		
Cumulative sensitivity gap as a percentage of total interest-earning assets	(11.24)%	13.03%	13.52%	10.15%	10.15%		

	Remaining Maturity at December 31, 2018					Without due date	Total
	0-1 Year	1-5 Years	5-10 Years (in thousands of Pesos)	Over 10 years			
<b>Interest-earning assets in Pesos</b>							
Loans to non-financial Public Sector (1)	842,812	840,834	—	—	—		1,683,646
Loans to non-financial Private Sector and Foreign Residents (1)	73,351,573	45,244,463	4,150,203	6,575,216	—		129,321,455
Loans to other Financial Entities (1)	4,767,083	372,828	—	—	—		5,139,911
Other Debt Securities	55,854,871	7,209,169	151,745	151,745	—		63,367,530
<b>Total Interest-Earning Assets in Pesos</b>	<b>134,816,339</b>	<b>53,667,294</b>	<b>4,301,948</b>	<b>6,726,961</b>	<b>—</b>		<b>199,512,542</b>
<b>Interest-bearing liabilities in Pesos</b>							
Non financial Public Sector deposits	12,415,501	150	—	—	—		12,415,651
Non financial Private Sector and Foreign Residents deposits	125,763,956	55,859	67	305	—		125,820,187
Financing received from the Central Bank of Argentina and other financial entities	228,856	131,773	38,571	—	—		399,200
Issued Corporate Bonds	305,759	2,690,500	3,381,052	—	—		6,377,311
Subordinated Corporate Bonds	—	—	—	—	—		—
<b>Total Interest-Bearing Liabilities in Pesos</b>	<b>138,714,072</b>	<b>2,878,282</b>	<b>3,419,690</b>	<b>305</b>	<b>—</b>		<b>145,012,349</b>
<b>Asset (Liability) Gap</b>	(3,897,733)	50,789,012	882,258	6,726,656	—		54,500,193
Cumulative Asset/Liability Gap	(3,897,733)	46,891,279	47,773,537	54,500,193	54,500,193		
Cumulative sensitivity gap as a percentage of total interest-earning assets	(1.95)%	23.50%	23.95%	27.32%	27.32%		

	Remaining Maturity at December 31, 2018				Without due date	Total
	0-1 Year	1-5 Years	5-10 Years	Over 10 years		
<b>Interest-earning assets in foreign currency</b>						
Loans to non-financial Public Sector (1)	80	—	—	—	—	80
Loans to non-financial Private Sector and Foreign Residents (1)	36,624,245	8,852,913	6,026	—	—	45,483,184
Loans to other Financial Entities (1)	406,502	78,677	—	—	—	485,179
Other Debt Securities	652,312	174,331	312,920	77,667	—	1,217,229
<b>Total Interest-Earning Assets</b>	<b>37,683,139</b>	<b>9,105,921</b>	<b>318,946</b>	<b>77,667</b>	<b>—</b>	<b>47,185,672</b>
<b>Interest-bearing liabilities in foreign currency</b>						
Non financial Public Sector deposits	526,855	—	—	—	—	526,855
Non financial Private Sector and Foreign Residents deposits	58,221,404	14,153	—	—	—	58,235,557
Financing received from the Central Bank of Argentina and other financial entities	2,598,810	—	—	—	—	2,598,810
Issued Corporate Bonds	—	—	—	—	—	—
Subordinated Corporate Bonds	165,070	—	—	15,123,320	—	15,288,390
<b>Total Interest-Bearing Liabilities</b>	<b>61,512,139</b>	<b>14,153</b>	<b>—</b>	<b>15,123,320</b>	<b>—</b>	<b>76,649,612</b>
Asset (Liability) Gap	(23,829,000)	9,091,768	318,946	(15,045,653)	—	(29,463,940)
Cumulative Asset/Liability Gap	(23,829,000)	(14,737,233)	(14,418,287)	(29,463,940)	(29,463,940)	
Cumulative sensitivity gap as a percentage of total interest-earning assets	(50.50)%	(31.23)%	(30.56)%	(62.44)%	(62.44)%	

1) Loan amounts are stated before deducting the allowance for loan losses. Non-accrual loans are included with loans as interest-earning asset.

#### Item 4A. Unresolved Staff Comments

None.

#### Item 5. Operating and Financial Review and Prospects

This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in “Cautionary statement concerning forward-looking statements,” “Risk Factors,” and the matters set forth in this annual report in general.

The following discussion is based on, and should be read in conjunction with, our consolidated financial statements and related notes contained elsewhere in this annual report, as well as “Selected Financial Data” and the other financial information appearing elsewhere in this annual report.

#### A. Operating results

##### FINANCIAL PRESENTATION

Our accompanying consolidated financial statements as of December 31, 2018 have been prepared in accordance with the IFRS as issued by the IASB.

Up to the fiscal year ended December 31, 2017, we prepared its financial statements in accordance with the Central Bank Rules. The financial information for previous fiscal years included in those consolidated financial statements for comparative purposes, was

modified and is disclosed in accordance with the basis described in the preceding paragraph. The effects of changes between the standards applied at the end of the fiscal year ended December 31, 2017 and the IFRS, are explained in the reconciliations disclosed under the title “First-time Adoption of IFRS” of the note 3 to the abovementioned consolidated financial statements.

Additionally, our consolidated financial statements as of December 31, 2018 and the corresponding figures for previous fiscal years have been restated for the changes in the general purchasing power of the functional currency of the Bank as established by IAS 29. As a result, those consolidated financial statements are stated in terms of the measuring unit current at the end of the reporting period.

## MACROECONOMIC ENVIRONMENT

*Information presented in this section has been prepared in accordance with economic indicators and historical information of the financial system, as published by the Central Bank of Argentina or INDEC and therefore has not been adjusted for inflation.*

Global growth in 2016 was similar to 2015 and was almost one point below that recorded from 2010 to 2014. This result was due to the fact that developed economies, China and Latin America slowed their expansion. This slow in growth was partially offset by increases in India, Africa and the return to growth of oil economies of the former Soviet Union.

The developed economies formed by the U.S. and the European Economic Area (EEA) reduced their growth rate. The U.S. GDP grew by 1.6% in 2016, which represents a reduction of one percentage from 2015. This decrease is primarily due to the slow development of household consumption, a continuing effect of the process of deleveraging started in 2008.

In Europe, the growth rate was also reduced in the context of a slow decline in the fiscal deficit. Countries such as Spain, France, Portugal and Italy presented increasing public indebtedness and in high levels, without favoring the investment process. While Europe’s economic anchor Germany, which represents 30% of GDP in the EEA, showed a fiscal surplus and a fall in debt over the last three years Certain events are concerning for Europe. Events, as Brexit, indicate that support for the Euro Area has weakened and consequently raised concerns about the viability of the common currency in the long term.

China grew by 6.6%, continuing the diminishing growth of the last 6 years. The deceleration of its external sales, the slow pace of private investment, restrictions on leverage and the low productivity of public companies led to a loss of competitiveness with Southeast Asian countries are some of the factors that explain the decline in growth in relation to what was registered until 2010. Greater internal consumption as advocated by the authorities in recent years did not manage to compensate for the effect of the factors mentioned above.

The poor performance of the world economy and some specific sectoral situations lowered commodity prices for the third consecutive year. The commodity market was volatile throughout the year. This volatility was mainly due to fluctuations in oil prices and the change in the energy matrix towards renewable sources. A slowdown in global demand for industrial goods was largely responsible for a decrease in the price of hard metals.

The slow global growth of commodities, together with the dynamics of the economic policies that followed meant both Brazil and Argentina recorded declining trends in real GDP during 2016.

Brazil’s economy fell for the second consecutive year and recorded a 7% loss of GDP in that two-year period, which had a negative effect on Argentine exports, as they are heavily dependent on the Brazilian market. The outflow of capital in 2015 led to the Brazilian Real depreciation of 41% as a correlation of the institutional crisis and a strong fiscal deficit. In 2016, this situation began to partially reverse due to the re-inflow of capital, which has been associated with the political changes in Brazil. The new authorities announced the freezing of public spending and advances in the deregulation of markets with the aim of improving fiscal solvency with greater competitiveness.

As a consequence of the developments discussed above, the depreciation of the Brazilian Real was reduced to an annual average of just 4% and inflation was reduced. This will lead to a more expansive monetary policy (*i.e.* lower rates), and allow a slight recovery of GDP for the year 2017.

During 2016, Argentina underwent the beginning of a process of deregulation of relevant variables, such as the exchange rate, interest rates, certain prices and tariffs, in addition to an opening to a broader market. Specifically, exchange controls were eliminated, export withholdings were either reduced or eliminated and restrictions to imports were suppressed while, at the same time, the process of obtaining import permits were simplified.

Such measures were complemented by a restrictive monetary policy and a gradual tax policy. In this context, the Argentine government seeks to cancel its debts (refund of wrongly withheld co-participated taxes) while inducing reforms in provincial taxes which affected investments.

The Argentine government confirmed the restructuring of the debt with the holdouts (U.S.\$12.5 thousand million), which had been pending since 2005, which allowed access to capital markets in order to fund the tax authority's necessities.

2016 closed with a primary deficit of 4.6% of the GDP, which was an improvement from the 2015 results, even with revenues affected by the GDP's decrease and tax restructuring.

In addition to the reformulation of certain rules which affect economic decisions, the Macri administration seeks to foster private internal savings and foreign investments, as part of a chain of sustainable expansion. The transition to sustainable growth has affected the economy during 2016. Strong increases of the exchange rate and tariffs and the decreases in withholdings led to a substantial increase in the inflation rate, which reached 40% inter-annual ("i.a."), representing a 13 percentage points increase in comparison to the previous year.

Registered inflation led to a decrease of real income with a full effect on domestic expenditures and activity. GDP fell 2.3% in the first three quarters. An improvement had been predicted for the fourth quarter although in fact a decrease was recorded.

As a result, the real GDP of the economy is believed to have fallen by 2.3% during 2016.

Towards the final quarter of 2016, most of activity indicators followed an increasing trend, which was sustained by the marginal recovery of domestic consumption, greater public expenditure, and an increase of sales to Brazil and a stock recovery.

In 2017, the global economy grew at a rate of 3.6%, equivalent to a 0.4 percentage point ("p.p.") increase vis-a-vis the previous year, driven by the developed countries' marginal improvement and accelerated growth of Latin American economies.

During the year 2017, there was a 6% increase in international trade, after three years of virtually stabilized activity, along with an emerging improvement of commodities prices.

The upturn of the U.S. and Japanese economies, coupled with China's sustained growth and the widespread process to regain fiscal balance throughout Europe through easing monetary policies, seem to be the key building blocks of the global economy favorable development, as opposed to the political concerns that had emerged the previous year.

Such development reflects the abatement of global uncertainties and seems to be marking the end of the 2007-2009 crisis and the commencement of increasingly stronger economic dynamics.

On the other hand, the international financial market changed in line with the economy, as it availed of abundant liquidity, no major disruptive events triggering uncertainties have occurred, and expectations were extremely positive.

The U.S. economy grew by 2.2% during the year, driven by the impact of improved wages on spending, paired with declining unemployment and increasing investment.

In 2017, the Euro Area grew at a 2.1% annual rate, a record high since 2003. Such performance is directly attributable to an economic policy which successfully combined a slightly expansionary monetary policy with reduced fiscal deficit in the area's block of countries. China's growth rate increased threefold vis-a-vis global growth century-to-date. In 2017, the Chinese economy grew at a sustained pace for the third consecutive year (up by 6.8%). Such growth was attributable to domestic fiscal, monetary and migration policies aimed at facilitating the transition from a low-cost labor net exporter country to an economy based on internal consumption of goods and services and higher per capita income, resulting from the productivity gains achieved as a result of a vigorous private investment process, both external and internal, the latter underpinned by local lending.

During 2015 and 2016, Brazil underwent a high volatility process as a result of fiscal weakness and a political crisis. The end of such political crisis, coupled with a fiscal rearrangement process and the enactment of structural reforms by the legislative branch, helped to turn the tide, generating sustained capital inflows back into the country in 2017, paired with currency appreciation by 8% and falling inflation to 3% per annum. Concurrently, the Brazilian Central Bank introduced gradual cuts to nominal interest rates.

Declining inflation, along with capital inflows and reduced nominal interest rates, helped to improve the purchasing power of wages and access to credit, with the ensuing boost to consumption, investment and production. Accordingly, in 2017 the Brazilian GDP grew by around 1%. Against this backdrop, Brazil would provide an additional push to the manufacturing sector in Argentina, particularly, the automotive and the metalworking industries.

During 2017, the Argentine economy remained on the path taken by the new administration since assuming office in late 2015.

Growth recovery was attributable, in part, to public investment in initiating new works and resuming some works that had been suspended, and to improved expectations among consumers and producers about the continuity of the economic policy, amidst a fiscal context that seeks to gradually reduce the fiscal deficit and public expenditure relative to GDP in the coming years.

In the light of the reemergence of inflationary pressures during the first quarter of 2017, the monetary authorities reinforced the contractionary bias, driving increases in domestic interest rates, a trend that was maintained until year-end.

The direction of the economic policy and the understanding that Argentina's indebtedness would be maintained well below the level of other comparable countries led to a fall in country risk, which improved by 140 points during the year.

At the same time, the improved expectations paved the way for capital inflows from non-residents, both for direct and financial investments, and also encouraged domestic companies to look to foreign financial markets for financing. This phenomenon, coupled with the fast growth of local banking lending, boosted the supply of funding for consumers and investment.

As concerns the supply of goods and services, the tax cuts, the deregulation of certain markets that used to be under the strong control of the former administration, more intensive investments in construction, and recovered spending led to an upturn in the agricultural, automotive, steel, cement manufacturing, and white goods sectors.

Consequently, the manufacturing industry picked up having returned to positive levels since May, closing the year with a 1.9% increase. The GDP development during 2017 was incremental and positive. This trend commenced in the third quarter of 2016 and continued at a sustained pace during five consecutive quarters, registering a 4% year-on-year increase during the fourth quarter of 2017. GDP increased to 2.9% in 2017.

In turn, the fiscal target set by the Argentine Government was achieved for the second consecutive year in 2017. Primary deficit (3.9% of GDP) was lower than the 4.6% level recorded in 2016, as a result of a decline in primary expenditure.

The Argentine Government's annual revenues rose by 29.6% year-on-year, more than primary expenditures which climbed by 29.4%, for the first time in the last 12 years.

Concurrently with its fiscal management actions (budget, expenditure containment and cash management), the Argentine Government introduced substantial tax and fiscal reforms seeking to reduce the public-sector burden on the economy and accommodate internal costs to improve the competitiveness of domestic production, amidst the incremental opening to trade.

Accordingly, both reforms were enacted targeting at businesses, individuals, the retirement system, the provinces, and the national public-sector size, while progress is still to be made on certain aspects relating to labor productivity.

The Argentine Government reduced the applicable the corporate income tax contingent upon certain investment processes and imposed a gradual decline in employers' contributions to reduce labor costs. On the other hand, individuals' financial interest, which so far has been exempt, was made liable to tax, though limited to an approximation of income, net of the inflationary component.

In addition, the Argentine Government took certain actions to reduce unregistered employment and modified the mechanism to adjust the Social Security System benefits in order to curb the retirement system's unbalance.

Concerning prices, in 2017 inflation reached 24.8%, down by 13 p.p. compared to 2016. Average monthly inflation fell from 2.7% in 2016 to 1.9% in 2017. In 2017, inflation continued to reflect the changes in relative prices associated to the tariff review and other factors, including, inflation inertia and the impact of the fiscal deficit monetary funding and the Argentine Central Bank's hoarding of international reserves.

On the other hand, the monetary authorities' goal of accumulating international reserves against a backdrop of strong external indebtedness prevented the Argentine Peso from appreciating even further than in the previous year. In 2017, the Argentine Peso depreciated by 18.4%.

In 2018, global growth lost part of the major momentum it had been carrying from the previous fiscal years and there was less synchronicity in the expansion seen in the various countries. Economic activity started to show signs of exhaustion and was moderate in some advanced economies. As to the economies in emerging markets and in developing countries, they remained at the same pace as the previous year.



Such weaker performance is attributable to factors such as the negative effects of the rising barriers to trade between the United States and China, increased restrictions in financial conditions, geopolitical strains as well as a less favorable outlook for some economies in the emerging countries and in developing countries due to factors that are specific to each country.

A number of tariff-related measures enforced by the United States plus the measures that its trade partners adopted in retaliation rendered world trade relationships complicated and led to a slowdown in international trade in the region, which for the 2018 period —measured on a year-on-year basis— reached a 4.2% in 2018 while in 2017 it had been at 5.2%.

When it comes to global financial conditions, in 2018 there was an increase in restrictions and in localized pressures. Interest rate increases in the United States contributed to a depreciation in the currencies of emerging markets, brought down the price of commodities, and led to a rise in emerging countries' risk levels.

Projections for 2018 point to 3.7% global growth, measured on a year-on-year basis, in line with the figures posted for 2017. Advanced economies would have grown by as little as 0.1 percentage points over the year 2017 with the US accounting for the largest portion of such increase and a slow-down in the Euro zone, the United Kingdom and Japan. As concerns emerging economies, forecasts point to 4.7% growth in 2018, which stands at a level that is similar to that recorded in 2017. As was also the case with advanced economies, performance is heterogeneous.

The U.S. economy would have grown by 2.9% driven by the impact on consumption caused by the improvement in salaries and the drop in unemployment. The fiscal stimulus stemming from the tax reform also contributed to such vigorous economic performance. The increase in rates applied by the Federal Reserve entails a stronger monetary contraction and puts pressure on economic growth, particularly on the sectors that are more dependent on loans.

In 2018, the Euro Area would have grown at a 2% annual rate, smaller than in 2017. Growth in the Eurozone in the past years contributed to a reduction in unemployment whilst inflation continued to be contained. Monetary conditions are expected to remain accommodating and increases in interest rates may not be discarded until the second half of 2019. Fiscal consolidation processes will be under pressure given the increased strains in the social and political climate in the EU's important countries, such as Italy and France.

The pace of expansion in China compared to global growth has undergone a three-fold rise since the turn of the century. This being said, the expectation is that it should slow down to 6.6% in 2018 and a bit more over the coming years as a result of the trade war with the United States. If the trade war were to continue, deviations of the trade of raw materials from the United States towards other countries, including Argentina, may turn out to be a very interesting opportunity.

The slow-down expected in China would be offset by a further expansion in the Indian economy. India would have grown by 7.3% in 2018 well above growth in 2017. India is an economy that supplements the Argentine economy quite nicely, and the Argentine Government is working on improving relations between India and Argentina at all levels.

Brazil, Argentina's main trade partner, continues to leave behind the political crisis that it had gone through, during 2015 and 2016 whose consequences were an intense flight of capitals and a strong depreciation of the Brazilian Real. Within this context, the economy dropped by 7 points in the two-year period.

Michel Temer's interim government made progress with a tax reform that froze the level of public expenditure in real terms and also enacted a labor reform that is expected to bring an improvement in productivity and competitiveness in the coming years. The results of this transition were positive and the Brazilian economy grew. The expectation for 2018 was 1.4% growth.

Jair Bolsonaro was elected President of Brazil in October 2018 in the ballotage round and he is now proposing a dramatic fiscal adjustment, more openness of the economy, proposing certain privatizations to reduce the country's stock of liabilities and a reform in social security, which happens to be a key area to decrease Brazil's high fiscal deficit. Any hurdle in the approval of these reforms may exert additional pressure over credit risk and the exchange rate, and this would affect both inflationary expectations and current inflation trends. Pursuant to the latest forecasts, a 2.4% growth is expected for 2019, which could be favorable for the Argentine economy, in particular for the alternative industry which is highly related to Brazil.

The prices of agricultural commodities remained relatively stable in 2018. Although soybean dropped by 7.3% in the year, down to U.S.\$ 324 per ton, the prices of wheat and corn rose by 17.9% and 6.9%, respectively. WTI oil barrel price decreased by 25.3% during 2018.

Argentina's economic policy in 2018 continued along the path set by the government at the start of its term in office in late 2015. The Macri administration advanced significantly in the correction of some of the previous administration's inherited imbalances and problems as was the case of unifying, releasing and letting the exchange rate float freely, the exit from its sovereign default, the recovery of transparency in official statistics, the removal of price controls and the adjustment of relative prices, such as public utility rates, the substantial improvement in the business environment and Argentina's insertion in the international financial community.

This notwithstanding aforementioned costs had to be borne for such corrections in the economy and, in late 2017, Argentina appeared to be vulnerable due to certain outstanding unresolved issues, in the face of a more unfavorable external scenario. The inflation was much harder than originally expected or forecasted and the fiscal deficit could be barely cut back in spite of the decrease in a major portion of subsidies.

The decision to deploy a stepwise strategy to reduce fiscal deficit left the country strongly dependent upon international capital markets. In late 2017 and, during 2018, Argentina's economy sustained a significant shock which translated into a major depreciation of its currency the exchange rate between the US dollar and the Argentine peso went from Ps. 18.77 in December to Ps. 40 in late September of that year. In addition, as mentioned, during 2018 Argentina faced a significant inflation that represented 47.5% year-on-year and a reduction of 1.8% of the GDP on a yearly bases.

There were manifold causes for this crisis and they combined internal and external factors. Amongst external factors, the most important was the increase in long-term interest rates in the United States which led to US Dollar becoming stronger and a decreased appetite for emerging markets' assets: Argentina was far more adversely affected by this situation than the other countries in the region.

Argentina was particularly affected by such external turbulences, mainly because some domestic factors played an overarching role. Such was the case of the country's trade and accounts deficit, which had to a major extent to the increase of the foreign exchange market.

Foreign exchange rate movements had a negative impact on consumers' confidence, which, together with a deterioration in actual salaries, started to have an impact on consumption. The run against the Peso led to a drop in foreign currency reserves and this in turn raised concerns about the ability to honor US Dollar-denominated debts as they fell due, which in turn triggered a new increase in the exchange rate and caused a new round of savings dollarization whilst fueling inflation.

Such adverse context of fear caused by foreign exchange instability and lack of access to the capital market compelled Argentina to turn to the IMF to restore confidence. As a result of the 2018 IMF Agreement, the country managed to replenish reserves subject to certain conditions. For have information about the 2018 IMF Agreement, please see "*Risk Factors—Risk relating to Argentina—IMF Agreement.*"

The cost of this policy has translated into high interest nominal rates, ranging from 60% to 70%, aggravating recession and complicating funding for working capital and consumption.

Stabilization in the foreign exchange rate was accompanied towards the end of 2018 by an important drop in the inflation rate, which after peaking 6.5% per month in September started a downward path to 2.6% in December. With this mark included, inflation in 2018 was 47.6% with Argentina being positioned as a high-inflation country. Against this backdrop, the Argentine economy decreased 1.8% in 2018 after having grown by 2.9% in 2017. The deterioration in domestic conditions and an actual depreciation of more than 50% in the year led to a reduction in real salaries, consumption and investment, above all in construction and in imports of machinery and equipment.

On the fiscal front, the government continued to concentrate its efforts on the reduction of the primary deficit through a combination of cutbacks in expenditures and an increase in revenues. This way, the primary result exhibited a 1.4% improvement compared to the deficit posted in 2017 (3.8% of GDP).

In particular, total revenues accumulated a 30.2% increase, way below the average inflation for the year (which had been 34.3%) driven by VAT and taxes on imports and export fees.

Primary expenditures, in turn, reached the end of the year with a 22.4% increase, which entails an 8.9% decrease in real terms. Additionally, there was a major reduction in the floating debt which fell by 14% in real terms though with a reduction in due and enforceable capital expenditures equivalent to 30%, thereby facilitating the 2019 fiscal program.

In 2018, the Government had to fulfill financial commitments for U.S.\$32.9 billion. Out of this amount, there were U.S.\$9 billion from the international debt market and U.S.\$24.1 billion from the IMF related to the 2018 IMF Agreement and other multilateral organizations, amongst other sources. Besides, in the first months of the year, the Treasury received U.S.\$2.4 billion as temporary advances from the Central Bank which came to a halt after the first agreement with the IMF in which it was established that the Central Bank would not provide any further financial aid.

Given this scenario, the country's net public debt reached the end of the year in the region of 44% of GDP, which entailed an increase vis-à-vis the figure posted a year earlier (28.4%).

### **Money market and Argentine financial system**

*Information presented in this section has been prepared in accordance with economic indicators and historical information of the financial system, as published by the Central Bank of Argentina or INDEC and therefore has not been adjusted for inflation.*

By the third quarter of 2016, the main monetary aggregates slightly increased. By moving from a fixed and administered exchange rate to a flexible one, the Central Bank has gained control over the main monetary aggregates. This control is an indispensable tool for the transition towards lower inflation.

Under the new exchange scheme, the expansion of the Monetary Base has decelerated substantially, from a 33% average growth on 2015 to 24% during 2016. This deceleration was reflected through lower inflation during the latter part of the year.

In order to achieve this monetary reduction, the Central Bank used Lebacks, securities and increases in legal banking reserves as absorption mechanisms. The goal of these measures was to adjust the expansion factors presented by currency purchases, government assistance and interests for passives (quasi-fiscal) that comprise the supply for the demand of Monetary Base.

The Central Bank assisted the National Treasury with Ps.151 billion and purchased U.S.\$14 billion worth of currency. Another expansion factor included the interest generated by the growing debt of the Central Bank and the increase in rates.

The number of securities and Lebacks held as part of the Monetary Base doubled in 2016, reaching 87% of the Monetary Base (8% of GDP). Paid interests were 2.3% of the GDP.

Consistent with the anti-inflationary policy and prices liberation, the Central Bank raised the interest rate, in the hopes that this would help decrease inflation through saving in Pesos. The Central Bank also stipulated that the Lebacks rate would be set in the range of 38% during May, to begin a continuous lowering process from May to December, depending on the results of gradual inflation decrease, cutting down 13 percentage points from the annual maximums. Asset and liability rates followed the same pattern as Lebacks rate. Asset and liability rates copied the direction and intensity of the Lebacks' trail.

During 2016, financial penetration (deposits and loans / GDP) in Pesos fell, and remained stable when including assets and liabilities in dollars. The Argentine financial system continues to be the smallest one in terms of GDP in Latin America.

Deposits in the financial system grew 40% inter-annually, mainly driven by the deposits from the private sector which increased 45% i.a. Additionally, dollar deposits grew 130% i.a., due to the elimination of the restrictions on access to the foreign exchange market, the growing credibility of higher dollar rates and, in the last part of the year, as a result of capital bleaching.

In terms of assets, the financial system grew in total loans and Lebacks' holdings in 26% and 28%, respectively.

Private loans registered an increase of 30% i.a. with a 28% i.a. increase from commercials and a 32% i.a. improvement of consumer loans.

Personal credits grew by 36% i.a. This increase was 8 percentage points more than the ones carried out through credit cards.

There was strong liquidity and a higher increase in deposits over credits in both currencies throughout the year. This meant that the financial system was in a strong position in terms of risk diversification. Furthermore, it leads to increasing the holding of Lebacks in Pesos and the excess of dollars raised the Central Bank reserves.

In 2017, treasury financing, the accumulation of reserves and the service of debt interest were the main factors that contributed to the expansion of the Argentine Central Bank's monetary base. On average, the monetary base grew at a rate of 29% per year, a similar pace to that registered in 2016 and also in the 2010-2015 period.

In the last two years, the Argentine Central Bank purchased foreign currency in the market at an average of U.S.\$15 billion, increasing international reserves in the amount of U.S.\$30.8 billion. In this regard, it should be noted that, at year-end, accumulated international reserves covered the entire monetary base, when two years earlier they only accounted for 48% of it.

When comparing the factors that led to the monetary base growth, a material change can be observed which commenced in 2015 and consolidated in the following years, that is, the Argentine Central Bank's issuance of interest-bearing debt to sterilize the expansion of the monetary base to assist the Treasury and increase reserves. As of December 2017, the Argentine Central Bank's liabilities associated to debt securities accounted for, on average, approximately 8.5% of GDP and 111% of the monetary base.

The interest expense on the Argentine Central Bank's indebtedness (repos and Lebacs) has been increasing hand in hand with the increase in indebtedness. This quasi-fiscal cost is attributable to the need for sterilizing the excess in the base money supply when the goal is reducing inflation and, at the same time, hoarding international reserves, without the revenue administration's contribution.

In the short-run, the monetary commitment derived from the Argentine Central Bank's multiple goals — accumulating reserves, funding the Treasury and servicing debt interest — exerts additional inflationary pressure, as the increase in demand for money it systematically surpassed.

The sterilization policy implemented through the placement of repos and Lebacs competes against and, to some extent, beats banks' financial intermediation. During the year 2017, the volume of Lebacs as a direct savings instrument for investors experienced a twofold increase.

The relative size of the financial system in Argentina is still smaller than that of the other Latin American countries; bank lending, both in Argentine Peso and U.S. dollar, accounts for 14% of GDP, while the regional average stood at 35%.

During 2017, this situation started to improve as the system's bi-monetary liabilities and assets (Argentine Peso and U.S. dollar) rose by 1.0% and 0.7% of GDP, respectively.

The combination of declining inflation with sustained positive yields in real terms is expected to strengthen this improvement, encouraging savings in domestic currency through institutionalized channels, fostering the depth of financial markets, in general, and the banking system, in particular.

Total bi-monetary deposits in the Argentine financial system grew by 27% year-on-year in 2017, with peso-denominated deposits rising 24% year-on-year and U.S.-dollar deposits (as measured in Argentine Peso) rising in nominal values a 40% year-on-year, (26% measured in foreign currencies). As of December 2017, total deposits reached Ps.2,283 billion, on average, with 80% of that amount being attributable to the private sector.

In 2017, private deposits rose by 27% year-on-year on nominal values, with remarkable performance of sight deposits which, in the last two years, managed to surpass 1.5 times the increase in term deposits. Lebac competition seems to be a determining factor of this performance during the year.

The changes in foreign-currency denominated private deposits in 2016 and 2017 reflect the impact of the tax amnesty law on bank savings.

On the other hand, public-sector deposits rose by 28% year-on-year in nominal values, with strong concentration on U.S. dollar-denominated deposits which rose by 83% year-on-year (as measured in Argentine Peso).

From the assets side, in 2017 the financial system experienced growth in total loans (private + public) and Lebac holdings by 47% year-on-year and 13% year-on-year in nominal values, respectively, totaling, on average, Ps.1,581 billion and Ps.365 billion as of December 2017 in each of these lines, in nominal values.

As of December 2017, loans to the private sector rose by 50% year-on-year to Ps.1,553 billion, accounting for 98% of total loans. Commercial lending, consumer lending and secured loans rose by 50%, 42%, and 89%, respectively, year-on-year, in nominal values.

The increase in commercial lending is attributable to stronger economic activity. Peso-denominated loans rose by 37%; however, the largest increase within this segment was experienced by U.S.-dollar denominated loans (up by 82% year-on-year, as measured in Argentine Peso), outperforming local-currency loans for the second consecutive year, in nominal values.

On the other hand, demand for consumer loans also performed favorably, driven by improvements in employment and wages during the year; bank consumer loans rose by 42% year-on-year, led by personal loans which climbed by 60% year-on-year; while financing of credit card balances grew to a lesser extent (25% year-on-year).

Home-ownership mortgage loans picked up during the year following the introduction in 2016 of an index referred to as UVA (*Unidad de valor adquisitivo*, or purchasing power unit). This new modality has strong growth potential as inflation continues to decline and the UVA-adjusted savings offering expands in scope. During 2017, UVA-adjusted mortgage loans gained momentum, with Ps.52 billion having been lent vis-a-vis Ps.2.1 billion in 2016, with a total stock of Ps.54 billion as of December.

In order for lending to grow almost twice as much as deposit-taking (47% year-on-year versus 27% year-on-year), the financial system used a portion of the excess liquidity, and some entities issued equity securities and placed debt securities in the external and local market. In the future, maintaining the credit growth rate will depend on sustained demand, as well as on the emergence of suitable conditions for savings to be increasingly channeled through the institutionalized financial system.

In 2018, Argentina's money market behaved in line with the foreign exchange crisis. There was an interruption in the reserve accumulation process and the flight of portfolio investments led to a reversal in financial flows which in turn triggered a drop in the Central Bank reserves plus an intervention of the Argentine Treasury selling foreign exchange currency in an approximate amount of U.S.\$ 25 billion and dramatically reducing the stock of Lebacs.

In the second half of the year, given the 2018 IMF Agreement and the enhancement of a currency swap with the Central Bank of the China, Argentina was able to recover from the reduction on the Central Bank's international reserves. Gross international reserves grew by U.S.\$10,751 million in 2018 with a balance of U.S.\$65,806 million as of December 31, 2018.

As a part of the 2018 IMF Agreement, the Central Bank undertook to focus on a stabilization program which was compelled to be far more restrictive in monetary terms with nominal growth objectives in the monetary base. A program was deployed to gradually reduce Lebacs through sales of international reserves, increase in the minimum capital and cash requirements imposed on banks, issuance of Government securities and LELIQS. At the end of 2018, the stock of Lebacs dropped to zero and the LELIQs substituted for a part of them. At the end of the fiscal year, their stock totaled Ps. 722 billion, 51% of the monetary base.

The quasi-fiscal deficit of the country, has been absorbed by the dramatic depreciation in the exchange rate between the Argentine Peso and the US Dollar and LELIQS substituting for Lebacs.

There was a Ps. 407 billion expansion in the country's monetary base attributable to the increase in volume caused by the settlement of Lebacs and—as a contractive factor—LELIQ-mediated absorption and through the sale of foreign currency to the private sector during the stage of failed interventions in the midst of the run on the foreign exchange market. In 2018, the Argentine Central Bank transferred Ps. 30 billion to the Treasury as temporary advances and there was no transfer of earnings.

On average, the monetary base grew at an annual 33% rate, which was a bit faster than the 32% recorded in the year 2017. This being said, with the launch of a program to maintain the monetary base growth at zero by the end of September, average expansion in the last quarter was only 3%.

Argentina's weak monetization is nothing new, despite the improvement seen during 2017 and 2018, Argentina's financial system continues to be Latin America's smallest financial system in relative terms in as much as Peso-denominated and US Dollar-denominated bank lending stands for 15.8% of GDP when the regional average had been 35%.

Total deposits compared to Argentina's GDP grew by 6.8 percentage points of GDP. The reasons for this growth are to be found, above all, in an increase in time deposit in Pesos and in U.S. Dollars which reached the end of the year at unprecedented levels. This growth was well above an increase of hardly 0.7 percentage points of GDP for total lending.

In the course of 2018, Peso-denominated time deposits grew by 54% year-on-year whilst deposits denominated in US Dollars (measured in Pesos) rose by 131% year-on-year (29% measured in foreign currencies + 102% devaluation). As of December 31, 2018, deposits totaled Ps. 4,086 billion.

In 2018, private sector deposits grew by 66.0% year-on-year, the recovery in Peso-denominated term deposits rose by 65% after the banks resumed financial intermediation when the stock of Lebacs was fully settled. Prior to such resumption, depositors were allowed to access the stock of Lebacs. The behavior exhibited by private sector deposits in foreign currency are evidence of the dollarization of deposits in the course of the year and of depositors' confidence in the local financial system.

From the side of assets, in 2018 the financial system rose by 36.4% year-on-year when measured in total loans and totaled Ps. 2,240 billion.

Loans to the private sector rose by 37.2% year-on-year, which stood for 96% of total loans.

Within the Peso-denominated category, commercial loans dropped by 0.8% year-on-year, affected by the recession and the increase in interest rates, with it being the caption that was most severely affected.

The demand for consumer loans, in turn, decreased and was adversely affected by the decrease in employment and salaries during the year. In the course of the first part of the year the demand for consumer loans performed well which was impaired in the second half of the year.

Growth was led by credit cards, which rose by 28.9% year-on-year whereas personal loans rose at a slower pace, 21% year-on-year.

Pledge and mortgage loans rose by 48.5% year-on-year during the first months of 2018 keeping the momentum in UVA-adjusted mortgage loans (Unit of Purchasing Power) but after the run on banks, the origination of these loans slowed down fast.

The spread in growth between deposits and loans denominated in Pesos mirrored increase in the liquidity ratios in the financial system. The broad system liquidity, measured as cash and cash equivalents in Pesos, integration of liquidity requirements and Argentine Central Bank instruments was 51% of deposits in late 2018. In the year-on-year comparison, broad liquidity rose by 8%.

Against this background, there was an upward trend in interest rates thanks to the influence of a harsher monetary policy and the dollarization of deposits. As of December of 2017, monetary policy rates were approximately 27.40% and by the end of 2018 the rate was at 59.25% after peaking in October at 74%. The rest of interest rates behaved similarly: the interest rates accrued by time deposits in Pesos at 30 days averaged 21.7% at the beginning of 2018 and came to an end at 45.6%.

The interest rate charged to companies for cash advances (for 7-day terms and amounts in excess of Ps. 10 million) started the year at 31.2% and came to an end at 65.0%. As to the call money interest rate (inter-banking interest rate charged between private banks), at the end of 2018 reached 55.5% as compared to 28.0% of the previous fiscal year.

In addition, in 2018 there was a general increase in the Argentine financial system's profitability, given the higher interest income and higher income obtained from securities. Additionally, the financial spread rose by 0.2 p.p. up to 10.6% of financial assets, versus 10.4% in 2017. In addition, there was an increase in interest expense.

The administrative expenses rose by 35.5% in an annual accumulated figure, below inflation, and averaged 6.3% of Assets, which decreased from 7.1% recorded in 2017. Income from services stood at 2.2% of assets against 2.9% in 2017 and rose by 18.0% in the year. Loan losses, in turn, rose up to 1.3% of assets up from 1.0%, entailing low levels inasmuch as the portfolio of non-performing loans averaged 2.2% of loans. Lastly, tax charges in 2018 stood at 1.2% of assets compared to 1.4% the previous fiscal year.

## **RESULTS OF OPERATIONS**

The following discussion of our results of operations is for the Bank as a whole and without reference to any operating segments.

We do not manage our Bank by segments or divisions or by customers, by products and services by regions, or by any other segmentation for purpose of accounting resources or assessing profitability.

Our loan portfolio to the private sector has grown by 35% in 2018 in nominal value, keeping up with the evolution of the financial system. In real terms, the private sector loan portfolio decreased by 8% compared to the total amount as of December 31, 2017.

During 2018, we maintained a leading position in terms of personal loans, with 1.2 million loans, which represent a 13% of market share. As to its credit card products, in 2018 we maintained an 8% of market share.

During 2018, pledge and mortgages loans grew 91% in nominal value. Such growth of 2018 is the result of our active participation in the granting of mortgage loans adjustable by UVA. The increase in real terms was 7% and was mainly due to the adjustment for inflation of this portfolio.

The coverage indicator reached a 112% ratio towards the end of the fiscal period, substantially below to the coverage ratio at the end of 2017. The levels of delinquency have stayed in historically low value, however, during 2018 it registered a considerable raise, reaching a 1.9% ratio of non-performing loans over total portfolio.

Our total deposits increased by 65% in 2018 in nominal value, at similar levels to those of the rest of the financial system as a whole, and a 12% increase in real terms compared to the total amount as of December 31, 2017. Regarding the composition of deposits, there was a larger growth in time deposits than in checking accounts, which were driven by larger nominal interest rates offered in 2018.

The Bank continues to be one of the four private entities with the highest volume of deposits and a market share of 6% of the financial system as a whole.

As of December 31, 2018 the Bank's liquidity reached Ps.135,961 million, registering an increase of 88% in nominal and achieving a 57.1% of liquidity ratio.

## YEAR ENDED DECEMBER 31, 2018 COMPARED TO YEAR ENDED DECEMBER 31, 2017

### Net income

The following table sets forth certain components of our statement of income for the years ended December 31, 2017 and 2018:

	Year ended December 31, 2017 (1) 2018 (in thousands of Pesos)		Change December 31, 2018-2017	
Interest income	55,826,695	74,733,441	18,906,746	34%
Interest expense	(16,971,578)	(29,563,908)	(12,592,330)	74%
<b>Net Interest Income</b>	<b>38,855,117</b>	<b>45,169,533</b>	<b>6,314,416</b>	<b>16%</b>
Commissions income	14,987,879	14,474,765	(513,114)	(3)%
Commissions expense	(1,113,684)	(930,045)	183,639	(16)%
<b>Net Commissions income</b>	<b>13,874,195</b>	<b>13,544,720</b>	<b>(329,475)</b>	<b>(2)%</b>
<b>Subtotal (Net Interests income + Net Commissions income)</b>	<b>52,729,312</b>	<b>58,714,253</b>	<b>5,984,941</b>	<b>11%</b>
Net Income from measurement of financial instruments at fair value through profit or loss	944,908	1,261,206	316,298	33%
Profit/ (Loss) from sold assets at amortized cost	18,885	(6,129)	(25,014)	(132)%
Difference in quoted prices of gold and foreign currency	2,252,700	(1,750,282)	(4,002,982)	(178)%
Other operating income	2,605,384	3,347,241	741,857	28%
Credit loss expense for financial assets	(2,613,724)	(2,900,048)	(286,324)	11%
<b>Net Operating Income</b>	<b>55,937,465</b>	<b>58,666,241</b>	<b>2,728,776</b>	<b>5%</b>
Total Operating Expenses	(32,580,603)	(34,617,063)	(2,036,460)	6%
<b>Net Operating Income after expenses, depreciation and amortization</b>	<b>23,356,862</b>	<b>24,049,178</b>	<b>692,316</b>	<b>3%</b>
Income from associates and joint arrangements	290,303	266,302	(24,001)	(8)%
Loss on net monetary position	(9,218,751)	(15,722,476)	(6,503,725)	71%
<b>Income before tax on continuing operations</b>	<b>14,428,414</b>	<b>8,593,004</b>	<b>(5,835,410)</b>	<b>(40)%</b>
Income tax on continuing operations	(8,408,808)	(9,327,117)	(918,309)	11%
<b>Net Income/(loss) from continuing operations</b>	<b>6,019,606</b>	<b>(734,113)</b>	<b>(6,753,719)</b>	<b>(112)%</b>

Our consolidated net income/(loss) from continuing operations for fiscal year ended as of December 31, 2018 shows a decrease of Ps. 6,753.7 million, or 112%, as compared to fiscal year ended as of December 31, 2017. This decrease was primarily attributable to a:

- A higher loss on net monetary position of Ps. 6,503.7 million or 71% increase.
- A decrease in difference in quoted prices of gold and foreign currency of Ps. 4,003 million, from a gain of Ps. 2,252.7 million in 2017 to a loss of Ps. 1,750.3 million in 2018 (178%), and
- An increase in operating expenses of Ps. 2,036.5 million or around 6%.

The aforementioned losses were partially offset by:

- An increase in net interest income of Ps.6,314.4 million or 16%, and
- An increase in other operating income of Ps.741.9 million or 28%.

## Interest income

The components of our interest income for the years ended December 31, 2017 and 2018 were as follows:

	Year ended December 31	
	2017	2018
	(in thousands of Pesos)	
Interest on Cash and bank deposits	21,347	27,750
Interest from government securities	8,935,362	20,321,505
Interest from debt securities	283,588	226,226
Interest on loans and other financing		
To the financial sector	813,777	1,428,390
To the non financial government sector	6,518	—
To the non financial private sector		
Interest on overdrafts	4,421,984	6,569,850
Interest on documents	3,027,789	4,008,412
Interest on mortgages loans	1,321,931	1,577,943
Interest on pledged loans	820,614	718,101
Interest on personal loans	23,268,886	25,279,696
Interest on credit cards	7,245,746	8,488,320
Interest on financial leases	172,340	197,267
Interest on other	4,367,596	5,440,110
Interest on Repos		
From the BCRA	1,057,405	32,070
Other financial institutions	61,812	417,801
<b>Total Interest Income</b>	<b>55,826,695</b>	<b>74,733,441</b>

Our interest income increased 34% or Ps. 18,906.7 million as compared to fiscal year ended December 31, 2017, mainly due to a higher interest from government securities and from private sector loans. Interest on loans increased 18%, or Ps.8,240.9 million, as a result of an increase of 49% in interest on overdraft, 25% in interest on other loans and 11% in interest from consumer loans. The average volume of overdrafts increased 30%, of other loans credit increased 27% and of consumer loans increased 52% in nominal values.

During the last six months of year 2018, nominal rates of the loans increased substantially, but such increase did not match the impact of inflation. For example, the origination interest rate of personal loans went from an average of 36% in year 2017 to an average of 48% in year 2018, with annual inflation of 47.6%. Only in the case of commercial loans, advances and documents, an increase in average interest rate above the inflation rate was observed.

Interest derived from government securities increased by 127%, or Ps.11,386.1 million, being the new Central Bank policy related to LELIQs which generated this increase. The average placements in instruments issued by the Central Bank increased approximately 117% in 2018. The nominal interest rates of these instruments increased on average more than 60% in such year.

## Interest expenses

The components of our interest expenses for the years ended December 31, 2017 and 2018 were as follows:

	Year ended December 31,	
	2017	2018
	(in thousands of Pesos)	
Deposits		
Interest on checking accounts	—	666,193
Interest on saving accounts	191,202	88,660
Interest on time deposits and investments accounts	14,952,398	25,575,984
Interest on financing received from Central Bank of Argentina and other financial institutions	71,397	149,037
Repo transactions	—	—
Other financial institutions	181,685	218,635
Deposits		
Interest on corporate bonds	780,202	1,812,532
Interest on subordinated bonds	750,003	994,991
Interest on other financial liabilities	44,691	57,876
<b>Total interest expense</b>	<b>16,971,578</b>	<b>29,563,908</b>



Interest expense increased 74% or Ps. 12,592.3 million as compared to 2017, mainly due to the time deposits portfolio.

Interest on deposits represented 89% of total interest expense and increased by 74% or Ps. 11,187.2 million, as compared to fiscal year ended December 31, 2017, with 95% of such increase being attributable to our portfolio of time deposits.

The increase in interest on deposits was mainly due to an increase on nominal interest rates during the last six months of fiscal year 2018, from 19% on average in fiscal year ended December 31, 2017 to 30% on average in fiscal year ended December 31, 2018 for time deposits in pesos. Additionally, during such period an important growth was observed in average volume of deposits, both in Pesos and in foreign currency.

Interest on corporate bonds increased by 132% or Ps. 1,032.3 million, due to the higher level of indebtedness. On April 9, 2018 Series C Notes were issued for a nominal amount of Ps.3,207,500,000, at a Badlar Privada Interest rate plus a 350 bps margin, which represented a charge of Ps.898.2 million.

Interest on subordinated bonds (Series A Notes) increased by Ps. 245 million or 33% compared to 2017, due to an increase in the average foreign exchange rate from Ps.16.5665 per dollar in 2017 to Ps.28.0937 per dollar in 2018, which was partially offset by the inflation adjustment.

### Net Commissions income

The following table provides a breakdown of our commissions income by category for the years ended December 31, 2017 and 2018:

	<b>Year ended December 31,</b>	
	<b>2017</b>	<b>2018</b>
	<i>(in thousands of Pesos)</i>	
Fee charged on deposit accounts	6,031,430	6,427,448
Debit and credit card fees	422,711	247,953
Fees on collection services	1,607,344	1,658,933
Insurance fees	1,006,368	954,214
Fees on private securities	642,984	548,621
Credit related fees	4,686,993	4,055,475
Fees related to transferable securities	103,393	104,209
Other fees related to foreign trade	249,865	290,760
Other	236,791	187,152
<b>Total commissions income</b>	<b>14,987,879</b>	<b>14,474,765</b>
<b>Total commissions expense</b>	<b>(1,113,684)</b>	<b>(930,045)</b>
<b>Net commissions income</b>	<b>13,874,195</b>	<b>13,544,720</b>

Net commission income decreased by 2%, or Ps.329.5 million in 2018, mainly due to a 3% decrease in total commissions income partially offset by a 16% decrease in total commissions' expense.

Total commissions income decreased by 3% or Ps. 513.1 million compared to fiscal year ended December 31, 2017, primarily due to the decrease in fees generated by credit related fees and by debit and credit cards fees. Although in 2018 there was an increase in activity and consumption, the evolution of maintenance fees and other commissions did not offset the inflationary effect.

### Difference in the price of gold and foreign currency

In fiscal year ended December 31, 2018, a decrease of 178% or Ps. 4,003 million was originated as the combination of two factors: i) the change of foreign exchange position, from a positive position (asset) in average in fiscal year 2017 to a negative position (liability) in average during fiscal year 2018 and ii) the increase in the exchange rate, from Ps.16.5665 annual average during fiscal year 2017 to Ps.28.0937 annual average in fiscal year 2018. The result of foreign currency trading increased in line with the increase in the exchange rate.

### Other operating income

Other operating income increased 28% or Ps.741.9 million, mainly due to the Ps. 703.5 million generated by the repurchase of notes issued by us (Ps.1,377,473,000 of Series B Notes and Ps.519,000,000 Series C Notes).

### Employee benefits and administrative expenses

The components of our administrative expenses for the years ended December 31, 2017 and 2018 are reflected in the following table:

	Year Ended December 31,	
	2017	2018
	(in thousands of Pesos)	
<b>Employee benefits</b>	<b>12,536,276</b>	<b>12,476,567</b>
<b>Administrative Expenses</b>	<b>7,631,898</b>	<b>8,273,181</b>
Taxes	1,181,146	1,109,700
Maintenance, conservation and repair expenses	968,284	1,094,844
Fees to directors and statutory audits	720,597	869,805
Security services	875,748	865,319
Electricity and communications	569,353	711,516
Other fees	580,273	678,334
Leases	368,112	398,126
Advertising and publicity	372,953	362,895
Representation, travel and transportation expenses	134,335	139,703
Stationery and office supplies	70,626	71,306
Insurance	73,615	74,625
Hired administrative services	29,494	22,212
Other	1,687,362	1,874,796
<b>Total Administrative Expenses</b>	<b>20,168,174</b>	<b>20,749,748</b>

Employee benefits and administrative expenses increased by 3%, or Ps.581.6 million, in 2018, due to an increase in electricity and communications expenses (25%) as a result of the tariff adjustment and the increase in the fees paid to directors and members of the supervisory committee.

### Other operating expenses

Other operating expenses increased 13% or Ps1,388 million mainly due to an increase in gross income taxes and municipal fees, as a result of higher revenue from computable services and, to a lesser extent, an increase in quotes and the applicable interest rates.

### Loss on net monetary position

The loss generated by the net monetary position in fiscal year 2018 was 71% higher than that recorded in 2017, going from recording a loss of Ps. 9,218.8 million in 2017 to a loss of Ps. 15,722.5 million in 2018. The net monetary position as of December 31, 2018 was 13% higher than the net monetary position as of December 31, 2017, due to: an increase of 96% in cash and deposits in banks, 81% in government and private securities 41% in loans partially offset by an increase of 65% in deposits. Likewise, the inflation rate went from 24.8% in 2017 to 47.6% in 2018.

### B. Liquidity and Capital Resources

Our main source of liquidity consists of deposits, which totaled Ps.237,954.4 million as of December 31, 2018 and Ps.212,800.4 million as of December 31, 2017. These deposits include deposits generated by our branch network, from institutional, very large corporate clients and from provincial governments for whom we act as financial agent. We consider the deposits generated by our branch network and the provincial deposits to be stable.

Approximately 8% of our total deposits as of December 31, 2018 were derived from the non-financial public sector, in particular as a consequence of the Bank's role as financial agent of four provinces. This is an important source of low-cost funding.

Total deposits, which grew 12% in 2018 compared to 2017, represented 82% of our total liabilities as of December 31, 2018. Deposits were used primarily to finance the growth in credit made available to the private sector and the balance was invested in liquid assets. This approach has enabled us to maintain a high liquidity to deposits ratio while we await a return to stronger demand for private sector loans.

As of December 31, 2018, we had liquid assets up to Ps.135,960.6 million, primarily comprised of cash and due from banks (Ps.74,766 million) and LELIQS (Ps.55,069.9 million). During 2018, the liquidity ratio increased from 50.2% as of December 31, 2017 to 57.1% as of December 31, 2018. Our liquidity ratio exceeds the aggregate liquidity ratio of the Argentine financial system as a whole.

On November 4, 2016, we issued our 6.75% Subordinated Resettable Series A Notes due 2026, for a nominal amount of U.S.\$400 million. In addition, on May 8, 2017, we issued our 17.50% Class B Notes due 2022, for a nominal amount of Ps.4,620.6 million, and on April 9, 2018 we issued our Class C Notes, at a Badlar Rate, plus 3.5% due 2021, for a nominal amount of Ps.3,207.5 million.

Additionally, on April 27, 2018, the Shareholders' Meeting decided to increase the maximum nominal value of our Global Notes Program from U.S.\$ 1,500 million to U.S.\$ 2,500 million or its equivalent in other currencies.

On October 17, 2018, the Board of Directors decided to cancel Series B Notes for a nominal value of Ps.1,229.5 million, equivalent to the amount of purchases of this issuance as of that date. As of the date of this annual report and after the date indicated in the preceding paragraph, we have made purchases for a nominal value of Ps. 148 million, with an outstanding nominal value of Ps. 3,243.1 million.

As of the date of this annual report, we have made purchases of our Series C Notes for a nominal value of Ps. 519 million, leaving an outstanding nominal value of Ps.2,688.5 million.

Additionally, we currently have access to uncommitted lines of credit with foreign banks and to letters of credit. We manage the excess liquidity by analyzing interest rates from a limited number of liquid and short-term assets including Central Bank bills, deposits with the Central Bank and overnight loans to highly rated companies. The amount allocated to overnight loans is determined by the amount of deposits received from institutional investors, and as such, there is a high degree of volatility in our overnight allocations.

Lastly, in June 2017, we completed a capital increase through a primary public offering of Series B common shares in Argentina and a SEC registered offering in the United States of America of ADSs for a total of 74,000,000 shares for a value of U.S.\$666 million; subsequently the international underwriters exercised the oversubscription option, for which 11,099,993 additional shares were issued for U.S.\$100 million.

We believe that we have adequate working capital to meet our current and reasonably foreseeable needs. As of December 31, 2018, we had excess regulatory capital of Ps.45,676 million. Our excess capital is aimed at supporting growth, and consequently, a higher leverage of our balance sheet.

For further information regarding management and administration guidelines in relation to liquidity risk please note 50 "Capital Management, Corporate Governance Transparency and Risk Management" to our audited consolidated financial statements as of December 31, 2018 and 2017. Additionally, for further information regarding our restricted assets and trust agreements please see notes 42 "Restricted assets" and 43 "Trust activities" to our audited consolidated financial statements as of December 31, 2018 and 2017.

### Minimum capital requirements

Our excess capital (representing the amount in excess of minimum reserve requirements of the Central Bank) is as set forth in nominal value in the following table:

	As of December 31,	
	2017 (1)	2018
<i>(in thousands of Pesos, except ratios and percentages)</i>		
<b>Calculation of excess capital:</b>		
Allocated to assets at risk	11,023,213	15,609,273
Market risk	184,406	212,280
Operational risk	3,219,309	4,615,577
<b>Required minimum capital under Central Bank Rules</b>	<b>14,426,928</b>	<b>20,437,130</b>
Ordinary capital Level 1 (Con1)	41,709,067	52,285,150
Deductible concepts COn1	(1,021,975)	(3,046,813)
Additional capital Level 1 (CAn1)	18,074	120
Capital Level 2 (COn2)	8,836,474	16,874,710
<b>Total capital under Central Bank Rules</b>	<b>49,541,640</b>	<b>66,113,167</b>
Excess capital	35,114,712	45,676,037

(1) These amounts are not adjusted for inflation.

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2018</b>
<b>Selected capital and liquidity ratios:</b>		
Regulatory capital/risk weighted assets	28.10%	26.47%
Average shareholders' equity as a percentage of average total assets	20.11%	20.21%
Total liabilities as a multiple of total shareholders' equity	3.71x	4.77x
Cash as a percentage of total deposits	24.67%	31.42%
Liquid assets as a percentage of total deposits (1)	50.20%	57.10%
Loans as a percentage of total assets	57.94%	51.01%

(1) Liquid assets include cash, cash collateral, reverse repos, instruments issued by Central Bank and interfinancing loans.

As of December 31, 2018, we had no material commitments for capital expenditures. We believe that our capital resources are sufficient for our present capital requirements on an individual and a consolidated basis.

## Funding

Our principal source of funding is mainly deposits from individuals and corporate clients located in Argentina. Deposits include checking accounts, savings accounts and time deposits. The following table sets forth our sources of funding as of December 31, 2017 and 2018.

	<b>As of December 31,</b>	
	<b>2017 (1)</b>	<b>2018</b>
	<i>(in thousands of Pesos)</i>	
<b>Deposits</b>		
From the non-financial government sector	19,032,549	19,354,087
From the financial sector	120,123	148,275
From the non-financial private sector and foreign residents		
Checking accounts	30,678,701	24,435,104
Savings accounts	65,750,239	68,696,031
Time deposits	92,091,990	121,102,019
Investment accounts (2)	63,417	150,152
Other (3)	5,063,352	4,068,751
<b>Financing received from the Central Bank of Argentina and other financial entities</b>		
Central Bank	16,960	24,427
Banks and international institutions	247,126	2,598,810
Financing received from Argentine financial entities	1,469,438	374,773
<b>Other Financial Liabilities</b>	15,593,151	15,318,513
<b>Unsubordinated Corporate Bonds</b>	6,957,379	6,377,311
<b>Subordinated Corporate Bonds</b>	11,170,509	15,288,390
<b>Shareholders' equity</b>	71,751,594	60,910,834
<b>Total funding</b>	<b>320,006,528</b>	<b>338,847,477</b>

- (1) *Figures stated in thousands of pesos adjusted for inflation as of December 31, 2018. See “Presentation of certain financial and other information.”*
- (2) *Time deposit payable at the option of the depositor.*
- (3) *Includes, among others, expired time deposits and judicial deposits.*

### **Critical accounting policies**

Our audited consolidated Financial Statements are prepared in accordance with IFRS as issued by IASB. The preparation of our consolidated Financial Statements require management to make, in certain cases, estimates and assumptions to determine the book value of assets and liabilities, income, expenses and contingencies. Our financial position and results of operations are based on the best estimate regarding the probability of occurrence of different future events and, thereof, the final amount may differ from such estimates, which may have a positive or negative impact on future years.

Critical accounting policies are those accounting policies that require management to make estimates based on assumptions about matters that are highly uncertain at the time the estimate is made and such estimates reasonably could have a material effect on the financial condition. Several factors are considered in determining whether or not a policy is critical in the preparation of our financial statements. These factors include, among others, whether the estimates are material to our financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including information from third parties or available prices, and sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized. Note 3 to our audited consolidated Financial Statements contain a summary of our significant accounting policies. See also section “Accounting judgement, estimates and assumptions” of Note 3 for a discussion of our critical accounting estimates.

### *First Time Adoption of IFRS*

Our Management considered the IFRSs that are applicable to the preparation of these consolidated financial statements that are the first annual consolidated financial statements that are presented in accordance with IFRS, but applying the exceptions and exemptions under IFRS 1 described below:

#### *Optional exemptions*

- Business combinations:

We decided not to apply IFRS 3 “Business Combinations” retroactively to the acquisition of subsidiaries (that are deemed businesses), investments in associates and interests in joint ventures occurred before January 1, 2017 (date of transition).

Using this exemption implies that the carrying amounts of assets and liabilities measured pursuant to the BCRA standards, and that must be recognized in accordance to the IFRSs, are the cost thereof attributed as of the acquisition date. After the acquisition date, measurements shall be made in accordance with the IFRS. Assets and liabilities that do not qualify to be recognized as such according to the IFRSs are excluded from the opening statement of financial position. In this sense, no previous amount which would have been recognized according to the BCRA standards was excluded and no amount which was not previously recognized has been recognized, pursuant to the BCRA standards. IFRS 1 also establishes that the carrying amount of goodwill measured according to the BCRA standards shall be included in the opening statement of financial position, regardless of the adjustments for impairment and for recognition or de-recognition of certain intangible assets that qualify or not to be recognized as such according to IAS 38 “Intangible Assets”.

- Use of fair value as deemed cost for an item of property, plant and equipment and investment properties:

Properties and properties under construction were measured in the opening statement of financial position as of January 1, 2017 (date of transition) at fair value, determined on the basis of valuations made to such date by an independent appraiser who holds a recognized and relevant professional qualification. We chose to use these values as carrying amount at the date of transition. After the date of transition, measurement of items of property, plant and equipment and investment property were made in accordance with IAS 16 “Property, Plant and Equipment” and IAS 40, respectively. To such effect, the Bank has chosen the cost model provided for under such standards.

- Accumulated translation differences:

We decided to consider as zero accumulated currency translation differences as of January 1, 2017 (date of transition), for the foreign subsidiary Macro Bank Limited.

Fair value measurement of financial assets at initial recognition:

For the presentation of the carrying amounts at the date of transition, related to the acquisition of loan portfolio, we decided to go for the exemption contemplated in paragraph D of IFRS 1 and recognized prospectively the cost of transactions related to such acquisitions.

- Allowances:

We applied the short term exception E2 of IFRS 1, and measured the allowances of financial instruments as of December 31, 2017 and January 1, 2017 in accordance with BCRA rules.

We have not used other optional exemptions available under IFRS 1.

#### *Obligatory exceptions*

- Estimates

The significant accounting judgments, estimates and assumptions made by the our management to determine the amounts according to the IFRS as of January 1, 2017 (date of transition), and as of December 31, 2017, were consistent with those made as of the same dates according to the previous BCRA standards and reflect the current conditions as of the respective dates.

- Non-controlling interests

The total comprehensive income of subsidiaries was attributed to the owners of the parent company and to the non-controlling interests, from January 1, 2017 (date of transition).

#### *Income tax*

In estimating accrued taxes, we assess the relative merits and risks of the appropriate tax treatment considering statutory, judicial and regulatory guidance in the context of the tax position.

On December 29, 2017, the Federal Executive signed Tax Reform Law No. 24,430. Significant matters related to the tax reform are discuss in Note 3.13) to our audited consolidated financial statements.

Because of the complexity of tax laws and regulations, interpretation can be difficult and subject to legal judgment. It is possible that others, given the same information, may reach different reasonable conclusions regarding the estimated amounts of accrued taxes.

Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of the status of examinations being conducted by various taxing authorities, and newly-enacted statutory and regulatory guidance that impact the relative merits and risks of tax positions. These changes, when they affect accrued taxes, can be material to our operating results.

There were no unrecognized tax benefits as of December 31, 2018 and 2017.

#### *Contingent liabilities*

In the normal course of business, we are a party to lawsuits of various types. We disclose contingent liabilities with respect to existing or potential claims, lawsuits and other legal proceedings and record an accrual for litigation when it is probable that future costs will be incurred and these costs can be reasonably estimated. These accruals are based on the most recent developments, our evaluation of the merit of each claim, our assessment of the likely outcome of the litigation and our counsel's advice in dealing with, litigating and settling this and other similar legal matters. Thus, these determinations are based on certain assumptions from our management. Changes to the accrual may be necessary if future events differ substantially from the assumptions used in the assessment for each period. Our audited consolidated financial statements provides information about the contingent liabilities.

### *Fair Value of financial instruments*

As described in Note 3 section “Statement of financial position disclosures” to our audited consolidated Financial Statements, a portion of our financial assets and liabilities are measured at fair value.

The fair value is the amount at which an asset can be exchanged, or at which a liability can be settled, in mutual independent terms and conditions between participants of the principal market (or most advantageous market) duly informed and willing to transact in an orderly and current transaction. The valuation of financial instruments often involves a significant degree of judgement and complexity, in particular where valuation models make use of unobservable inputs

To measure fair value, IFRS has established a three-level hierarchy to prioritize the valuation input among (1) quoted prices (unadjusted) for identical assets or liabilities in an active market that we have the ability to access, (2) other than quoted prices that are observable for the asset or liability, either directly or indirectly and (3) prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management’s own assumptions about the assumptions a market participant would use in pricing the asset or liability.

When observable quoted prices are not available, fair value is based upon internally developed valuation techniques that use quoted prices for similar assets or liabilities in active markets. For instruments classified in Levels 1 and 2, where inputs are principally based on observable market data, there is less judgment applied in arriving at the fair value measurement.

For assets and liabilities that do not have similar or identical instruments traded in the market we used an internally developed model to measure significant instruments. Those instruments would be classified as Level 3 of the fair value hierarchy, which requires significant management judgment or estimation. In arriving at an estimate valuation policies and procedures for Level 3 instruments (in our case mainly debt securities and derivative instruments) are under the direction of the accounting and financial management.

Management is in charge of developing, reviewing, approving and monitoring the key model inputs, critical valuation assumptions and proposed discount rates utilized for the valuation of Level 3 instruments. In addition, the management is also in charge of monitoring the changes in fair values of Level 3 instruments from period to period.

Our management believes its valuation approach and techniques are appropriate and consistent with other market participants, however, the use of different methodologies, or assumptions, to determine the fair value could result in a different estimate or fair value at different reporting dates. For further details, see also Note 9 to our audited consolidated Financial Statements.

### *Impairment of financial assets*

#### Expected credit loss (Policy applicable from January 1, 2018)

The adoption of IFRS 9, as from January 2018, has changed our accounting for loan loss impairments by replacing the incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires us to record an allowance for ECLs for all loans and other debt financial assets not held at Fair Value through Profit or Loss (FVPL), together with loan commitments and financial guarantee contracts. Inherent in any expected credit loss model is the estimate of the probability that a loan will default (probability of default, or PD), the estimate of the loss the bank expects to experience upon a default, expressed as a percentage of loan amount (loss given default, or LGD) and the drawn exposure at the time of default (EAD). The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months expected credit loss.

Considering that the measurement of ECL is based not only on relevant information about past events, including historical experience, and current conditions, but also on reasonable and supportable forecasts that affect the collectability of the reported amount, our management developed assumptions and estimations for its calculation. For further detail regarding our impairment method and its quantitative impact, see also Note 3.2.4. and Note 50.1 to our audited consolidated Financial Statements.

#### Allowance for loan losses (Policy applicable before January 1, 2018)

Pursuant to Central Bank Rules, a bank must classify its loan portfolio into two categories: consumer and commercial portfolio. Under each of these categories, customers are included within one of six sub-categories depending on the credit quality and the fulfillment of its obligations. A minimum allowance for loan losses is required to be established primarily based upon this classification and guarantees and collateral, supporting the transactions.

Determining the credit loss reserve requires significant management judgments and estimates. According to Central Bank Rules, for consumer portfolio, management must classify each customer based primarily on delinquency aging with us and the financial system.

For commercial portfolio, management must analyze the borrowers' operating and payment history, ability to service its debt, its internal information and control systems and the risk of the sector in which it operates.

Central Bank Rules allows us to establish additional allowances for loan losses and changes loan classification, as the case may be, based on management's risk management policies. Our management determines increase or decrease in allowances based on repayment estimates. International and local macroeconomic conditions generate a certain degree of uncertainty regarding future progress as a result of the contractions in growth levels, the volatility of financial assets and the foreign exchange market, among other issues, which has been observed with various degrees of intensity over the last few years. This scenario leads us to the assumption that some of the loans that currently make up our portfolio might sustain an impairment value.

#### *Inflation adjustment*

As described in detail in Note 3 section "Measuring unit" to our audited consolidated Financial Statements, Argentina is considered a hyper-inflationary economy under the terms of IAS 29 since the triennial cumulative inflation for 2018 exceeded 100%.

IAS 29 requires that the financial statements should be restated with the aim of considering changes in the general purchasing power of the currency, so that they are expressed in the measuring unit current at the end of the reporting period. Those requirements also include the comparative information of our audited consolidated Financial Statements. Therefore, the restatement was applied as if the economy had always been hyperinflationary; using a general price index that reflects changes in general purchasing power.

The restatement mechanism establishes that monetary assets and liabilities will not be restated since they are already expressed in the measuring unit current at the end of the reporting period. Assets and liabilities subject to adjustments based on specific agreements will be adjusted in accordance with such agreements. The non-monetary items measured at their current values at the end of the reporting period, such as the net realization value or others, do not need to be restated. The remaining non-monetary assets and liabilities will be restated by a general price index. The gain or loss from the net monetary position is included in the profit of the reporting period, revealing this information in a separate line item.

#### **C. Research and Development, Patents and Licenses, Etc.**

We incur research and development expenses in connection with information technology projects. The amount spent during each of the last three years was not material. We plan infrastructure development (processing, telecommunications, Internet, information security) based upon present and projected future demand of such services. See Item 4. "*Information on the Bank—Business Overview—Technology*".

#### **D. Trend Information**

We believe that the macroeconomic environment and the following trends in the Argentine financial system and in our business, have affected and will, for the foreseeable future, continue to affect our results of operations and profitability. Our continued success and ability to increase our value to our shareholders will depend, among other factors, upon the economic growth in Argentine economy and the corresponding growth of the market for long-term private sector lending. For information about the macroeconomic environment see Item 5.A. "*Operating Results*". For information about the Argentine financial system see "*The Argentine Financial System*".

For 2019 we expect the economic growth to continue to slow down, showing some decline in real terms, inflation to be below last year's level but still high and therefore, maintaining interest rates at nominally high levels. In addition, we forecast deposits and loans to grow similar to inflation levels while margins will remain wide. Moreover, efficiency measured as expenses over net financial and fee income is expected to be stable.

The increase in credit in Argentina offers strong prospects for the future due to the low penetration in the current market. Penetration is low both in respect of consumer loans and commercial loans, with loans comprising 16% of GDP, a percentage less than various other countries in the region (regional average 35%). Argentina has the second highest GDP in the region, and the informal sector is less significant than in other countries, which suggests that the conditions exists for further growth in the banking sector when adequate policies are implemented, and levels of inflation and rates are normalized.

The uncertainty resulting from the 2019 presidential election in October is likely to result in overly-cautious economic decision making within the current Argentine government. For further information, please see "*Risk Factors—Risk relating to Argentina—The result of the elections upcoming in Argentina is uncertain, which creates uncertainty in the Argentine economy and consequently in our business and the results of our operations.*"



## The Argentine Financial System

The Argentine financial system has maintained a consistent positive trend in the last years with our performance improving accordingly, as evidenced by the following indicators:

	As of December 31, 20172018 (In millions of Pesos)	
Financial System (Central Bank Rules) (1)		
Total loans	1,737,093	2,365,472
Total deposits	2,445,998	4,084,868
Banco Macro (Central Bank Rules) (1)		
Total loans	131,709	178,875
Total deposits	144,129	237,954
Banco Macro (IFRS)		
Total loans	198,382	182,113
Total deposits	212,800	237,954

Source: Central Bank for Financial System. See "Market and Central Bank Data".

(1) Figures detailed in the table above have not been adjusted for inflation.

Total loans in the financial system increased 36% in 2018, and amounted to Ps.2,365.5 billion as of December 31, 2018, driven by private sector loans. Our portfolio shows the same trend in nominal value that the financial system as a whole shows.

Total deposits in the financial system increased by 67% in 2018, driven by private sector deposits. Private sector deposits increased by 61% in 2018, amounting to Ps.3,161.1 billion as of December 31, 2018. Public sector deposits increased by 88% in 2018, amounting to Ps.857.4 billion. Our portfolio shows the same trend in nominal value that the financial system as a whole shows.

The level of deposits from the private sector of the financial system, decreased 4.8% inter-annual and the credit exposure of the financial system, decreased during 2018 in real terms.

The evolution of our portfolio in real values, shows a 12% increase in the deposits portfolio but the loans portfolio decreased 8% in real terms.

### Private sector lending

In 2018, loans to the private sector grew 36% in nominal values for the financial system as a whole. This trend was also reflected in the evolution of our portfolio. Our private sector loan portfolio increased also 35% in nominal value compared to the balance as of December 31, 2017, as shown in the following table:

	As of December 31, 20172018	
	(In millions of Pesos)	
Financial System (Central Bank Rules) (1)		
Private sector loans	1,655,049	2,254,468
Banco Macro (Central Bank Rules) (1)		
Private sector loans	125,930	170,807
Banco Macro (IFRS)		
Private sector loans	190,900	174,805

Source: Central Bank for Financial System. See "Market and Central Bank Data".

(1) Figures detailed in the table above have not been adjusted for inflation.

In real terms, there was an 18% decrease in the financial system private sector loans denominated in pesos, while loans in foreign currency showed a slight increase above 1.8%, compared to 2017. We observe this same behavior on our portfolio with a decrease in the balance of loans to the private sector in real terms, which is evidenced in the balances according to IFRS.

### Asset Quality

As of December 31, 2018, the non-performing credit portfolio level reached 3.0% of the total credit portfolio, whereas the coverage ratio level reached 120% across the financial system as a whole, based on Central Bank Rules. Although the non-performance ratio of the portfolio has increased in comparison with the previous year, it remains low both in historical terms and with respect to the values observed in other economies of the region and emerging economies. Regarding the coverage ratio, the provisioning levels of the financial system continue to be high.

Our figures evidence a tendency which is in line with the trend shown by the financial system, the ratio of non-performing portfolio reached a level of 1.9% while the coverage ratio amounted to 118%, as of December 31, 2018, based on Central Bank Rules.

The table below reflects our asset quality and that of the financial system as of December 31, 2017 and 2018:

	As of December 31	
	2017	2018
<b>Financial System (Central Bank Rules)</b>		
Allowances/lending (1)	2.3%	3.6%
Non-performing lending ratio (2)	1.7%	3.0%
Coverage ratio (3)	151%	120%
<b>Banco Macro (Central Bank Rules)</b>		
Allowances/lending (1)	2.0%	2.3%
Non-performing lending ratio (2)	1.1%	1.9%
Coverage ratio (3)	182%	118%
<b>Banco Macro (IFRS)</b>		
Allowances/lending (4)		2.1%
Non-performing lending ratio (5)		1.9%
Coverage ratio (6)		112%

Source: Central Bank for Financial System. See "Market and Central Bank Data".

- (1) Allowances as a percentage of total credit portfolio. Credit portfolio includes loans, other receivables from financial transactions, financial leases, memorandum accounts—other guarantees provided, and unused portion of loans granted (included in Debtors Rating Standards).
- (2) Non-performing lending includes all lending to borrowers classified as "3—troubled/medium risk," "4—with high risk of insolvency/high risk," "5—irrecoverable" and "6—irrecoverable according to Central Bank Rules" under the Central Bank loan classification system.
- (3) Allowances for un-collectability risk as a percentage of non-performing credit portfolio.
- (4) Allowances for ECL/impairment losses as a percentage of total credit portfolio.
- (5) Non performing lending includes lending in stage 3 based on the internal rating grade.
- (6) Allowances for ECL/impairment losses as a percentage of total non-performing credit portfolio based on internal rating grade (stage 3).

## Profitability

In 2018 the profitability of the financial system increased by 121%, achieving a total of Ps.172,106 million as of December 31, 2018, representing a 3.9% return on assets and 34.4% on equity.

The table below reflects our profitability and that of the financial system as of December 31, 2017 and 2018:

	As of December 31,	
	2017	2018
<b>Financial System (Central Bank Rules) (1)</b>		
Total comprehensive income (in millions of Pesos)	77,709	184,719
Return on average equity	23.4%	36.8%
Return on average assets	2.7%	4.1%
<b>Banco Macro (Central Bank Rules) (1)</b>		
Total comprehensive income (in millions of Pesos)	10,290	16,115
Return on average equity	31.4%	31.3%
Return on average assets	5.7%	6.0%
<b>Banco Macro (IFRS)</b>		
Total comprehensive income (in millions of Pesos)	5,939	(805)
Return on average equity	9.2%	(1.2)%
Return on average assets	1.8%	(0.2)%

Source: Central Bank for Financial System. See "Market and Central Bank Data".

(1) Figures detailed in the table above have not been adjusted for inflation.

## Commercial and balance sheet strategies

We have the most extensive branch network among private-sector banks in Argentina, with 94% of our branches located outside of the City of Buenos Aires. Our extended presence in Argentine regional economies and sectors that have benefited from Argentina's economic recovery grant us a key advantage with respect to other banks in terms of competing in the credit expansion service in Argentina. In addition, our strong network of branches and our role as the financial agent of various provinces provide us with a source of growth and low cost in our deposit base.

We will continue our diversification strategy regarding the credit portfolio, thus enabling to obtain satisfactory efficiency, growth, security and profitability in commercial management. We will continue to focus our assistance to small and medium-sized enterprises, emphasizing the election of dynamic economic sectors and growth potential in industrial, commercial and service areas for the purpose of contributing to companies' expansion and ensuring an acceptable return of the funds assigned. At the same time, we will also offer these enterprises a complete range of corporate financial services, including exports and imports financing, letters of credit confirmation and opening, and granting guarantees to third parties on behalf of its customers.

We maintain a strong position with respect to excess capital, the liquidity ratio and the level of our provisions for loan losses. To prevent a run on deposits, one of our main priorities is to give depositors confidence that we would be able to absorb losses and fulfill our obligations to them.

Our practice of maintaining high liquidity levels throughout the business cycles has allowed us to withstand the economic crisis by serving two key purposes. First, we have funds available in the face of adverse systemic events. Second, we give our depositors confidence that they would be able to have access to their deposits at any time, even during the depth of a crisis. We also minimize excess cash deposited in the Central Bank, without harming our overall liquidity position. In this way, we maximize the return on our liquidity stock by keeping funds in more profitable assets, such as instruments issued by the Central Bank.

## E. Off-Balance Sheet Arrangements

We enter into various transactions involving off-balance sheet financial instruments and we use these instruments to meet the risk management, trading and financing needs of customers or for our proprietary trading and asset and liability management purposes.

These instruments are subject to varying degrees of credit and market risk. We monitor credit risk and market risk associated with on- and off-balance sheet financial instruments on an aggregate basis. We use the same credit policies in determining whether to enter or extend option contracts, commitments, conditional obligations and guarantees as we do for granting loans. Our management believes that the outstanding off-balance sheet items do not represent an unusual credit risk.

For additional information of financial instruments with off-balance sheet risk see note 47 “Off balance sheet transactions” to our audited consolidated financial statements as of and for the three years ended December 31, 2018.

## F. Contractual Obligations

The following table represents our contractual obligations and commercial commitments as of December 31, 2018:

		Maturing			
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
		(in thousands of Pesos)			
Contractual Obligations					
Financing received from the Central Bank of Argentina and other financial entities	2,998,010	2,827,666	131,773	38,571	—
Issued Corporate Bonds	6,377,311	305,759	2,690,500	3,381,052	—
Subordinated Corporate Bonds	15,288,390	165,070	—	—	15,123,320
Other Financial Liabilities	15,318,513	15,172,438	139,287	6,788	—
Operating Leases	627,078	277,460	275,310	47,258	27,050
Total contractual obligations	40,609,302	18,748,393	3,236,870	3,473,669	15,150,370
Commercial commitments					
Lines of credit	634,288	634,288	—	—	—
Guarantees	940,990	808,264	128,872	3,854	—
Standby letters of credit	256,788	256,788	—	—	—
Total commercial commitments	1,832,066	1,699,340	128,872	3,854	—

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

We are managed by our Board of Directors, which as of the date of this annual report is comprised of 13 members and 3 alternate members. On April 16, 2012, our shareholders approved a proposal of the Board of Directors and amended our bylaws increasing the maximum size of our Board from 12 to 13 members. Currently, the shareholders may present at any annual ordinary meeting that may determine the size of the Board of Directors, provided that there shall be no less than three and no more than thirteen members of the Board of Directors. Any director so appointed will serve for three fiscal years. If the shareholders elect more than nine board members, each director will be reelected as a staggered board, to be renewed by thirds, provided that in all cases no less than three directors shall be renewed each time. The annual ordinary shareholders’ meeting may also appoint an equal or lesser number of alternate directors, to hold office for the same term than regular directors, to fill any vacancy in the board occurring for any reason whatsoever, and shall further determine the order of substitution. Alternate directors shall hold office until the regular directors in whose place they have acted as substitutes shall resume office, and in case any such absence is permanent, until the next ordinary meeting of shareholders where at directors shall be appointed. Both regular and alternate directors may be re-elected indefinitely.

### DUTIES AND LIABILITIES OF DIRECTORS

Under Argentine Corporate Law, directors have the obligation to perform their duties with the loyalty and the diligence of a prudent business person. Directors are jointly and severally liable to a corporation, the shareholders and third parties for the improper performance of their duties, for violating the law, the bylaws and/or regulations, if any, and for any damage caused by fraud, abuse of authority or gross negligence. The following are considered integral to a director’s duty of loyalty: (i) the prohibition on using corporate assets and confidential information for private purposes; (ii) the prohibition on taking advantage, or to allow another to take advantage, by action or omission, of the business opportunities of the Bank; (iii) the obligation to exercise board powers only for the purposes for which the law, the corporation’s bylaws or the shareholders’ or the Board of Directors’ resolutions have intended; and (iv) the obligation to take strict care so that acts of the board do not go, directly or indirectly, against the Bank’s interests. A director must inform the Board of Directors and the supervisory committee of any conflicting interest he may have in a proposed transaction and must abstain from voting thereon.

Under Argentine law, the Board of Directors is in charge of our management and administration and, therefore, makes any and all decisions in connection therewith, as well as those decisions expressly provided for in the Argentine Corporate Law, the Bank's bylaws and other applicable regulations. Furthermore, the board is generally responsible for the execution of the resolutions passed by shareholders' meetings and for the performance of any particular task expressly delegated by the shareholders.

## BOARD OF DIRECTORS

The following table sets forth certain relevant information of the members of the date of this annual report:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Year First Appointed as Director</u>	<u>Year of Expiration of Term</u>
Delfin Jorge Ezequiel Carballo	Chairman	66	2002	2020
Jorge Pablo Brito	Vice Chairman	39	2002	2021
Marcos Brito	Director	36	2007	2019
Carlos Alberto Giovanelli	Director	62	2016	2021
Nelson Damián Pozzoli	Director	52	2016	2021
Fabián Alejandro de Paul (1)	Director	62	2016	2021
Martín Estanislao Gorosito (1)(2)	Director	35	2016	2021
Constanza Brito	Director	37	2007	2020
Mario Luis Vicens (1)	Director	67	2016	2020
Juan Martín Monge Varela (1)(2)	Director	43	2017	2020
Guillermo Eduardo Stanley	Director	71	2018	2020
Delfin Federico Ezequiel Carballo	Director	34	2015	2019
Alejandro Eduardo Fargosi (1)(2)	Director	64	2016	2019
Santiago Horacio Seeber	Alternate Director	42	2018	2021
Alejandro Guillermo Chiti (1)(2)	Alternate Director	40	2018	2021
Alan Whamond (1)	Alternate director	57	2019	2021

(1) Independent Director under CNV Rules

(2) Proposed by ANSES-FGS.

The following family relationships existed during 2018 or currently exist within our Board of Directors:

- (i) Jorge Pablo Brito and Marcos Brito are the nephews of Delfin Jorge Ezequiel Carballo;
- (iii) Constanza Brito is the niece of Delfin Jorge Ezequiel Carballo;
- (iv) Jorge Pablo Brito, Marcos Brito and Constanza Brito are siblings;
- (v) Delfin Federico Ezequiel Carballo is the son of Delfin Jorge Ezequiel Carballo;
- (vi) Delfin Federico Ezequiel Carballo and Jorge Pablo Brito, Marcos Brito and Constanza Brito are cousins.

## SENIOR MANAGEMENT

Our senior management oversees our day-to-day operations to ensure that our overall strategic objectives are being implemented. The actual composition is a deputy general manager that reports to the Board of Directors and Senior managers that report to the general manager. In addition, we have, among others the following committees comprised of different directors and senior management:

- internal audit committee,
- systems committee,
- senior credit committee,
- assets and liabilities committee,
- anti-money laundering committee,
- senior recovery committee,
- risk management committee,

- ethics and compliance committee,
- corporate governance and appointments committee,
- personnel incentives committee,
- crisis committee, and
- financial services users protection committee

The following table sets forth certain relevant information on our executive officers and our senior management, of the date of this annual report:

Name	Position	Age
Gustavo Alejandro Manriquez	Chief Executive Officer and General manager	49
Jorge Francisco Scarinci	Chief Financial Officer and Finance manager	49
Gerardo Adrián Álvarez	Administration Manager	48
Brian Anthony	Management control and strategic planning manager	46
Agustín Devoto	Investment Banking Manager	43
Alberto Figueroa	Comprehensive risk management manager	58
Martín Kaplan	Commercial Banking Manager	50
Ana María Magdalena Marcet	Credit risk manager	58
Juan Domingo Mazzon	Government Banking Manager	45
Ernesto Eduardo Medina	Human resources manager	52
María Milagro Medrano	Institutional relations and customer services manager	42
Ricardo Mendoza Albán	Operations and System Manager	50
Francisco Muro	Distribution and sales manager	46
Adrián Mariano Scosceria	Corporate Banking Manager	53
María José Van Morlegan	Legal manager	44

Set forth below are brief biographical descriptions of members of our directors and our senior management:

*Delfín Jorge Ezequiel Carballo* was born on November 21, 1952. Mr. Carballo is the chairman of the Board of Directors since April 27, 2018. He was the vice chairman of our Board of Directors until April 23, 2015 and was reappointed vice chairman on April 26, 2016. He holds a law degree from the Law School of Universidad Católica Argentina. He joined our board in June 1988. Mr. Carballo also serves as chairman of the Board of Directors of Santa Genoveva S.A., as vice chairman of Banco del Tucumán and as alternate director of BYMA S.A.

*Jorge Pablo Brito* was born on June 29, 1979. Mr. Brito is the vice chairman of our Board of Directors since April 27, 2018. He has been a member of our Board of Directors since 2002 and our Chief Financial Officer since April 16, 2012 until November 8, 2017. He also serves as chairman of the Board of Directors of Macro Securities S.A. and Genneia S.A., as vice chairman of the Board of Directors of Inversora Juramento S.A. and as incumbent director of Banco del Tucumán and Macro Bank Limited.

*Marcos Brito* was born on October 5, 1982. He has been a member of our Board of Directors since 2007. He holds a degree in business economics from Universidad Torcuato Di Tella. He also serves as chairman of Comercio Interior S.A., Macro Warrants S.A. and Macro Fiducia S.A. He also serves as incumbent director of Inversora Juramento S.A. and Banco del Tucumán and as alternate director of Genneia S.A. He joined us in October 2005.

*Carlos Alberto Giovanelli* was born on April 6, 1957. He has been a member of our Board of Directors since April 26, 2016. In the financial sector, he worked as Deputy Credit Manager (1980-1983), Branch Deputy Manager (1983-1986), Credit Officer (1986-1989) and Deputy Commercial Manager (1991-1997) of La Sucursal de Citibank N.A., establecida en la República Argentina. He was Vice President of Investment Banking in Citibank, N.A. (1989-1991) and Vice President of Planning in La Sucursal de Citibank N.A., establecida en la República Argentina (1997-2002). He also held the position of Deputy Chairman of Asociación de Bancos (2001-2002) and incumbent director of Banco Patagonia S.A. (2007-2016). Mr. Giovanelli also serves as chairman of Havana S.A., Desarrollo PI S.A., and Inverlat Investments S.A. He is also vice chairman of Impresora Contable S.A, Havana Holding S.A. and QSR S.A. and as incumbent director of New Arrecife S.A., Aspro Servicios Petroleros S.A. and Desarrollo Epsilon S.A.

*Nelson Damián Pozzoli* was born on May 6, 1966. He has been a member of our Board of Directors since April 26, 2016. Mr. Pozzoli holds a degree in public accounting from Universidad Católica Argentina. In the financial sector, he was Director of La Sucursal de Citibank N.A., establecida en la República Argentina (1989-1992), Head of Capital Markets (1992-1994) and Corporate Banking Manager (1996-1997) of ABN AMRO Bank Argentina, Head of Equity (LATAM origination) of ABN AMRO Netherlands (1994- 1995) and Corporate Banking Manager of ABN AMRO Bank USA (1995-1996).

He also held the position of Director of Banco Liniers Sudamericano (1997-1998), Investment Banking Manager of the Bankers Trust (1997-1999) and worked for the Chase Manhattan Bank and the First National Bank of Chicago from 1998 to 1999. He was also General Manager of Deutsche Bank Argentina (1999-2003). He also serves as chairman of Caverley, Tusdar and Aspro Servicios Petroleros S.A. He is also vice chairman of New Arrecife S.A., Inverlat Investments S.A. and Desarrollo Epsilon S.A. and he is incumbent director of Banco del Tucumán, Impresora Contable S.A., QSR and Cablevisión Holding S.A. Furthermore, he serves as alternate Director of Havana S.A. and Havana Holding S.A.

*Fabián Alejandro de Paul* was born on September 6, 1963. He was appointed as director on April 30, 2019. He has been an alternate member of our Board of Directors since April 28, 2017. Mr. de Paul holds a degree in accounting from Universidad de Buenos Aires. Mr. de Paul worked in the Corporate Finance area of Citibank, N.A. (1989-1994), was Director of Investment Banking at Merrill Lynch & Co. (1994-1997), was Manager of CEI Citicorp Holdings S.A. (1997-2000), he served as Regional Financial Director of Louis Dreyfus Commodities (2001-2009) and served as Regional Executive Director of Louis Dreyfus Commodities (2007-2009). He also serves as director of Argencontrol S.A., Mercado Abierto Electrónico S.A. and as member of the Board of Management of Agrovía S.A.

*Martin Estanislao Gorosito* was born on March 11, 1984. He has been a member of our Board of Directors since April 26, 2016, appointed as representative of ANSES-FGS. Mr. Gorosito holds a degree in Political Sciences from Universidad Católica Argentina. In the financial industry, he served as Adviser to the Board of Directors of Banco de la Provincia de Buenos Aires (2009-2011).

*Constanza Brito* was born on October 2, 1981. Ms. Brito has been a member of our Board of Directors since April 27, 2018. Previously, she served as Director from 2007 through 2015 and as alternate director since April 2016. She joined us in May 2005. Ms. Brito holds a degree in Human Resources Administration from Universidad del Salvador. Ms. Brito also serves as vice chairman of Mediainvest S.A. and as alternate director of Banco del Tucumán.

*Mario Luis Vicens* was born on July 14, 1951. He has been a member of our Board of Directors since April 26, 2016. Mr. Vicens holds a degree in economics degree from Universidad Católica Argentina and a superior course degree in monetary and banking finance of Universidad Católica Argentina. In the financial industry, he worked assessing investment projects for Caja Nacional de Ahorro y Seguro/Consejo Federal de Inversiones (1975-1978). In the Public Sector, he served as economist at the Central Bank (1980-1981) and incumbent director (1986-1988) and as Treasury Secretary of the Ministry of Economy (1999-2001). In the banking sector, he served as Planning Manager of Banco de Crédito Argentino (1981-1986), incumbent director of Banco Sudameris (2001-2002), chief executive officer of Asociación de Bancos de la Argentina (2002-2011), incumbent director of Federación Latinoamericana de Bancos (2002-2004/2008-2010), incumbent director of Seguro de Depósitos S.A. (2008-2011), incumbent director of BBVA Consolidar Seguros S.A. (2012-2016), incumbent director of Generali Arg. Cia. de Seguros (2014-2015), incumbent director of PSA Finance Arg. Cia. Financiera S.A. (2012), incumbent director of Rombo Cía. Financiera S.A. (2012-2016) and incumbent director of BBVA Francés S.A. (2012-2016). He also acted as advisor on economic and financial matters for companies and banks (1989-1999).

*Juan Martín Monge Varela* was born on August 5, 1975. He has been a member of our Board of Directors since April 28, 2017 and was appointed as representative of the ANSES-FGS. Mr. Monge Varela has a degree in Economics from Universidad de San Andrés. He was associate Director of MetLife – Chile (2000-2003), he also acted as Chief Investment Officer of MetLife – Chile (2005-2012) as Managing Director Argentina/Regional of MetLife (2012-2016) and as Operation Executive Sub Director of the FGS and he was alternate director of EDENOR S.A.

*Guillermo Eduardo Stanley* was born on April 27, 1948. He has been a member of our Board of Directors since April 27, 2018. Previously, he served as director since May 2006 and as vice chairman of the Board during 2015-2016. Mr. Stanley holds a degree in finances from the Universidad Argentina de la Empresa (UADE).

*Alejandro Eduardo Fargosi* was born on November 28, 1954. He has been a member of our Board of Directors since April 26, 2016, appointed as representative of ANSES-FGS. Mr. Fargosi holds a law degree from the Law School of Universidad de Buenos Aires. Mr. Fargosi served as Director of the Legal Department of Telefónica Argentina S.A. (1990-1995), Partner of the law firm Estudio O'Farrell Abogados (1995-1997) and Councilor of the Magistracy Council (*Consejo de la Magistratura*) (2010-2014). He also practices law independently.

*Delfín Federico Ezequiel Carballo* was born on July 4, 1984. He has been a member of our Board of Directors since April 26, 2016, and previously served on our Board from 2009 through 2011. He holds a degree in business economics from Universidad Torcuato Di Tella. Mr. Carballo also serves as incumbent director of Colbrey S.A., Milsbor Corporation, Havana S.A. and Havana Holding S.A. and as alternate director of Genneia S.A. He is vice chairman of Santa Genoveva S.A.

*Santiago Horacio Seeber* was born on March 27, 1977. He has been an alternate member of our Board of Directors since April 27, 2018. Mr. Seeber served in different positions in the Bank since November 2002. He also serves as vice-chairman of the Board of Directors of Comercio Interior S.A. and as director of Inversora Juramento S.A., LAB Real Estate S.A., MediaInvest S.A., New Lines S.A. and Macro Warrants S.A.

*Alejandro Guillermo Chiti* was born on July 22, 1978. He was appointed alternate director on April 27, 2018. Mr. Chiti is a lawyer graduated from the University of Buenos Aires, and has specializations in Banking Law from the Universidad de Buenos Aires and the Universidad Católica Argentina, as well as a master's degree in Business Law of the Universidad Austral. Mr. Chiti serves as General Director of Analysis and Settlement of Judicial Systems of the National Social Security Administration, and has background in the private sector, exercising his profession. He also serves as alternate director of EDENOR S.A.

*Alan Whamond* was born on May 13, 1961. He was appointed alternate director on April 30, 2019. Mr. Whamond holds a degree in industrial engineer from Instituto Tecnológico de Buenos Aires and a master's degree in Finance from the Stanford University. In the financial industry, he worked as vice-president of Credit Suisse First Boston Corp. and as managing director of Pampa Management S.A. He also serves as director of the board of Directors of Cablevisión Holding S.A., Delmar Asesores S.A. and Naturgy Ban S.A. and as administrator of Consultora Tecnopolítica SAS.

*Gustavo Alejandro Manriquez* was born on August 23, 1969. He has been our General Manager since May 2016 and our Chief Executive Officer since November, 2017. He is a member of the Assets and Liabilities Committee, the Senior Credit Committee, the Systems Committee, the Risk Management Committee and the Crisis Committee. Mr. Manriquez holds a degree in Business Management from Universidad de Belgrano and a post-graduate degree in Finance from Universidad del CEMA, as well as a Management degree and a Directive Development degree from IAE. Mr. Manriquez joined us in February 2015.

*Jorge Francisco Scarinci* was born on May 19, 1970. He is our Finance Manager since October 2006 and our Chief Financial Officer since November 2017. He is a member of the Assets and Liabilities Committee and the Risk Management Committee. Mr. Scarinci holds a BA in Economics from Universidad de Belgrano and a Master's degree in Finance from Universidad del CEMA and a CFA degree from Association for Investment Management and Research (AIMR). Mr. Scarinci joined us in May 2006.

*Gerardo Adrián Alvarez* was born on December 13, 1969. He is our Administration Manager. Mr. Alvarez holds a law degree from the University of Argentine Federal Police and a post-graduate degree in Money Laundering from University Torcuato Di Tella. He has been with us since January 2006.

*Brian Anthony* was born on April 17, 1973. He is our Management Control and Strategic Planning Manager since May 2016 and a member of the Assets and Liabilities Committee and the Systems Committee. Mr. Anthony holds a degree in Business Management from Universidad CAECE. Mr. Anthony joined us in September 2005.

*Agustín Devoto* was born on April 11, 1976. He is our Investment Banking Manager since May 2015. Mr. Devoto holds a degree in Business Management from Universidad Católica Argentina and a Master's degree in Finance from Universidad Torcuato Di Tella. He joined us in December 2000. He also serves as president of Macro Bank Limited and Macro Fondos SGFI. He also served as vice president of Macro Securities S.A.

*Alberto Figueroa* was born on September 1, 1960. He is our Manager of Comprehensive Risk Management since March 2009 and a member of the Systems Committee, the Anti-Money Laundering Committee, the Risk Management Committee, the Ethics and Compliance Committee, the Nominating and Corporate Governance Committee and the Personnel Incentives Committee. Mr. Figueroa holds a degree in Accounting from Universidad de Buenos Aires. Mr. Figueroa joined us in March 2007.

*Martín Kaplan* was born on February 21, 1969. He is our Commercial Banking Manager since December 2016 and member of the Asset and Liability Committee and the Senior Credit Committee. Mr. Kaplan holds a degree in Communication from Universidad de Buenos Aires and a Master's degree in Management from IAE. Mr. Kaplan joined us in December 2016.

*Ana María Magdalena Marcet* was born on February 24, 1961. She is our Credit Risk Manager since January 2002 and a member of the Senior Credit Committee, the Risk Management Committee and the Senior Recovery Committee. Mrs. Marcet holds a degree in Public Accounting, Economics and Business Management from the School of Economic Sciences of Universidad de Buenos Aires and a Master's degree in Bank Management from Universidad del CEMA. Mrs. Marcet joined us in December 1996.

*Juan Domingo Mazzon* was born on April 14, 1974. He is our Manager of Government Banking since October 2017. Mr. Juan Mazzon is a Certified Public Accountant graduated from Universidad Argentina de la Empresa (UADE) and holds an MBA from Vanderbilt University (USA).

*Ernesto Eduardo Medina* was born on January 9, 1967. He is our Human Resources Manager since October 2016 and a member of the Risk Management Committee, the Ethics and Compliance Committee, the Nominating and Corporate Governance Committee and the Personnel Incentives Committee. Mr. Medina holds degrees in Public Accounting and Business Management from the School of



Economic Sciences of Universidad de Buenos Aires. He also has a degree in computer science from Universidad de Buenos Aires and a Psychology degree from Universidad de Ciencias Empresariales y Sociales. He holds two Master's degree in Renewable Energies and Environment Management, both from Universidad de Cádiz and a Master's degree in Clinical Neuropsychology from Universidad Europea Miguel Cervantes. Mr. Medina joined us in February 1989. He is also Alternate Director of Banco del Tucumán and Director of Provincanje S.A.

*Maria Milagro Medrano* was born on October 27, 1976. She is our Institutional Relations and Customer Services Manager since January 2002 and a member of the Financial Services Users Protection Committee. Mrs. Medrano holds a degree in Business Management from Universidad Católica de Salta. She joined us in April 1997. Mrs. Medrano is also Alternate Director of Banco del Tucumán.

*Ricardo Mendoza Alban* was born on October 12, 1968. He is our Operations and Technology Manager since June 2017 and a member of the Systems Committee and the Risk Management Committee. Mr. Mendoza Alban holds a law degree from the Santa María University (Venezuela) and has a specialization in Financial Institutions obtained at Andrés Bello Catholic University (Venezuela).

*Francisco Muro* was born on March 2, 1973. He is our Distribution and Sales Manager since October 2014. Mr. Muro holds a degree in Accounting from the School of Economic Sciences of Universidad de Buenos Aires and a Master's degree from IAE (Universidad Austral). Mr. Muro joined us in August 2004.

*Adrian Mariano Scosceria* was born on January 22, 1966. He is our Corporate Banking Manager since May 2017 and a member of the Senior Credit committee. Mr. Scosceria holds a degree in Business Administration from Universidad Católica Argentina and a specialization in Administration and Management from Harvard University.

*Maria José Van Morlegan* was born on August 31, 1974. She is our Legal Manager since January 2016 and a member of the Senior Credit Committee, the Anti-Money Laundering Committee, the Senior Recovery Committee, the Ethics and Compliance Committee, the Nominating and Corporate Governance Committee and the Financial Services Users Protection Committee. Mrs. Van Morlegan holds a Law degree from Universidad Católica Argentina and is an MBA candidate 2019 IAE. Mrs. is also a Director of Macro Fudicia S.A., member of the Supervisory Committee of Caja de Valores S.A. and of Prisma Medios de Pago S.A. Van Morlegan joined us in July 2012.

## **B. Compensation**

General Corporation Law provides that the compensation paid to all directors and syndics in a financial year may not exceed 5.0% of the company earnings if we are not paying dividends in respect of such net income. General Corporation Law increases the annual limitation on director compensation to up to 25.0% of net income based on the amount of such dividends, if any are paid. In the case of directors that perform duties at special commissions or perform administrative or technical tasks, the aforesaid limits may be exceeded if a shareholders' meeting so approves and such issue is included in the agenda and is in accordance with the CNV Rules. In any case, the compensation of all directors and members of the supervisory committee requires shareholders' approval at an ordinary meeting.

The aggregate nominal amount of compensation paid by Banco Macro and its subsidiaries to all of their directors, alternate directors and members of supervisory committee for fiscal year 2018 was Ps.717.1 million. The aggregate nominal amount of compensation paid by Banco Macro to its senior management during 2018 was Ps.125.9 million, including salaries and bonuses. Neither we nor any of our subsidiaries have entered into any agreement that provides for any benefit or compensation to any director after the expiration of his term or upon his retirement.

## **C. Board Practices**

### **Corporate Governance**

As a listed company on the NYSE, we are required under the rules governing listed companies to:

- (i) comply with SEC's requirements concerning an audit committee,
- (ii) submit an annual written affirmation to the NYSE and interim written affirmations, if applicable,
- (iii) disclose any significant ways in which our corporate governance practices differ from those followed by domestic companies under the NYSE listing standards, and
- (iv) our CEO must promptly notify the NYSE in writing after any executive officer becomes aware of any non-compliance with any of the applicable NYSE corporate governance rules.

We incorporate the information regarding the significant ways in which our corporate governance practices differ from those followed by domestic companies under the NYSE listing standards by reference to our website [www.macro.com.ar](http://www.macro.com.ar). For further information see item 16.G.

### **Independence of the Members of the Board of Directors and the Supervisory Committee**

Within ten (10) business days from the date of the appointment of members of the Board of Directors and supervisory committee such members of the Board of Directors and/or the supervisory committee shall inform the CNV whether they are “independent” pursuant to CNV Rules.

Pursuant to CNV Rules, a director is not considered independent in certain situations, including where a director:

- (a) is a member of the board of directors the parent company or another company belonging to the same economic group of the issuer through a pre-existing relationship at the time of his or her election, or if said relationship had ceased to exist during immediately the previous three years;
- (b) is or has been associated with the company or any of its shareholders having a direct or indirect “significant participation” on the same, or with corporations with which also the shareholders also have a direct or indirect “signification participation”; or if he or she was associated with them through an employment relationship during the last three years;
- (c) has any professional relationship or is a member of a corporation that maintains frequent professional relationships of significant nature and volume, or receives remuneration or fees (other than the one received in consideration of his performance as a director) from the issuer or its shareholders having a direct or indirect “significant participation” on the same, or with corporations in which the shareholders also have a direct or indirect “significant participation.” This prohibition includes professional relationships and affiliations during the last three years prior to his or her appointment as director;
- (d) directly or indirectly owns 5% or more of shares with voting rights and/or a capital stock of the issuer or any company with a “significant participation” in it;
- (e) directly or indirectly sells and/or provides goods and/or services (different from those accounted for in section c)) on a regular basis and of a significant nature and volume to the company or to its shareholders with direct or indirect “significant participation”, for higher amounts than his or her remuneration as a member of the board of directors. This prohibition includes business relationships that have been carried out during the last three years prior to his or her appointment as director;
- (f) has been a director, manager, administrator or principal executive of not-for-profit organizations that have received funds, for amounts greater than those described in section I) of article 12 of Resolution No. 30/2011 of the UIF and its amendments, from the issuer, its parent company and other companies of the same group of which it is a part, as well as of the principal executives of any of them;
- (g) receives any payment, including the participation in plans or stock option schemes, from the company or companies of the same economic group, other than the compensation paid to him or her as a director, except dividends paid as a shareholder of the company in the terms of section d) and the corresponding to the consideration set forth in section e);
- (h) has served as member of the board of director of the issuer, its parent company or another company belonging to the same economic group for more than ten years. If said relationship had ceased to exist during the previous three years, the independent condition will be recovered;
- (i) is the spouse or legally recognized partner, relative up to the third level of consanguinity or up to the second level of affinity of persons who, if they were members of the board of directors, would not be independent, according to the above listed criteria;

Pursuant to the CNV Rules, a director who, after his or her appointment, falls into any of the circumstances indicted above, must immediately report to the issuer, which must inform the CNV and the authorized markets where it lists its negotiable securities immediately upon the occurrence of the event or upon the instance becoming known.

In all cases, the references made to “significant participation” set forth in the aforementioned independence criteria will be considered as referring to those individuals who hold shares representing at least 5% of the capital stock and or the vote, or a smaller amount when they have the right to elect one or more directors by share class or have other shareholders agreements relating to the government and administration of the company or of its parent company.

The Argentine independence standards under the CNV Rules differ in many ways from U.S. federal securities law standards.

The structure of the Board of Directors must be in conformity with the foregoing by the first shareholders' meeting held after December 31, 2018. As of the date of this annual report, Mario Luis Vicens, Fabián Alejandro de Paul, Martín Estanislao Gorosito, Juan Martín Monge Varela and Alejandro Eduardo Fargosi and the alternate directors Alejandro Guillermo Chiti and Alan Whamond qualified as independent members of our Board of Directors under these criteria specified by the CNV.

Pursuant to the Capital Markets Law, all of the members of the supervisory committee of companies admitted to the public offering regime shall have independent status.

Additionally, the Buenos Aires Professional Council of Economic Sciences (*Consejo Profesional de Ciencias Económicas de la Ciudad de Buenos Aires* or "CPCECABA") also established certain requirements regarding the independence of public accountants which act as members of the supervisory committee. Pursuant to regulations issued by the CPCECABA and the CNV, syndics must be independent from the company they are auditing. A syndic will not be independent if he/she:

- (i) is the owner, partner, director, administrator, manager or employee of the company or economically related entities;
- (ii) is the spouse or relative (collateral until fourth grade), or relatives by affinity until second grade, of one of the owners, partners, directors, administrators or managers;
- (iii) is a shareholder, debtor, creditor or guarantor of the company or economically related entities, representing a significant amount if compared with its own wealth or the company's net equity;
- (iv) possesses a significant amount of interest in the company or economically related entities (or if it has had such interest during the period to be audited);
- (v) if the remuneration depends on or is contingent with the conclusions or results of its auditing work;
- (vi) if the remuneration agreed depends on the result of the operations of the company.

As of the date of this annual report, Alejandro Almarza, Carlos Javier Piazza, Viviana Haydee Stehghele, Alejandro Carlos Piazza, Leonardo Pablo Cortigiani and Enrique Alfredo Fila are qualified as independent members of our supervisory committee under these criteria.

For information on the expiration of current terms of directors see Item 6.A "*Directors and Senior Management.*" For information on service contracts with directors providing benefits upon termination of employment see Item 6.B "*Compensation.*"

### **Supervisory Committee**

Our bylaws provide for a supervisory committee, which consists of three syndics and three alternate syndics that serve for a term of one fiscal year. Pursuant to the Argentine Corporate Law, only lawyers and accountants admitted to practice in Argentina or civil partnerships composed of such persons may serve as syndics of an Argentine *sociedad anónima*, or limited liability corporation.

The primary responsibilities of the supervisory committee are to monitor the management's compliance with the Argentine Corporate Law, the bylaws, its regulations, if any, and the shareholders' resolutions, and to perform other functions, including:

- (i) attending meetings of the Board of Directors, and shareholders meetings,
- (ii) calling special shareholders' meetings when deemed necessary and ordinary and special shareholders' meetings when not called by the Board of Directors and
- (iii) investigating written complaints of shareholders. In performing these functions, the supervisory committee does not control our operations or assess the merits of the decisions made by the Board of Directors.

The supervisory committee has unlimited access to our books and registers and a right to request as much information as necessary for the performance of its duties.

The following table sets forth certain relevant information of the members of our supervisory committee as of the date of this annual report:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Year of Appointment</u>	<u>Current Term Ends</u>
Alejandro Almarza	Syndic	61	2019	April 2020
Carlos Javier Piazza	Syndic	60	2019	April 2020
Viviana Haydee Stenghele (1)	Syndic	49	2019	April 2020
Alejandro Carlos Piazza	Alternate syndic	64	2019	April 2020
Leonardo Pablo Cortigiani	Alternate syndic	50	2019	April 2020
Enrique Alfredo Fila (1)	Alternate Syndic	60	2019	April 2020

(1) Appointed by ANSES—FGS, as instructed by the *Sindicatura General de la Nación*.

The business address of the members of the Supervisory Committee is Eduardo Madero 1172, City of Buenos Aires, Argentina. Set forth below are brief biographical descriptions of the members of our supervisory committee:

*Alejandro Almarza* holds an accounting degree from the University of Buenos Aires in Argentina. Mr. Almarza also serves as a member of the supervisory committee of Macro Securities S.A., Macro Fiducia S.A., Banco del Tucumán, and Seguro de Depósitos S.A. Mr. Almarza was admitted to the Accountants Professional Association of the City of Buenos Aires in 1983.

*Carlos Javier Piazza* holds an accounting degree from the University of Buenos Aires in Argentina. Mr. Piazza serves as a member of the supervisory committee of Central Tucumano S.A, Macro Warrants S.A. and Banco de Valores S.A. Mr. Piazza also served as alternate syndic of Macro Securities S.A., Macro Fiducia S.A., Banco del Tucumán and Opción Seguros S.A. Mr. Piazza was admitted to the Accountants Professional Association of the City of Buenos Aires in 1983.

*Viviana Haydee Stenghele* is a syndic on our supervisory committee. Ms. Stenghele holds an accounting degree from the University of Buenos Aires in Argentina.

*Alejandro Carlos Piazza* holds accounting degree and business administration degree from the School of Economics of the University of Buenos Aires in Argentina. Mr. Piazza also serves as a member of the supervisory committee of Macro Fondos Sociedad Gerente de Fondos Comunes de Inversion S.A., Servente y Cia, CRIBA S.A. and Ingemática S.A. and as alternate syndic of Macro Securities S.A., Macro Fiducia S.A., Santa Olimpia S.A., Tikalar S.A., BKAR S.A. and Guadimar S.A. Mr. Piazza was admitted to the Accountants Professional Association of the City of Buenos Aires in 1978.

*Leonardo Pablo Cortigiani* holds an accounting degree from the University of Buenos Aires in Argentina. Mr. Cortigiani also serves as a member of the supervisory committee of Macro Fiducia S.A., Macro Fondos Sociedad Gerente de Fondos Comunes de Inversion S.A., Macro Securities S.A. He also serves as alternate syndic of Havanna S.A. Mr. Cortigiani was admitted to the Accountants Professional Association of the City of Buenos Aires in 1995.

*Enrique Alfredo Fila* is an alternate syndic of the supervisory committee. Mr. Fila holds an accounting degree from Universidad Nacional de la Plata.

#### **Audit Committee**

As of the date of this annual report, our audit committee is comprised of three directors, Guillermo Eduardo Stanley, Fabián Alejandro de Paul and Mario Luis Vicens, all of which satisfy the independence requirements of Rule 10A-3. The Argentine independence standards under the CNV Rules differ in many ways from the NYSE and U.S. federal securities law standards. See item 16.G “*Corporate Governance*.”

The audit committee is responsible for the fulfillment of the duties within its powers, as set forth under the Capital Markets Law, including, among others, the following:

- (i) delivering an opinion regarding the board of director’s proposal of appointment of our external auditors and controlling their independent status,
- (ii) supervising the correct performance of our internal control and accounting systems,
- (iii) supervising the observance of the policies regarding information about our risk management and
- (iv) delivering an opinion regarding transactions with related parties or transactions that may threaten any conflicts of interest.

We currently comply with the requirements of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder, as applicable to foreign private issuers with respect to the composition and functions of our audit committee.

### **Committees Reporting to the Board of Directors and to the CEO and the CFO**

The following committees are under the supervision of our Board of Directors:

*Internal Audit Committee.* The internal audit committee is comprised of at least two directors, and the Internal Audit Manager of the Bank. The term of each member is for a minimum period of two years (provided their directorship does not expire beforehand) and a maximum of three years. The internal audit committee is responsible for supervising the correct functioning of our internal control systems and procedures. Furthermore, this committee takes notice of our annual and quarterly financial statements, the external auditor's reports, the syndic's reports, the relevant financial information and the audit committee's reports.

*Systems Committee.* The systems committee must be composed of, at least, one director or equivalent authority and the manager of the informatics technology and systems area. Our system committee has three directors, the General Manager, the Operations and System Manager, the Management Control and Strategic Planning Manager and the Comprehensive Risk Management Manager. The systems committee is responsible for the issuance of the systems and operations management policies. Furthermore, this committee verifies that the several management plans are in accordance with our business strategy and oversees the implementation of our strategic projects.

The main functions of the systems committee are to:

- (i) oversee the proper functioning of Information Technology and Systems,
- (ii) contribute to the improvement of the information technology and systems environment effectiveness;
- (iii) take notice of the Information Technology and Systems Plan;
- (iv) periodically evaluate the Information Technology and Systems Plan and review its compliance;
- (v) review the reports issued by environmentally related audits of Information Technology and Systems and oversee the implementation of corrective actions designed to stabilize or minimize any weaknesses observed; and
- (vi) maintain timely communication with officials of the External Audit Management Systems Division of the Superintendence in relation with any problems identified in inspections and monitor actions undertaken to solve such problems.

*Senior Credit Committee.* The senior credit committee is comprised of two directors, the General Manager, the Credit Risk Manager, the Corporate Credit Risk Manager, the Corporate Banking Manager, the Commercial Banking Manager and the Legal Manager. The senior credit committee is responsible for the issuance of our credit policy and credit analysis guidelines. Furthermore, this committee reviews and approves margins of credit and/or extraordinary operations which exceed Ps.110,000,000 and examines periodic reports related to our loan portfolio.

*Assets and Liabilities Committee.* The assets and liabilities committee is comprised of three directors, the General Manager, the Commercial Banking Manager, the Management Control and Strategic Planning Manager and the Finance Manager. The committee is responsible for the financial strategy of the Bank. In addition, it carries on deep market analysis and establishes strategic policies related to our liquidity, market, interest rate and currency risks.

*Anti-money Laundering Committee.* The Committee is made up of four directors, one of whom is a responsible officer designated as Compliance Officer, the Comprehensive Risk Management Manager, the Legal Manager and the senior officer responsible for the anti-laundering unit. The anti-money laundering committee is responsible for planning, coordinating and monitoring compliance with anti-money laundering policies approved by the Board of Directors and its powers include to:

- (i) define policies for compliance with anti-money laundering corporate guidelines,
- (ii) be a permanent forum for the discussion of money laundering and terrorist financing risks that affect the Bank,
- (iii) promote the definition of strategies controls to prevent money laundering and terrorist financing and implement such controls,
- (iv) be responsible for the continued update of the manual of procedures for the prevention of money laundering and terrorist financing, in accordance with regulatory changes and new Bank needs,
- (v) monitor the implementation of a program designed to provide training and raise awareness regarding the prevention and control of money laundering and terrorist financing,
- (vi) establish appropriate mechanisms for internal reporting of unusual or suspicious activities,

- (vii) analyze any unusual or suspicious transactions to be reported to the relevant governmental agencies in compliance with applicable regulations, and subsequently inform to the Board of Directors,
- (viii) provide support to the head of the anti-money laundering committee in the examination of unusual or suspicious transactions,
- (ix) approve and follow-up on the work program submitted by the anti-money laundering committee for the relevant fiscal year, for which it will report to the Board of Directors and
- (x) perform any other duties that may be imposed under applicable laws and regulations.

*Senior Recovery Committee.* The senior recovery committee is made up of two directors, the Credit Risk Manager and the Legal Manager. The committee manages outstanding loans on behalf of the Board of Directors, which nevertheless retains its power in that regard. This committee is in charge of the implementation of the predefined policies for the granting of withdrawals and refinancing, to define the payment arrangements that exceed the preferential parameters, as well as the decisions of which portfolios are transferred to judicial management or accounting losses.

*Risk Management Committee.* The risk management committee is made up of three directors, the General Manager, the Comprehensive Risk Management Manager, the Finance Manager and the Credit Risk Manager, the Operations and System Manager.

The committee is responsible for monitoring senior management activities involving the management of credit, market, liquidity, operational, compliance and reputational risks, among others. The committee's mission is to supervise and ensure that the controls and procedures in place are adequate to mitigate any risk, and to recommend and implement updates to risk management policies and procedures. In addition, this committee gives advice to the Board of Directors regarding the Bank's overall risk. This committee is also responsible for notifying the Board of Directors and senior management about any failure to comply with applicable limits to risk exposure, suggesting remedies, such as assuming the risk or mitigating the risk.

*Ethics and Compliance Committee.* The ethics and compliance committee is comprised of three directors, the Comprehensive Risk Management Manager, the Human Resources Manager and the Legal Manager.

This committee is responsible for implementing ethic guidelines set forth by the Board of Directors and supervising compliance. In addition, this committee promotes the implementation of our social responsibility policies and fosters the adoption of such policies by setting forth tools and procedures that will enable our management to incorporate social responsibility policies and consequently implement those policies within the Bank.

*Corporate Governance and Appointments Committee.* The committee is comprised of three directors, the Comprehensive Risk Management Manager, the Human Resources Manager and the Legal Manager.

This committee is responsible for processes related to the renewal, substitution and succession of members of our senior management. This committee is also responsible for the implementation of our corporate governance code at the Bank and its subsidiaries.

*Personnel Incentives Committee.* The personnel incentives committee is comprised of three directors, the Comprehensive Risk Management Manager and the Human Resources Manager.

The committee's main functions are to control that incentives plans to all personnel, excluding directors, are consistent with our business culture, goals, long term business plan, business strategy, control environment of the Bank.

*Crisis Committee.* The committee meets upon request and is convened by the General Manager in accordance with the needs that arise from time to time. This committee is composed of directors and senior managers.

*Financial Services Users Protection Committee.* The Committee is comprised of one director, the Institutional Relations and Customer Services Manager, the Legal Manager, the Compliance Manager and the Operational Risk Management Coordinator. The committee is responsible for complying with the data protection standard of the User of Financial Services and Analysis of Existing Claims.

## **Advisors and Auditors**

### **Advisors**

Our main legal advisor is Bruchou, Fernández Madero & Lombardi, at 12<sup>th</sup> floor, Ing. Butty 275, City of Buenos Aires (C1001AFA). Estudio Bruchou, Fernández Madero & Lombardi provides us legal advice in the creation of the Program and the issuance of negotiable obligations. Our tax advisor in Argentina is Estudio Della Roca-Piazza-Almarza, 15th floor, 432, 25 de Mayo St., City of Buenos Aires, Argentina.

## Auditors

Banco Macro's auditors for the last three fiscal years were:

Financial Statements as of	Auditor	Tax ID	Firm	Address	Enrollment
December 31, 2016	Norberto M. Nacuzzi	20-16579856-3	Pistrelli, Henry Martin y Asociados S.R.L. (Member of Ernst & Young Global)	487 25 de Mayo	C.P.C.E.C.A.B.A. T°196 F°142
December 31, 2017	Norberto M. Nacuzzi	20-16579856-3	Pistrelli, Henry Martin y Asociados S.R.L. (member of Ernst & Young Global)	487 25 de Mayo	C.P.C.E.C.A.B.A. T°196 F°142
December 31, 2018	Norberto M. Nacuzzi	20-16579856-3	Pistrelli, Henry Martin y Asociados S.R.L. (member of Ernst & Young Global)	487 25 de Mayo	C.P.C.E.C.A.B.A. T°196 F°142

Banco Macro's alternate auditor was:

Auditor	Tax ID	Firm	Address	Enrollment
José G. Riportella	20-16975770-5	Pistrelli, Henry Martin y Asociados S.R.L. (member of Ernst & Young Global)	487 25 de Mayo	C.P.C.E.C.A.B.A. T°156 F°2

All the auditing firm's members are enrolled in the C.P.C.E.C.A.B.A.

## D. Employees

As of December 31, 2018, we had 9,028 employees, 39% of whom worked at our headquarters and the remaining 61% at our branches. Our employees are represented by a national bank union, which negotiates a collective bargaining agreement setting minimum wages for all of its members. We maintain good relations with our employees and have never experienced a work stoppage.

Employees	As of December 31,		
	2016	2017	2018
Headquarters	3,399	3,518	3,550
Branches	5,218	5,256	5,478
<b>Total (1)</b>	<b>8,617</b>	<b>8,774</b>	<b>9,028</b>

- (1) If workers were performing their duties pursuant to the "Acciones de entrenamiento para el trabajo" program of the Ministry of Labor, Employment and Social Security and other casual workers included in the calculation, the number of our employees would have been, 8,666, 8,826 and 9,113 for 2016, 2017 and 2018, respectively. We do not account for such workers as employees, as we do not remunerate them for their services, which are paid directly by the Argentine province where they work.

## E. Share Ownership

As of March 31, 2019, the persons who were members of Banco Macro S.A.'s Board of Directors and supervisory committee held as a group a total of 117,172,828 shares of our capital stock. This represented 17.50% of our outstanding capital stock and 19.14% of the voting rights as of such date. Other than Delfin Jorge E. Carballo, Delfin Federico E. Carballo, Jorge Pablo Brito, Carlos Alberto Giovanelli and Leonardo Pablo Cortigiani, no member of the Board of Directors or the supervisory committee directly or beneficially owned shares of the Bank as of March 31, 2019. In addition, Alberto Figueroa, Ana María Magdalena Marcet, Juan Domingo Mazzon, María José Van Morlegan and Martín Kaplan, members of our senior management, owned less than one percent of Class B shares as of March 31, 2019.

The following table sets forth the beneficial ownership of our shares by the members of Banco Macro S.A.'s Board of Directors and supervisory committee, as of March 31, 2019:

Shareholder Name	Number of Class A shares owned	Number of Class B shares owned	Percentage of Capital stock (%)	Percentage of Voting rights (%)
Delfin Jorge Ezequiel Carballo	4,895,416	106,805,523	16.68%	18.37%
Other members	—	5,471,889	0.82%	0.77%
<b>Total</b>	<b>4,895,416</b>	<b>112,277,412</b>	<b>17.50%</b>	<b>19.14%</b>

## Item 7. Significant Shareholders and Related Party Transactions

### A. Significant Shareholders

As of December 31, 2018 and March 31, 2019, we had 669,663,021 outstanding shares of common stock, consisting of 11,235,670 Class A shares and 658,427,351 Class B shares. Each share of our common stock represents the same economic interests, except that holders of our Class A shares are entitled to five votes per share and holders of our Class B shares are entitled to one vote per share. Other than noted differences among holders of Class A shares and holders of Class B shares, the holders of these shares listed in the table below do not have different voting rights.

The following table sets forth information regarding the ownership of our Class A and Class B shares as of December 31, 2018 and March 31, 2019:

	Class A	Class B	Total	% of capital	% of votes
ANSES	0	184,120,650	184,120,650	27.49%	25.77%
Jorge Horacio Brito	5,366,621	105,727,603	111,094,224	16.59%	18.55%
Delfin Ezequiel Carballo	4,895,574	106,805,523	111,701,097	16.68%	18.37%
Other (1) (2)	973,475	261,773,575	262,747,050	39.24%	37.31%
<b>Total</b>	<b>11,235,670</b>	<b>658,427,351</b>	<b>669,663,021</b>	<b>100.00%</b>	<b>100.00%</b>

(1) Includes The Bank of New York Mellon as depositary of our ADSs.

(2) Includes repurchased shares in an amount of 28,948,410 as of December 31, 2018 and 30,265,275 as of March 31, 2019.

The table below represents the evolution of our capital stock and the material changes in equity participation of the significant shareholders, in both cases, for the three last years:

Date	Capital Stock (Shares)	Event	Significant Shareholders
December 31, 2016	584,563,028		Jorge H. Brito 19.30% Delfin Jorge Ezequiel Carballo 19.11% ANSES (as manager of the <i>Fondo de Garantía de Sustentabilidad</i> ) 31.50%
December 31, 2017	669,663,021	Increase by 85,099,993 (1)	Jorge H. Brito 16.58% Delfin Jorge Ezequiel Carballo 16.68% ANSES (as manager of the <i>Fondo de Garantía de Sustentabilidad</i> ) 27.49%
December 31, 2018	669,663,021		Jorge H. Brito 16.59% Delfin Jorge Ezequiel Carballo 16.68% ANSES (as manager of the <i>Fondo de Garantía de Sustentabilidad</i> ) 27.49%

(1) In June 2017, we made a primary public offering of Class B common shares in Argentina and of American Depositary Shares ("ADS") in the United States for a total of 74,000,000 shares and in July 2017, international underwriters exercised the oversubscription option, for which 11,099,993 shares were issued.



## **B. Related Party Transactions**

We are not party to any transactions with, and have not made any loans to, any of our directors, key management personnel or other related parties, nor are there any proposed transactions with such persons, except for those permitted by applicable law. Some of our directors have been involved in certain credit transactions with us. The Argentine Corporate Law and Central Bank Rules allow directors of a corporation to enter into a transaction with such corporation if the transaction is in line with prevailing market practice.

A related party is a person or entity that is related to us that:

- has control or joint control of the Bank;
- has significant influence over the Bank;
- is a member of the key management personnel of the Bank or of the parent of the Bank;
- are members of the same group; or
- in which one entity is an associate (or an associate of a member of a group of which the other entity is a member).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. We consider as key management personnel, for the purposes of IAS 24, the members of the Board of Directors and the senior management members of the Risk Management Committee, the Assets and Liabilities Committee and the Senior Credit Committee.

For the years ended December 31, 2017 and 2018 an aggregate of Ps.609.9 million and Ps.1,249.9 million, respectively, in financial assistance granted by us (including loans, leases and guarantees granted) was outstanding to related parties. All financial assistance to related parties (a) were made in the ordinary course of business; (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and (c) did not involve more than the normal risk of collectability or present other unfavorable features.

Likewise, as of December 31, 2017 and 2018, the total amount of deposits made by related parties to us amounted Ps.4,128.6 million and Ps.7,649.1 million, respectively.

For further information regarding related party transactions see note 19 “Related parties” to our audited consolidated financial statements as of December 31, 2018 and 2017.

## **C. Interest of experts and counsel**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

See Item 18 and our audited consolidated financial statements as of December 31, 2018 and 2017 included in this annual report.

### **Legal Proceedings**

We are involved in normal collection proceedings and other legal proceedings in the ordinary course of business. We are not involved in any litigation or other legal proceedings that, if adversely determined, would individually or in the aggregate have a material adverse effect on our operations.

For further information regarding legal proceedings, see note 48 “Tax and other claims” to our audited consolidated financial statements as of December 31, 2018 and 2017. In connection with such claims, our management and its tax and legal advisors believe there are no additional significant effects to those already recognized in the books that may result from the final outcome of such claims.

Please note that we have been subject to the imposition of certain sanctions imposed by the Central Bank or the UIF and summaries at CNV or UIF. Nevertheless, these potential penalties would not involve the payment of material amounts. As of the date of this annual report, the total amount of monetary penalties received, pending to be paid for, being appealed, or about to be appealed, amount to Ps.718 thousand, which was registered according to Communication “A” 6726 of the Central Bank, as amended or supplemented from time to time. Our management and our legal advisors believe that no further significant accounting effects could arise from the effect of the mentioned situations.

## Dividend Policy

The decision to distribute the dividends also corresponds to the Shareholders’ Meeting, based pursuant to the Central Bank Rules and on the recommendation of the Board of Directors. The Bank is not obliged to distribute profits, being at the exclusive discretion of the Shareholders’ Meeting the determination of the maximum amount, pursuant to the Central Bank Rules and opportunity and the form of payment of the dividends to the network, being able to delegate this power to the Board of Directors. Likewise, the Shareholders’ Meeting may create special reserves for future distributions of dividends, provided that they are reasonable and respond to a prudent administration, which it can disaffect if it considers its distribution pertinent. Article 32 of the Bank’s bylaws establishes the purpose that the Shareholders’ Meeting should give to the net and realized profits, resulting from the financial statements approved by such body.

The Bank’s dividend distribution policy is based on maintaining an adequate balance between the amounts distributed and the investment and expansion policies. It should be noted that this dividend policy may be conditioned in the future by the existence of regulations in the market and/or by the strategic plans that the Bank adopts at any time.

Dividends are distributed under financial results calculated under Central Bank Rules, which may differ in certain significant respects from IFRS.

The following table sets forth the cash dividends paid to our shareholders from 2003 through 2017. All banks were prohibited by the Central Bank from paying dividends in respect of the results of 2001 and 2002.

Based on financial statements for year ended December 31,	Payment Dates	Dividends per Share (in Pesos, not adjusted for inflation)	Aggregate Dividend Payment (in millions of Pesos, not adjusted for inflation)
2003	July 2004	0.10	60.9
2004	April 2005	0.05	30.4
2005	May 2006	0.10	68.4
2006	May 2007	0.15	102.6
2007	May 2008	0.25	171.0
2008	September 2009	0.25	149.9 (1)
2009	June 2010	0.35	208.1
2010	May 2011	0.85	505.3
2011	—	0.00	0.0
2012	—	0.00	0.0
2013	July 2014	1.02	596.3
2014	March 2016	0.39	227.7 (2)
2015	August 2016	1.10	643.0
2016	June 2017	1.20	701.5
2017	May 2018	5.00	3,348.3
2018	May 2019	10.00	6,394.0

- (1) For fiscal year ended December 31, 2008, dividends paid in cash were Ps.148.3 million based on the outstanding number of shares on the payment dates.
- (2) For the fiscal year ended December 31, 2014, we sought authorization from the Central Bank to distribute Ps.596.3 million (Ps.1.02 per share) and on February 2016 we received authorization to distribute Ps.227.70 million (Ps.0.3895 per share).

For fiscal years ended December 31, 2011 and 2012 we were not able to distribute dividends because we did not reach the regulatory threshold for dividend distribution under Central Bank Rules. For more information, see Item 4.B “Argentine Banking Regulation—Liquidity and Solvency Requirements—Requirements Applicable to Dividend Distribution.”

### **Amounts available for distribution and distribution approval process**

Under the Argentine Corporate Law, declaration and payment of annual dividends, to the extent funds are legally available, is determined by our shareholders at the annual ordinary shareholders' meeting. Generally, but not necessarily, our Board of Directors makes a recommendation with respect to the payment of dividends.

Dividends may be lawfully declared and paid only out of our retained earnings stated in our yearly financial statements according to Central Bank Rules and approved by a shareholders' meeting as described below.

The Board of Directors submits our financial statements for the preceding fiscal year, together with reports thereon by the supervisory committee, at the annual ordinary shareholders' meeting for approval. Within four months of the end of each fiscal year, an ordinary shareholders' meeting must be held to approve the financial statements and determine the allocation of our net income for such year.

In accordance with the applicable CNV Rules, cash dividends must be paid to shareholders within thirty (30) days of the shareholders' meeting approving such dividends. According to the BYMA rules, entities who pay their dividends in cash, must start with the payments within ten (10) days as of the shareholders' meeting approval. In the case of stock dividends, shares are required to be delivered within three months of our receipt of notice of the CNV authorization for the public offering of the shares arising paid as dividends. We were not able to make payment of dividends within these terms in connection with fiscal years 2003, 2008 and 2009 due to Central Bank's delay in granting its approval.

### **Central Bank and contractual limitations on distribution of dividends**

In the past, the Central Bank has imposed restrictions on the payment of dividends, substantially limiting the ability of financial institutions to distribute such dividends without its prior consent.

The Central Bank has eased these restrictions through Communication "A" 4589, as amended by Communication "A" 4591, "A" 5072, "A" 5827 and others, by providing for a mechanism for the calculation of distributable profits of the financial institutions.

The amount to be distributed, may be limited to Central Bank Rules, which may differ in certain significant aspects with IFRS and shall not compromise the liquidity and solvency of the entity, pursuant to the aforementioned.

This requirement shall be deemed fulfilled only if there are no defects in the integration of the minimum capital position, both individual and consolidated, for the closing for the corresponding year to the unassigned results considered or in the last closed position verified, both of which present less excess of integration with respect to the requirement. We have obtained authorization from the Central Bank to distribute dividends for fiscal years 2003 through 2010. For fiscal years ended December 31, 2011 and 2012 we were not able to distribute dividends because we did not reach the regulatory threshold for dividend distribution under Central Bank Rules. For fiscal year 2013, we obtained authorization from the Central Bank to distribute dividends, which we paid in July 2014. For fiscal year 2014, 2015 and 2016, we sought authorization from the Central Bank to distribute dividends, which we paid in March 2016, August 2016 and June 2017.

According to the provisions of Communication "6464", the prior approval of the SEFyC in order to distribute dividends is no longer required. However, the authorization will still be needed for those financial entities that, in order to determine the distributable dividends, have not increased the ranges of COn1 net of deductions (CDCon1) foreseen in the tables of points 4.2.3. ("integration") and 4.2.4. ("Limitation on the distribution of results") of the rules on "Distribution of results" by 1 percentage point.

For more information, see Item 4.B "*Argentine Banking Regulation—Liquidity and Solvency Requirements—Requirements Applicable to Dividend Distribution.*"

Additional regulatory and contractual restrictions exist which could affect the distribution of earnings and are included in note 49 "Restriction on dividends distribution" of our audited consolidated financial statements as of December 31, 2018 and 2017.

### **Legal reserve requirement**

Pursuant to the Financial Institutions Law, we are required to maintain a legal reserve which must be funded with no more than 20% and no less than 10% of yearly income (which is calculated over the income that arise from the statutory financial statements), in accordance with Central Bank Rules. Pursuant to Central Bank Rules, we maintain a legal reserve which is funded with 20% of our yearly income, which may differ in certain significant aspects with IFRS. This reserve can only be used during periods in which a financial institution has incurred losses and has exhausted all other reserves. If a financial institution does not comply with the required legal reserve, it is not allowed to pay dividends to its shareholders.

Under the Argentine Corporate Law and our bylaws, our yearly net income (as adjusted to reflect changes in prior results) is allocated in the following order:

- (i) to comply with the legal reserve requirement,
- (ii) to pay the accrued fees of the members of the Board of Directors and statutory supervisory committee;
- (iii) to pay fixed dividends, which are applied first to pending and unpaid dividends and holders of preferred stock (if applicable);
- (iv) for voluntary or contingent reserves, as may be resolved from time to time by our shareholders at the annual ordinary or special shareholders' meeting; and
- (v) the remainder of the net income for the year may be distributed as dividends on common stock or as otherwise decided by our shareholders at the annual ordinary shareholders' meeting.

## **B. Significant Changes**

Except as otherwise disclosed in this annual report, there has been no undisclosed significant change since the date of the most recent annual financial statements included herein. For recent information, see "*Item 4. Recent Developments.*"

## **Item 9. The Offer and Listing**

### **A. Offer and listing details**

Not applicable

### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

Our Class B shares are currently traded on the BYMA (since November 1994) and MAE (since October 2015) under the symbol "BMA". Additionally, our ADSs have been trading on the NYSE since March 2006 under the symbol "BMA".

Our notes are currently listed on the BYMA and MAE. Our Series A Subordinated Resettable Notes and our Series B Notes are also currently listed on the Luxembourg Stock Exchange.

### **D. Selling Shareholders**

Not applicable.

### **E. Dilution**

Not applicable.

### **F. Expenses of the issue**

Not applicable.

## **Item 10. Additional Information**

### **A. Share Capital**

Not applicable

### **B. Memorandum and Articles of Association**

#### **General**

We are a financial institution incorporated under the laws of Argentina on November 21, 1966 as a *sociedad anónima*, or a stock corporation, for a 99-year period and registered on March 8, 1967 with the Public Registry of Commerce of Bahía Blanca, Province of Buenos Aires, Argentina, under No. 1154 of Book 2, Folio 75 of *Estatutos*. We subsequently changed our legal address to the City of Buenos Aires and registered it with the IGJ on October 8, 1996 under No. 9777 of Book 119, Volume A of *Sociedades Anónimas*.

As of December 31, 2018, our capital stock consists of Ps.669,663,021, represented by 11,235,670 common, book-entry Class A shares, with a par value of one Peso each and the right to five votes per share, and 658,427,351 common, book-entry Class B shares, with a par value of one Peso each and the right to one vote per share.

According to our bylaws, we may issue different classes of shares of common stock entitled with one or five votes per share. However, as long as we remain in the public offering regime we cannot issue additional shares of any class of capital stock that could entitle the holder thereof to more than one vote per share. All outstanding shares are fully paid.

Our Class B shares are listed on the BYMA since November 1994 and on the MAE since October 2015. Our ADSs are listed in the NYSE since March, 2006. Holders of Class A shares are permitted to convert their shares into Class B shares on a one-for-one basis.

### **Corporate Purpose**

Our bylaws provide that our corporate purpose is to engage within or outside of Argentina in any banking transaction contemplated and authorized under the Financial Institutions Law and any other laws, rules and regulations governing banking activities in the place of performance, under the guidelines and with prior authorization, if appropriate, of the Central Bank. In addition, we are capable of acting as any category of “agent” under the Capital Markets Law and supplementing regulations, in connection with securities in the transactions contemplated under the legal provisions in effect governing the activity, under the guidelines and with the prior authorization, if appropriate, of the CNV. To that effect, we have full legal capacity to develop rights, incur obligations, and execute any kind of act and transaction related thereto. Furthermore, we are capable of having interests in other domestic or foreign financial institutions and or companies with the prior authorization of the Central Bank and in compliance with the rules of such entity, as applicable.

In respect of the different categories of agents established by the Capital Markets Law, and the CNV Rules, Banco Macro, and certain of their subsidiaries are registered with the CNV in one or more of the following categories: negotiation, clearing and settlement agent (ALyC), custody of collective investment products agent (AC PIC FCI), placement and distribution of mutual funds agent (ACYD FCI), financial trustees agent (FF) and nonfinancial trustees agent (FNOF), as applicable.

### **Shareholders’ liability**

Shareholders’ liability for losses of a company is limited to the value of their shareholdings in the company. Under the Argentine Corporate Law, however, shareholders who voted in favor of a resolution that is subsequently declared void by a court as contrary to Argentine laws or a company’s bylaws (or regulations, if any) may be held jointly and severally liable for damages to such company, other shareholders or third parties resulting from such resolution. See also Item 3.D “*Risk Factors—Risks relating to our Class B shares and the ADSs—Our shareholders may be subject to liability for certain votes of their securities.*”

### **Redemption and rights of withdrawal**

Our shares are subject to redemption in connection with a reduction in capital by the vote of a majority of shareholders at a special shareholders’ meeting. Any shares so redeemed must be cancelled by us. Whenever our shareholders approve a spin-off or merger in which we are not the surviving corporation, the change of our corporate legal status, a fundamental change in our corporate purpose, change of our domicile outside of Argentina, voluntary withdrawal from public offering or delisting, our continuation in the case of mandatory delisting or cancellation of the public offering authorization, or a total or partial recapitalization following a mandatory reduction of our capital or liquidation, any shareholder that voted against such action that was approved or did not attend the meeting at which the decision was taken, may withdraw and receive the book value of its shares, determined on the basis of our latest balance sheet prepared or that should have been prepared in accordance with Argentine laws and regulations, provided that such shareholder exercises its appraisal rights within a determined period. However, because of the absence of legal precedent directly on point, there is doubt as to whether holders of ADSs will be able to exercise appraisal rights either directly or through the depositary with respect to Class B shares represented by ADSs. Appraisal rights must be exercised within the five (5) days following the adjournment of the meeting at which the resolution was adopted, in the event that the dissenting shareholder voted against such resolution, or within fifteen (15) days following such adjournment if the dissenting shareholder did not attend such meeting and can prove that he was a shareholder on the date of such meeting. In the case of merger or spin-off, appraisal rights may not be exercised if the shares to be received as a result of such transaction are authorized for public offering or listed. Appraisal rights are extinguished if the resolution giving rise to such rights is revoked at another shareholders’ meeting held within seventy-five (75) days of the meeting at which the resolution was adopted.

Payment on the appraisal rights must be made within one year of the date of the shareholders' meeting at which the resolution was adopted, except when the resolution was to delist our stock or to continue following a mandatory delisting, in which case the payment period is reduced to sixty (60) days from the resolution date.

### **Preemptive and accretion rights**

In the event of a capital increase, a holder of existing common shares of a given class has a preemptive right to subscribe for a number of shares of the same class sufficient to maintain the holder's existing proportionate holdings of shares of that class.

In addition, shareholders are entitled to the right to subscribe on pro-rata basis for the unsubscribed shares remaining at the end of a preemptive rights offering, known as accretion rights.

Holders of ADSs may be restricted in their ability to exercise preemptive rights if an annual report under the Securities Act relating thereto has not been filed or is not effective or an exemption is not available. Preemptive rights are exercisable during the thirty (30) days following the last publication of notice to the shareholders in the Official Bulletin of the Republic of Argentina, or the Official Gazette and an Argentine newspaper of wide circulation. Pursuant to the Argentine Corporate Law, in the case of public companies, such thirty (30) days period may be reduced to a minimum of ten (10) days if approved by the company's shareholders at a special shareholders' meeting.

Shares not subscribed by the shareholders by virtue of their exercise of preemptive rights or accretion rights may be offered to third parties.

### **Voting rights**

Under our bylaws, each Class A share entitles the holder thereof to five votes at any meeting of our shareholders and Class B shares entitle the holders thereof to one vote per share. However, according to the Argentine Corporate Law, shares entitle the holder to only one vote per share to vote the approval of: an early dissolution, a merger or spin-off when we are not the surviving entity, a reduction of capital stock and redemption of shares, a transformation from one type of entity to another, a limitation of shareholders' preemptive rights, a transfer of our domicile outside Argentina, and a fundamental change of our corporate purpose set forth in our bylaws. In such cases Class A shares are entitled to only one vote per share and Class B shares are entitled to only one vote per share. In addition, pursuant to Argentine applicable law, as long as we remain public we cannot issue additional shares of any class of capital stock that could entitle the holder thereof to more than one vote per share.

### **Registration requirements of foreign companies that hold Class B shares directly**

There are no restrictions imposed by Argentine law or our by-laws or other organizational documents regarding the rights of non-residents or foreign persons to hold or vote our shares or our ADSs.

Under Argentine regulations, foreign companies that hold shares directly (and not as ADSs) in an Argentine company must be registered with the IGJ to exercise certain shareholder rights, including voting rights. The registration requires the filing of corporate and accounting documents in order to demonstrate that the foreign shareholder's main activity is conducted outside of Argentina.

### **Liquidation rights**

In the case of our liquidation or dissolution we are requested to communicate such event to the Central Bank, and our assets will be applied to satisfy our outstanding liabilities and proportionally distributed first among our holders of preferred stock as per the terms of the preferred stock, if any. If any surplus remains, it will be proportionally distributed among holders of our common stock.

### **Other shareholders' rights**

In addition to the rights mentioned above, the shareholders of Argentine corporations are entitled to the following additional rights that cannot be subject to any kind of limitation or suspension as they protect the minority shareholders in such capacity:

- (i) the right to participate in the company's profits;
- (ii) the right to be informed and receive information from the company through the syndics or supervisory committee, including the right to request information or reports (shareholders representing at least 2% of the capital stock of the company are entitled to request the syndic or the members of the supervisory committee information related to their functions and certain investigations);
- (iii) the right to request a shareholders' meeting (shareholders representing at least 5% of the capital stock of the company may request the call of a shareholders' meeting);

- (iv) the right to disapprove the performance of the members of the Board of Directors (the liability of the company's directors and managers shall be extinguished if their performance is later approved by the shareholders at a shareholders' meeting, or if they resign, provided that such liability is not incurred as a consequence of the violation of the applicable laws or the company's bylaws and if it does not mediate opposition of at least 5% of the capital stock); and
- (v) the right to judicially object those shareholders' meetings resolutions violating the law or company's regulations and a right to ask for a judicial or administrative intervention when the administrator or administrators of a company execute acts or neglect acts whose omission places the company in serious danger.

### **Ordinary and extraordinary meetings**

Shareholders' meetings may be ordinary or extraordinary. We are required to convene and hold an ordinary meeting of shareholders within four months of the close of each fiscal year to consider the matters specified in the first two paragraphs of Section 234 of the Argentine Corporate Law, such as the approval of our financial statements, allocation of net income for such fiscal year, approval of the reports of the board of directors and the supervisory committee and election and remuneration of directors and members of the supervisory committee. In addition, pursuant to the Capital Markets Law, at an ordinary shareholders' meetings, our shareholders must consider:

- (i) the disposition of, or creation of any lien over, our assets as long as such decision has not been performed under the ordinary course of business;
- (ii) the execution of administration or management agreements; and
- (iii) whether to approve the payment of any agreement providing assets or services to us as long as such payment is material when measured against the volume of the ordinary course of business and our shareholders' equity.

Other matters which may be considered at an ordinary meeting convened and held at any time include the responsibility of directors and members of the supervisory committee, capital increases and the issuance of certain corporate bonds. Special shareholders' meetings may be called at any time to consider matters beyond the authority of an ordinary meeting, including amendment of the bylaws, issuance of debentures, early dissolution, merger, spin off, reduction of capital stock and redemption of shares, transformation from one type of entity to another and limitation of shareholders' preemptive rights.

### **Notices of meetings**

Notices of shareholders' meetings are governed by the provisions of Argentine Corporations Law, and in case of publicly traded companies, Capital Markets Law. Furthermore, notice of shareholders' meetings must be published for five (5) days in the Official Gazette, in an Argentine newspaper of wide circulation and in the publications of Argentine exchanges or securities markets in which our shares are traded, at least twenty (20) but not more than forty-five (45) days prior to the date on which the meeting is to be held. Such notice must include information regarding the type of meeting to be held, the date, time and place of such meeting and the agenda. If a quorum is not available at such meeting, a notice for a second meeting, which must be held within thirty (30) days of the date on which the first meeting was called, must be published for three (3) days, at least eight (8) days before the date of the second meeting. The above described notices of shareholders' meetings may be effected simultaneously for the second meeting to be held on the same day as the first meeting, only in the case of ordinary meetings. Shareholders' meetings may be validly held without notice if all shares of our outstanding capital stock are present and resolutions are adopted by unanimous vote of such shares.

### **Quorum and voting requirements**

The quorum for ordinary meetings of shareholders on first call is a majority of the shares entitled to vote, and action may be taken by the affirmative vote of an absolute majority of the shares present that are entitled to vote on such action. If a quorum is not available at the first meeting a second meeting may be held at which action may be taken by the holders of an absolute majority of the shares present, regardless of the number of such shares. The quorum for a special shareholders' meeting on first call is 60% of the shares entitled to vote, and if such quorum is not available, a second meeting may be held, for which the quorum is 20% of the shares entitled to vote.

Action may be taken at special shareholders' meetings by the affirmative vote of an absolute majority of shares present that are entitled to vote on such action, except that: the approval of a majority of shares with voting rights (for these purposes non-voting preferred shares shall have voting rights), without application of multiple votes, is required at both the first and second meeting for:

- (i) the transfer of our domicile outside Argentina,
- (ii) a fundamental change of the corporate purpose set forth in our bylaws,
- (iii) our anticipated dissolution,
- (iv) the total or partial redemption of shares,
- (v) our merger or spin-off, if we are not the surviving entity, or
- (vi) the transformation of our corporate legal status, in which cases resolutions shall be adopted by the affirmative vote of the majority of shares with the right to vote.

Preferred shares will be entitled to one vote in these circumstances.

The Argentine Corporate Law permits companies to establish cumulative voting in order to elect up to one third of the directors and one third of the members of the supervisory committee to fill vacancies of the board of directors and of the supervisory committee, respectively, sharing such part with candidates voted for by means of the plural system. Cumulative voting is a system designed to protect minority interests, as it gives rise to the possibility, but does not ensure, that minority interests will be able to elect some of their candidates. Each shareholder who votes cumulatively shall have a number of votes equal to the result of multiplying his/her own votes by the number of vacancies. On the other hand, shareholders who vote by the ordinary procedure and those who vote by cumulative vote will compete for the election of one third of the vacancies. The larger the number of vacancies, the greater the possibility that minority groups or shareholders will win positions in the board of directors or the supervisory committee.

Shareholders' meetings may be called by the board of directors or the members of the supervisory committee whenever required by law or whenever they deem it necessary. Also, the board or the members of the supervisory committee are required to call shareholders' meetings upon the request of shareholders representing an aggregate of at least five percent of our outstanding capital stock. If the board or the supervisory committee fails to call a meeting following such a request, a meeting may be ordered by the CNV or by the courts. In order to attend a meeting, a shareholder must also deposit with us a certificate of book-entry shares registered in its name and issued by Caja de Valores S.A. at least three (3) business days prior to the date on which the meeting is to be held. If so entitled to attend a meeting, a shareholder may be represented by proxy. Proxies may not be granted to our board, members of the supervisory committee, officers or employees.

### **Election of directors**

The shareholders present at any annual ordinary meeting may determine the size of the board of directors, provided that there shall be no less than three (3) and no more than thirteen (13) directors. Any director so appointed will serve for three fiscal years. If the shareholders elect nine or more board members, each director will be re-elected as a staggered board, to be renewed by thirds, provided that in all cases no less than three directors shall be renewed each time. The annual ordinary shareholders' meeting may also appoint an equal or lesser number of alternate directors, to hold office for the same term than regular directors, to fill any vacancy in the board occurring for any reason, and shall further determine the order of substitution. Alternate directors shall hold office until the regular directors in whose place they have acted as substitutes shall resume office, and in case any such absence is permanent, until the next ordinary meeting of shareholders where at directors shall be appointed. Both regular and alternate directors may be re-elected indefinitely.

### **Change in capital**

Our by-laws do not establish conditions for the changes in our capital more stringent than those conditions imposed by the Argentine Corporate Law. For a description of conditions for the changes in our capital imposed by the Argentine Corporate Law see "—Ordinary and extraordinary meetings."

### **Purchases of Equity Securities by the Issuer**

According to the Argentine Corporations Law, the Capital Markets Law and the CNV Rules, a stock corporation may acquire the shares it issued, provided that the public offering and listing thereof has been authorized, subject to the following terms and conditions and those set forth by the CNV. The above-mentioned conditions are:

- (a) the shares to be acquired shall be subscribed and paid-off;
- (b) there shall be a resolution signed by the board of directors to such effect (duly reported to the supervisory committee and the audit committee);
- (c) the acquisition shall be made using the net profits or free or voluntary reserves; and
- (d) the total amount of shares acquired by the issuer, including previously acquired shares (and are held as treasury stock by the issuer), shall not exceed 10% of the capital stock or such lower percentage determined by the CNV.

The shares acquired by the issuer in excess of such limit shall be disposed of within a period of ninety (90) days after the date of the acquisition originating such excess. The shares acquired by the issuer shall be disposed of by the issuer within the maximum term of three years counted as from the date of acquisition thereof or cancelled. Upon disposing of the shares, the issuer shall make a preemptive offer thereof. Such preemptive offer will not be mandatory in certain specific cases, pursuant to which shares may be sold in the open market. For more information, please see Item 16E. "Purchases of Equity Securities by the Issuer and Affiliated Purchasers."



## Anti-takeover provisions

Our bylaws do not contain any provision that would (i) oblige us to disclose information regarding our shareholders; and (ii) have the effect of delaying, deferring or preventing a change in control, the last of which may happen only in the event of a merger, acquisition or public offering for acquisition.

## Tender offer regime

### *Tender offer regime in the case of a change in control*

#### *Mandatory tender offer or exchange in Argentina*

Pursuant to the rules set forth in the Capital Markets Law, the Productive Financing Law and the CNV Rules, anyone who, either individually or collectively, effectively achieves a “controlling interest” in a publicly traded company, will be bound to submit a mandatory tender offer (“OPA”, acronym in Spanish for *Oferta Pública de Adquisición Obligatoria*) in any of the scenarios set forth below:

- a) acquisition of shares or share subscription rights or options granted by the company, corporate bonds convertible into shares or similar securities which, directly or indirectly, may give a right a controlling interest in the company;
- b) execution of agreements by and among other holders of securities, which grant the necessary votes to control the company’s decisions or to appoint or revoke a majority of the members of the Supervisory Committee, as well as any other agreement which regulates the right to vote in the Board of Directors or in any of its delegate bodies. This scenario shall be applicable when the parties to the agreement have acquired the voting shares of the company, acting either individually or jointly, within the 12 months prior to the execution of the agreement; or when a new shareholder agrees to a joint control of the company with existing shareholders. Furthermore, this scenario shall not be applicable when the acquired interest is below 50% of a controlling subsidiary of a publicly traded company;
- c) indirectly or contingently, including the cases of mergers or other corporate reorganizations, involving a company that has direct or indirect shareholding with the right to vote in a publicly traded third party.

The OPA must be addressed to any and all shareholders of the company and any person with rights to share subscription or stock options granted by the company, corporate bonds or other similar securities which directly or indirectly may give right to share subscription and/or acquisition of securities, or conversion of voting shares. The addressees of the OPA must be offered an equitable price, in the terms of section 88 of the Capital Markets Law, and section III, Chapter II, Title III of the CNV Rules.

In the above mentioned cases, the prospective purchase must file the request to submit a mandatory tender offer before the CNV no later than one month after the takeover has been completed.

The mandatory tender offer must be launched by the prospective purchaser within five (5) days of obtaining the approval of the CNV. The term for the investors to accept or reject the offer will have to be at least ten (10) days and no more than twenty (20).

### *Concept of “Controlling Interest”*

In accordance with the Capital Markets Law, a person can be considered to have a controlling interest, either individually or collectively, if:

- i) voting rights exceed 50% of the company, excluding the shares owned directly or indirectly by the affected Company from the calculation base; or
- ii) even though the shareholding is below 50%, the person acts as the “controller” of the Company in the terms of the capital markets law.

### *Determination of the price of the OPA in the case of a change in control*

The equitable price of mandatory tender offers must be the higher between:

- (i) the higher price that the offeror, acting individually or jointly, may have payed or agreed to pay for the securities to be offered by virtue of the OPA during the 12 months prior to the beginning of the period during which the OPA must take place;
- (ii) the average price of the shares for the last six months before the “offer.”

#### *Determination of the price of the OPA in other cases (minority drag along right, for example)*

The equitable price in this scenario must be considered the same criteria as in a change of control event, but also should bear into account (i) the face value of shares; (ii) the value of the company according to international valuation standards; and (iii) the value of liquidation of the company.

#### *Penalties for breach*

Without prejudice to the penalties established by the CNV, the Capital Markets Law provides that purchases of shares of a company in violation of the OPA regime shall be declared irregular and ineffective for administrative purposes by the CNV and cause the invitation of an auction of the shares acquired on infringement, without prejudice to the penalties that may correspond.

#### ***Tender offer regime in the case of a voluntary withdrawal from the public offering and listing system in Argentina***

The Capital Markets Law and its regulations also established that when a company whose shares are publicly offered and listed in Argentina, agrees to voluntarily withdraw from the public offering and listing system in Argentina, it must follow the procedures provided for in the CNV's regulations and it must likewise launch an OPA for its aggregate shares and/or subscription rights or securities convertible into shares or stock options under the terms provided for in such regulation. It is not necessary to extend the public offering to those shareholders that voted for the withdrawal at the shareholders' meeting. The public offering can only be made as a purchase and sale and the consideration must be cash.

The acquisition of one's own shares must be made with liquid and realized profits or with free reserves, whenever paid up in full, and for the amortization or disposition thereof, within the term set forth in section 221 of the Argentine Companies Law and the company must present the CNV with evidence that it has the necessary solvency to effect such purchase and that the payment for the shares will not affect its solvency. The price offered should be an equitable price. To determine if an equitable price is offered, the criteria set forth for mandatory tender offers must be followed.

#### **Form and transfer**

Our current capital stock is represented by book-entry shares. Our shareholders are required to hold their shares through book-entries directly made by Caja de Valores S.A. in the stock registry of the company carried by Caja de Valores S.A. or through book-entries with brokers, banks and other entities approved by the CNV that have accounts with Caja de Valores S.A., or with the participants of the Caja de Valores S.A.

Caja de Valores S.A. is in charge of maintaining a stock registry on our behalf based on information received from shareholders that choose to hold their shares directly by registration on the stock registry of the company and from participants of the Caja de Valores S.A. Under Argentine law, only those holders listed in the stock registry, either directly or through participants of the Caja de Valores S.A., will be recognized as shareholders. Shares held by participants of the Caja de Valores S.A. have the same rights as shares recorded in our shareholders' register.

#### **C. Material Contracts**

During the past two years we did not enter into or become a party to any contract that is required to be disclosed under this item.

#### **D. Exchange Controls**

In January 2002, with the approval of the Public Emergency Law, Argentina declared a public emergency situation in its social, economic, administrative, financial and foreign exchange matters and authorized the Argentine Executive Branch to establish a system to determine the foreign exchange rate between the Peso and foreign currencies and to issue foreign exchange-related rules and regulations. Within this context, on February 8, 2002, through Decree No. 260/2002, the Argentine Executive Branch established (i) the MULC through which all foreign exchange transactions in foreign currency must be conducted, and (ii) that foreign exchange transactions in foreign currency must be conducted at the foreign exchange rate to be freely agreed upon among contracting parties, subject to the requirements and regulations imposed by the Central Bank (please see below for a summary of the main regulations).

On June 9, 2005, through Decree No. 616/2005, the Argentine Executive Branch mandated that (i) all inflows of funds into the local foreign exchange market arising from foreign debts incurred by residents, both individuals or legal entities in the Argentine private sector, except for those concerning foreign trade financing and primary issuances of debt securities admitted to public offering and listed in authorized markets; and (ii) all inflows of funds by non-residents channeled through the MULC and aimed at being held in local currency, acquiring all types of financial assets or liabilities in the financial or non-financial private sector (except for foreign

direct investments and primary issuances of debt securities and shares admitted to public offering and listed in authorized markets), and investments in securities issued by the public sector and acquired in secondary markets, must meet the following requirements: (i) such inflows of funds may only be transferred outside the local foreign exchange market at the expiration of a term of 365 calendar days as from the date of settlement of such funds into Pesos; (ii) the proceeds of such inflows of funds must be credited to an account in the local banking system; (iii) a non-transferable and non-interest-bearing deposit for 30% of the amount of the transaction must be kept in Argentina for a period of 365 calendar days, in accordance with the terms and conditions set forth in the applicable regulations (the “Deposit”); and (iv) the Deposit is to be denominated in U.S. dollars and be held in Argentine financial institutions and the Deposit may not be used to guarantee or as collateral in any type of credit transaction. The requirements of Decree No. 616/2005 were subsequently eased, as detailed below.

On December 18, 2015, through Resolution No. 3/2015, the Ministry of Treasury and Public Finances amended Executive Decree No. 616/2005, reducing (i) the Deposit percentage to 0% and (ii) the required period that the proceeds of any new financial indebtedness incurred by residents, held by foreign creditors and transferred through the MULC had to be kept in Argentina from 365 calendar days to 120 calendar days from the date of the transfer of the relevant amount. On January 5, 2017, pursuant to Resolution 1-E/2017 of the Ministry of Treasury, the mandatory stay period of 120 calendar days was further reduced to 0 days.

On August 8, 2016, the Central Bank established a new foreign exchange regime through Communications “A” 6037, which substantially modified the existing exchange regulations and easing the access to the MULC.

On May 19, 2017, the Central Bank structurally modified the foreign exchange regulations in force, creating a new foreign exchange regime through Communication “A” 6244, which significantly increased the flexibility to access the MULC. Communication “A” 6244 (as amended by Communication “A” 6312) has replaced all previous rules governing exchange transactions, the general exchange position and the provisions of Decree No. 616/05, while rules governing information and filing requirements were not replaced. Such regulation entered into force on July 1, 2017.

In addition, Communication “A” 6244 (as amended by Communication “A” 6312 and Communication “A” 6363) sets forth:

- 1) The principle of freedom of exchange: Argentine residents, as well as non-Argentine residents, may freely access the MULC.
- 2) The obligation of carrying out any exchange transaction through an entity authorized by the Central Bank has been maintained.
- 3) Time restrictions to trade in the MULC for carrying out foreign exchange transactions have been eliminated.
- 4) The mandatory inflow and settlement of export proceeds through the MULC within the applicable term.
- 5) The obligation of Argentine residents to comply with the “Review of Debt Securities and External Liabilities Issued by the Financial Sector and the Non-Financial Private Sector” (Communication “A” 3602 and its complementary provisions) and the “Review on direct investments” (Communication “A” 4237 and its complementary provisions), even though there has not been an income of funds to the MULC nor any future access through the transactions to be declared has been maintained.

On November 1, 2017, President Macri issued Decree No. 893/17 which partially repealed Decree Nos. 2,581/64, 1,555/86 and No. 1,638/01, thus eliminating the obligation of Argentine residents to transfer funds to Argentina and then sell in the funds coming from their exports of products in the MULC within the applicable term. Subsequently and in accordance with Decree No. 893/17, the Central Bank issued Communication “A” 6363 dated November 10, 2017, thus eliminating all the provisions related to the transfer and sale of funds from exports of goods in the country in the MULC.

Furthermore, on December 28, 2017, by virtue of Communication “A” 6401 and “A” 6410, the Central Bank replaced the reporting regimes set forth by Communication “A” 3602 and Communication “A” 4237 with a new unified regime for information as of December 31, 2017. Such unified reporting regime involves the filing of an annual statement, whose filing is mandatory for every person whose total cash flow or asset and liabilities balance amounts to U.S.\$1 million or more during the previous calendar year. Those subject to the aforementioned reporting obligation shall declare the following liabilities: (i) shares and equity interests; (ii) non-negotiable debt instruments; (iii) negotiable debt instruments; (iv) financial derivatives; and (v) real estate and structures.

On January 11, 2018, with the aim of providing more flexibility to the foreign exchange system and promoting competition, allowing the entrance of new players to the system, the MELI was created by virtue of Decree No.27/2018, as amended by Law No. 27.444, replacing the concept of the MULC for a free floating exchange market. Within the MELI, the exchange operations will be carried out by the financial entities and any other persons authorized to such effect by the Central Bank pursuing permanent or customary trade in the purchase and sale of foreign coins and banknotes, gold coins or bars and traveler’s checks, money orders, transfers or similar operations in foreign currency.

By virtue of Communication “A” 6443 of the Central Bank, which entered into force on March 1, 2018, companies from any sector that operate in the foreign exchange market may operate as an exchange agency solely by registering via an electronic form entitled the “Registry of Exchange Operators” (*Registro de Operadores de Cambio*).

On September 28, 2018, the Monetary Policy Committee of the Central Bank introduced an exchange rate band in effective as of October 1, 2018, as part of the terms and conditions of the revised agreement with the IMF approved on June 20, 2018. The peso's exchange rate with the U.S. dollar will be allowed to fluctuate between Ps. 34.00 and Ps. 44.00 per U.S.\$1.00 without the Central Bank's intervention. The band was adjusted at a 3% monthly rate until the end of 2018 and 2% for the 2019 period. In case the exchange rate fluctuates over or below the band's range, then the Central Bank may intervene by selling or purchasing foreign currency, as the case may be, to maintain the exchange rate within the band. On April 16, 2019, the Central Bank fixed the "non-intervention zone" between Ps.39.75 and Ps. 51.45 until December 2019.

## **E. Taxation**

### **Material U.S. federal income tax considerations relating to our Class B shares and ADSs**

The following discussion is a summary of the material U.S. federal income tax considerations relating to the purchase, ownership and disposition of our Class B shares or ADSs. This discussion applies only to beneficial owners of Class B shares or ADSs that are "U.S. holders" (as defined below) that hold Class B shares or ADSs as "capital assets" (generally, property held for investment). This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), final, temporary and proposed Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service ("IRS") and judicial decisions, all as of the date hereof and all of which are subject to change (possibly on a retroactive basis) and to different interpretations. This discussion does not purport to address all U.S. federal income tax considerations that may be relevant to a particular U.S. holder (including consequences under the alternative minimum tax or the Medicare tax on net investment income) and you are urged to consult your own tax advisor regarding your specific tax situation. The discussion does not address the tax considerations that may be relevant to U.S. holders in special tax situations, such as:

- dealers in securities or currencies;
- insurance companies;
- individual retirement accounts and other tax deferred accounts;
- tax-exempt organizations;
- traders in securities that elect to mark to market;
- certain financial institutions;
- entities or arrangements treated as partnerships or other pass-through entities for U.S. federal income tax purposes;
- holders whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- U.S. expatriates;
- holders that hold Class B shares or ADSs as part of a hedge, straddle, conversion transaction, constructive sale transaction or other integrated transaction;
- holders that own, directly, indirectly, or constructively, 10% or more of our shares (by vote or value);
- real estate investment trusts; or
- regulated investment companies.

This discussion does not address the estate or gift tax consequences of holding Class B shares or ADSs or the indirect consequences to holders of equity interests in entities or arrangements treated as partnerships for U.S. federal income tax purposes that own our Class B shares or ADSs. Moreover, this discussion does not address the state, local, or non-U.S. income or other tax consequences of an investment in our Class B shares or ADSs, or any aspect of U.S. federal taxation other than income taxation.

Except as otherwise noted, this discussion assumes that we are not a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes. Our possible status as a PFIC must be determined annually and therefore may be subject to change. If we were to be a PFIC in any year, materially adverse consequences could result for U.S. holders. See "Passive Foreign Investment Company Considerations" below.

For the purposes of this discussion, you are a "U.S. holder" if you are a beneficial owner of Class B shares or ADSs and you are for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our Class B shares or ADSs, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and upon the activities of the partnership. A prospective investor who is a

partner of an entity or arrangement treated as a partnership for U.S. federal income tax purposes holding our Class B shares or ADSs should consult its own tax advisor.

In general, for U.S. federal income tax purposes, U.S. holders that are beneficial owners of ADSs will be treated as the beneficial owners of the Class B shares represented by those ADSs. No gain or loss will be recognized on the exchange of ADSs for the U.S. holder's proportionate interest in Class B shares. A U.S. holder's tax basis in the Class B shares received will be the same as the U.S. holder's tax basis in the ADSs surrendered, and the holding period of the Class B shares will include the holding period of the ADSs.

*Taxation of Dividends.* Distributions of cash with respect to the Class B shares or ADSs (including any amounts withheld in respect of Argentine taxes) generally will, to the extent made from our current or accumulated earnings and profits as determined under U.S. federal income tax principles, constitute dividends for U.S. federal income tax purposes. To the extent that a distribution by us exceeds the amount of our earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. holder's adjusted tax basis in the Class B shares or ADSs, and thereafter as capital gain.

However, we do not maintain calculations of our earnings and profits under U.S. federal income tax principles. U.S. holders should therefore assume that any distribution by us with respect to Class B shares or ADSs will be reported as ordinary dividend income for U.S. federal income tax purposes. In general, cash dividends (including amounts withheld in respect of Argentine taxes) paid with respect to:

- the Class B shares generally will be includible in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the U.S. holder; or
- the Class B shares represented by ADSs generally will be includible in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the depositary;

and, in either case, these dividends will not be eligible for the dividends received deduction allowed to corporations.

Dividends paid by us in respect of ADSs generally will be treated as "qualified dividend income", which is taxable to a non-corporate U.S. holder at the reduced rate normally applicable to long-term capital gains, provided that (i) the ADSs are readily tradable on an established securities market in the United States (such as the NYSE, on which the ADSs are currently listed), (ii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a PFIC, and (iii) certain other requirements are met. The ADSs (but not the Class B shares) should qualify as readily tradable on an established securities market in the United States so long as they are listed on the NYSE. See "Passive Foreign Investment Companies" below for a discussion of the PFIC rules. Dividends paid by us in respect of Class B shares will be subject to tax as ordinary dividend income.

In addition, the U.S. Treasury Department has indicated that it continues to consider whether detailed information reporting guidance is necessary pursuant to which holders of ADSs and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividend income. However, no such detailed procedures have yet been issued and therefore we are not certain that we will be able to comply with them. You should consult your own tax advisors regarding the availability of the reduced rate discussed above with respect to qualified dividend income in light of your own particular circumstances.

Dividends paid in Pesos will be includible in the gross income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day they are received by the U.S. holder, in the case of Class B shares, or the depositary, in the case of Class B shares represented by ADSs, regardless of whether the payment is in fact converted to U.S. dollars. If dividends paid in Pesos are converted into U.S. dollars on the day they are received by the U.S. holder or the depositary, as the case may be, U.S. holders should not be required to recognize foreign currency gain or loss in respect of the dividend income. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in the gross income of a U.S. holder through the date such payment is converted into U.S. dollars (or otherwise disposed of) will be treated as U.S. source ordinary income or loss. However, U.S. holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss if any Pesos received by the U.S. holder or the depositary are not converted into U.S. dollars on the date of receipt.

A U.S. holder generally will be entitled, subject to a number of complex limitations and conditions, to claim a U.S. foreign tax credit in respect of any Argentine income taxes withheld on dividends received on Class B shares or ADSs. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, the dividends should generally constitute "passive category income". U.S. holders who do not elect to claim a credit for any foreign taxes paid during the taxable year may instead claim a deduction of such Argentine income taxes, provided that the U.S. holder elects to deduct (rather than credit) all foreign income taxes paid or accrued for the taxable year. Dividends received with respect to the Class B shares or ADSs will be treated as foreign source income for U.S. foreign tax credit purposes. The IRS has expressed concern that intermediaries in connection with depositary arrangements may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. persons who are holders of depositary shares. Accordingly, investors should be aware that the discussion above regarding the availability of foreign

tax credits for Argentine withholding tax on dividends paid with respect to Class B shares represented by ADSs could be affected by future action taken by the IRS. The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. holders are urged to consult their independent tax advisors regarding the availability of foreign tax credits with respect to any Argentine income taxes withheld from a dividend on the Class B shares or ADSs.

*Sale, Exchange or Other Taxable Disposition.*

In general, gain or loss realized by a U.S. holder on the sale, exchange or other taxable disposition of Class B shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized on the sale, exchange or other taxable disposition and such U.S. holder's basis in the Class B shares or the ADSs, in each case as determined in U.S. dollars. Such capital gain or loss will be long-term capital gain or loss if the U.S. holder's holding period in the Class B shares or ADSs exceeds one year. The deductibility of capital losses is subject to limitations. Any gain or loss realized by a U.S. holder will generally be treated as a U.S. source gain or loss for U.S. foreign tax credit purposes. U.S. holders should consult their own tax advisors about how to account for proceeds received on the sale or other taxable disposition of Class B Shares that are not paid in U.S. dollars.

If Argentine withholding tax is imposed on the sale, exchange or other taxable disposition of Class B shares or ADSs, the amount realized by a U.S. holder will include the gross amount of the proceeds of such sale, exchange or other taxable disposition before deduction of the Argentine withholding tax. The availability of U.S. foreign tax credits for these Argentine taxes is subject to various limitations and involves the application of rules that depend on a U.S. holder's particular circumstances. In particular, because any gain from the sale, exchange or other taxable disposition of Class B shares or ADSs generally will be treated as U.S. source income, a U.S. holder may not be able to fully utilize its U.S. foreign tax credits in respect of such Argentine withholding taxes unless such U.S. holder has other income from foreign sources. U.S. holders are urged to consult their own tax advisors regarding the application of the U.S. foreign tax credit rules to their investment in, and disposition of, Class B shares or ADSs.

*Passive Foreign Investment Companies.*

A non-U.S. corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. Passive income for this purpose generally includes interest, dividends, royalties, rents and gains from commodities and securities transactions. Although interest income generally is treated as passive income for this purpose, a special rule allows banks to treat their banking business income as non-passive. To qualify for this rule, a bank must satisfy certain requirements regarding its licensing and activities. We believe that we currently meet, and expect that we will continue to meet, these requirements. Based on this, and the composition of our income, the value of our assets and the activities conducted by us, we do not believe that we were a PFIC for our most recent taxable year and do not expect to be a PFIC for our current taxable year or in the foreseeable future. However, our possible status as a PFIC must be determined annually and therefore may be subject to change, for example, if we fail to qualify under this special rule for any year.

If we were a PFIC for any taxable year during which a U.S. holder holds Class B shares or ADSs, gain recognized by a U.S. holder on a sale or other disposition of the Class B shares or ADSs would generally be allocated ratably over the U.S. holder's holding period for the Class B shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to U.S. federal income tax at the highest rate in effect in that year for individuals or corporations, as appropriate, and an interest charge would be imposed on the resulting U.S. federal income tax liability. The same treatment would generally apply to any distribution in respect of Class B shares or ADSs to the extent the distribution exceeds 125% of the average of the annual distributions received by the U.S. holder on the Class B shares or ADSs during the preceding three years or the U.S. holder's holding period, whichever is shorter. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the Class B shares or ADSs. In addition, if we were a PFIC for a taxable year in which we pay a dividend or in the prior taxable year, the reduced rate discussed above with respect to qualified dividend income paid to certain non-corporate U.S. holders would not apply.

Furthermore, if we are characterized as a PFIC, a U.S. holder generally will be required to annually file an IRS Form 8621 and the statute of limitations on assessment and collections will remain open with respect to any unreported PFIC interests. In addition, if we are a PFIC for any taxable year during which a U.S. holder holds Class B shares or ADSs and any of our non-U.S. subsidiaries is also a PFIC, such U.S. holder will be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of the PFIC rules. Prospective purchasers should consult their tax advisors regarding the potential application of the PFIC rules, including elections that may be available to mitigate certain adverse implications of the PFIC regime if we were to become a PFIC.

*Information Reporting and Backup Withholding.* Information reporting requirements will apply to dividends in respect of the Class B shares or ADSs and the proceeds from the sale, exchange or other taxable disposition of the Class B shares or ADSs paid within the United States (and, in some cases, outside of the United States) to U.S. holders, unless, in either case, the U.S. holder is an exempt recipient (such as a corporation). Backup withholding may apply to such amounts if the U.S. holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with applicable certification requirements. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. U.S. holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Class B shares or ADSs, including requirements related to the holding of certain "specified foreign financial assets".

### **Material Argentine tax considerations relating to our Class B shares and ADSs**

The following discussion is a summary of the material Argentine tax considerations relating to the purchase, ownership and disposition of our Class B shares or ADSs. The following summary is based upon tax laws of Argentina as in effect on the date of this document and is subject to any change in Argentine law that may come into effect after such date any change could apply retroactively and could affect the continued validity of this summary. On December 29, 2017, Law 27,430 was published in the Official Gazette introducing a material tax reform (the "Tax Reform Law"), which introduces several modifications to the former tax regime. The Tax Reform Law has been regulated by the Decree No.279/2018 (published on April 9th 2018 on the Official Gazette) and General Resolution (AFIP) No.4227/2018 (published on April 12th 2018), regulating, among others, the income tax applicable to income derived from financial transactions, obtained by Foreign Beneficiaries (as defined below). Recently, Decree No.1170/2018 (published on December 27<sup>th</sup>, 2018) has regulated certain amendments introduced by the Tax Reform Law.

This summary includes the modifications under the Tax Reform Law, nevertheless, please note it does not include all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules.

This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a holder of such securities. No assurance can be given that the courts or tax authorities responsible for the administration of the laws and regulations described in this annual report will agree with this interpretation. Holders are encouraged to consult their tax advisors regarding the tax treatment of our ADSs or common shares as it relates to their particular situation.

### **Income Tax**

#### *Taxation on Dividends*

According to the recent amendments introduced to the Income Tax Law by virtue of the Tax Reform Law, as of fiscal year 2018, the taxation applicable on the distribution of dividends from Argentine Companies would be as follows:

- (i) Dividends originated in profits obtained during fiscal years initiated after January 1, 2018 and up to December 31, 2019: dividends on Argentine shares paid to Argentine resident individuals and/or non-Argentine residents would be subject to a 7% income tax withholding on the amount of such dividends ("Dividend Tax"). However, if dividends are distributed to Argentine Entities (in general, entities organized or incorporated under Argentine law, certain traders and intermediaries, local branches of non-Argentine entities, sole proprietorships and individuals carrying on certain commercial activities in Argentina), no Dividend Tax should apply. Equalization Tax is not applicable. Argentine individuals and undivided estates are not allowed to offset income arising from the distribution of dividends on Argentine shares with other losses arisen in other type of operations.
- (ii) Dividends originated in profits obtained during fiscal years initiated after January 1, 2020 onward: dividends on Argentine shares paid to Argentine individuals and non-Argentine residents would be subject to a 13% income tax withholding on the amount of such dividends. In the case of non-Argentine residents, said 13% rate could be reduced pursuant to applicable treaties to avoid double taxation if certain conditions are met, as the case may be. However, if dividends are distributed to Argentine Entities, no Dividend Tax should apply. Equalization Tax is not applicable.
- (iii) Dividends originated in profits obtained during tax periods before those contemplated above: no Argentine income tax withholding would apply on dividends distribution except for the application of the "Equalization Tax" (as defined below).

The equalization tax (the "Equalization Tax") is applicable when the dividends distributed are higher than the "net accumulated taxable income" of the immediate previous fiscal period from when the distribution is made. In order to assess the "net accumulated taxable income" from the income calculated by the Income Tax Law, the income tax paid in the same fiscal period should be subtracted and the local dividends received in the previous fiscal period should be added to such income. The Equalization Tax would be imposed as a 35% withholding tax on the shareholder receiving the dividend. Dividend distributions made in property (other than cash) would be subject to the same tax rules as cash dividends. Stock dividends on fully paid shares ("acciones liberadas") are not subject to Equalization Tax.



For Argentine individuals and undivided estates not registered before the Argentine tax authorities as taxpayers for income tax purposes as well as for non-Argentine residents, the Dividend Tax withholding will be considered a final payment. Argentine individuals and undivided estates are not allowed to offset income arising from the distribution of dividends on Argentine shares with losses from other types of operations.

The income tax law provides a first in-first out rule pursuant to which distributed dividends correspond to the former accumulated profits of the distributing company.

Holders are encouraged to consult a tax advisor as to the particular Argentine income tax consequences derived from profit distributions made on Class B shares and ADSs.

#### *Capital gains tax*

According to Income Tax regulations, the results derived from the transfer of shares, quotas and other equity interests, titles, bonds and other securities, are subject to Argentine income tax (unless an exemption applies), regardless of the type of beneficiary who realizes the gain.

Capital gains obtained by Argentine corporate entities (in general, entities organized or incorporated under Argentine law, certain traders and intermediaries, local branches of non-Argentine entities, sole proprietorships and individuals carrying on certain commercial activities in Argentina) derived from the sale, exchange or other disposition of shares in Argentine entities are subject to income tax on the net income at the rate of 30% for fiscal years initiated after January 1, 2018 and up to December 31, 2019 and at the rate of 25% for tax periods initiated after January 1, 2020 and onwards. Losses arising from the sale of shares can only be offset against income derived from the same type of operations, for a five-year carryover period.

Starting in 2018, income obtained by Argentine resident individuals and undivided estates from the sale of shares and other securities are exempt from capital gains tax in the following cases: (i) when the shares are placed through a public offering authorized by the CNV; (ii) when the shares are traded in stock markets authorized by the CNV, under segments that ensure priority of price-time and interference of offers; or (iii) when the sale, exchange or other disposition of shares is made through a tender offer regime and/or exchange of shares authorized by the CNV. ADSs do not qualify for the exemption applicable to Argentine resident individuals since the referred conditions would not apply. If the exemption does not apply, the income derived by Argentine resident individuals from the sale, exchange or other disposition of shares is subject to income capital gains tax at a 15% rate on net income. Losses arising from the sale of non-exempt Argentine shares can only be offset by Argentine individuals and undivided estates against income derived from the same type of operations, for a five-year carryover period.

If Argentine resident individuals and undivided estates perform a conversion procedure of securities representing shares, that do not meet the exemption requirements stated in the paragraph above, to hold instead the underlying shares that do comply with said requirements, such conversion would be considered a taxable transfer of the securities representing shares for which the fair market value by the time the conversion takes place should be considered. The same tax treatment will apply if the conversion process involves shares that do not meet the exemption requirements stated above that are converted into securities representing shares to which the exemption is applicable. Once the underlying shares or securities representing shares are converted, the results obtained from the sale, exchange, swap or any other disposition thereof would be exempt from income tax provided that the conditions mentioned in points (i), (ii) and (iii) of the paragraph above are met. Due to the amendments introduced to the Income Tax Law, as from 2018, non-Argentine resident individuals or legal entities ("Foreign Beneficiaries") are also exempt from income tax derived from the sale of Argentine shares in the following cases: (i) when the shares are placed through a public offering authorized by the CNV; (ii) when the shares were traded in stock markets authorized by the CNV, under segments that ensure priority of price-time and interference of offers; or (iii) when the sale, exchange or other disposition of shares is made through a tender offer regime and/or exchange of shares authorized by the CNV. The exemption applies to the extent the Foreign Beneficiaries reside in a cooperative jurisdiction and, in accordance with the amendments introduced by Decree No.1170/2018, if their funds come from cooperative jurisdictions.

In addition, income derived from the sale of ADSs gives rise to Argentine source income. However, capital gains obtained from the sale, exchange or other disposition of ADSs by Foreign Beneficiaries that reside in a cooperative jurisdiction and, in accordance with the amendments introduced by Decree No.1170/2018, their funds come from cooperative jurisdictions, are exempt from income tax on capital gains to the extent the underlying shares are issued by an Argentine company and they are authorized for public offering by the CNV.

In case Foreign Beneficiaries conduct a conversion process of shares that do not meet the exemption requirements, into securities representing shares that are exempt from income tax pursuant to the conditions stated above, such conversion would be considered a taxable transfer of the securities representing shares for which the fair market value by the time the conversion takes place should be considered.

In case the exemption is not applicable and the Foreign Beneficiaries are not domiciled in a non-cooperative jurisdictions and whose funds were not channeled through non-cooperative jurisdictions, the gain derived from the disposition of ADSs would be subject to Argentine income tax at a 15% rate on the net capital gain or at a 13.5% effective rate on the gross price.

For Foreign Beneficiaries domiciled in or whose funds come from jurisdictions considered as non-cooperative for purposes of fiscal transparency, the tax rate applicable to the sales of shares and/or ADSs is assessed at 35%. Pursuant to General Resolution AFIP 4227, the presumed net basis on which the 35% rate should apply in the case of sale or disposition of securities is assessed at 90%. The list of non-cooperative jurisdictions shall be published by the Executive Branch. However, Decree 279/2018 provides that until the Executive Branch issues the non-cooperative list, taxpayers should consider the list of “cooperative jurisdictions” published by the Argentine tax authorities to determine whether a jurisdiction is deemed cooperative or not.

Holders are encouraged to consult a tax advisor as to the particular Argentine income tax consequences derived from holding and disposing of Class B shares and ADSs and whether any different treatment under a treaty to avoid double taxation could apply.

#### *Tax treaties*

Argentina has signed tax treaties for the avoidance of double taxation with Australia, Belgium, Bolivia, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Italy, Mexico, the Netherlands, Norway, Russia, Spain, Sweden, Switzerland and the UK. The treaties signed with China, Qatar, Turkey and the United Arab Emirates are still undergoing the respective ratification procedures. There is currently no tax treaty for the avoidance of double taxation in effect between Argentina and the United States. Holders are encouraged to consult a tax advisor as to the potential application of the provisions of a treaty in their specific circumstances.

#### *Personal assets tax*

Argentine entities, like us, have to pay the personal assets tax corresponding to Argentine and foreign domiciled individuals and foreign domiciled entities for the holding of company shares at December 31 of each year. The applicable tax rate is 0.25% and is levied on the proportional net worth value (“*valor patrimonial proporcional*”) by December 31<sup>st</sup> of each year, of the shares arising from the last balance sheet. Pursuant to the Personal Assets Tax Law, the Argentine company is entitled to seek reimbursement of such paid tax from the applicable Argentine domiciled individuals and/or foreign domiciled shareholders. The Argentine company may seek this reimbursement of Personal Assets Tax by setting off the applicable tax against any amount due to its shareholders or in any other way or, under certain circumstances, waive its right under Argentine law to seek reimbursement from the shareholders.

It is unclear if non-Argentine domiciled parties are subject to personal assets tax on ADSs. Holders are encouraged to consult a tax advisor as to the particular Argentine personal assets tax consequences derived from the holding of Class B shares and ADSs.

#### *Value added tax*

The sale, exchange or other disposition of our Class B shares or ADSs and the distribution of dividends are exempted from the value added tax.

#### *Tax on debits and credits on Argentine bank accounts*

All credits and debits originated in bank accounts held at Argentine financial institutions, as well as certain cash payments, are subject to this tax, which is assessed at a general rate of 0.6%. There are also increased rates of 1.2% and reduced rates of 0.075%. Owners of bank accounts subject to the general 0.6% rate may consider 33% of the tax paid as a tax credit against specific taxes. The taxpayers that are subject to the 1.2% rate may consider 33% of all tax paid as a credit against specific taxes. Such amounts can be utilized as a credit for income tax, tax on presumed minimum income or special contributions on cooperatives capital. If lower rates were applied, the available credit would be reduced to 20%.

The tax on debits and credits on Argentine bank accounts (the “TDC”) has certain exemptions. Debits and credits in special checking accounts (created under Communication “A” 3250 of the Argentine Central Bank) are exempted from this tax if the accounts are held by foreign legal entities and if they are exclusively used for financial investments in Argentina.

According to Law No. 27.432, the Executive may increase up to 20% per year the percentage of the TDC payments that can be accounted for as payment on account of the income tax. Additionally, the Tax Reform Law enables the Executive to establish that starting in 2022 the amounts paid as TDC may be totally accounted for as payment on account of the Income Tax. Whenever financial institutions governed by Law No. 21.526 make payments acting in their own name and behalf, the application of this tax is restricted to certain specific transactions. Such specific transactions include, among others, dividends or profits distributions.

### *Tax on minimum presumed income*

Entities domiciled in Argentina are subject to this tax at the rate of 1% applicable over the total value of their assets, above an aggregate amount of Ps.200,000. Specifically, the Law establishes that banks, other financial institutions and insurance companies will consider a taxable base equal to 20% of the value of taxable assets. This tax shall be payable only to the extent the income tax determined for any fiscal year does not equal or exceed the amount owed under the tax on minimum presumed income. In such case, only the difference between the tax on minimum presumed income determined for such fiscal year and the income tax determined for that fiscal year shall be paid. Any tax on minimum presumed income paid will be applied as a credit toward income tax owed in the immediately-following ten fiscal years. Please note that shares and other equity participations in entities subject to tax on minimum presumed income are exempt from this tax.

Holders are encouraged to consult a tax advisor as to the particular Argentine tax on minimum presumed income consequences derived from the holding of Class B shares and ADSs.

Pursuant to Law No. 27,260, passed by the Argentine Congress on June 29, 2016, the tax on minimum presumed income is eliminated for tax periods beginning as of January 1, 2019.

### *Gross turnover tax*

In addition, gross turnover tax could be applicable on the transfer of Class B shares or ADSs and on the perception of dividends to the extent such activity is conducted on a regular basis within an Argentine province or within the City of Buenos Aires. However, under the Tax Code of the City of Buenos Aires, any transaction with shares as well as the perception of dividends are exempt from gross turnover tax. Holders of Class B shares and ADSs are encouraged to consult a tax advisor as to the particular gross turnover tax consequences of holding and disposing of Class B shares and ADSs in the involved jurisdictions.

### *Regimes for the Collection of Provincial Tax Revenues on the Amounts Credited to Bank Accounts*

Different tax authorities (i.e., City of Buenos Aires, Corrientes, Córdoba, Tucumán, Province of Buenos Aires and Salta, among others) have established collection regimes for gross turnover tax purposes applicable to those credits verified in accounts opened at financial entities, of any type and/or nature and including all branch offices, irrespective of territorial location. These regimes apply to those taxpayers included in the lists provided monthly by the tax authorities of each jurisdiction. The applicable rates may vary depending on the jurisdiction involved. Collections made under these regimes shall be considered as a payment on account of the turnover tax. Note that certain jurisdictions have excluded the application of these regimes on certain financial transactions. Holders shall corroborate the existence of any exclusions to these regimes in accordance with the jurisdiction involved.

### *Stamp tax*

Stamp tax is a provincial tax, which is also levied in the City of Buenos Aires, applicable to the execution of onerous transactions within a provincial jurisdiction or the City of Buenos Aires or outside a provincial jurisdiction or the City of Buenos Aires but with effects in such jurisdiction.

In the City of Buenos Aires, acts or instruments related to the negotiation of shares and other securities duly authorized for its public offering by the CNV are exempt from stamp tax.

Holders of Class B shares and ADSs are encouraged to consult a tax advisor as to the particular stamp tax consequences arising in the involved jurisdictions.

Prospective investors should consider the tax consequences in force in the above mentioned jurisdictions at the time the concerned document is executed and/or becomes effective.

### *Other taxes*

There are no Federal inheritance or succession taxes applicable to the ownership, transfer or disposition of our Class B shares or ADSs. At the provincial level, the province of Buenos Aires imposes a tax on free transmission of assets, including inheritance, legacies, donations, etc. Any gratuitous transfer of property lower than or equal to Ps.269,000 is exempt. This amount is increased to Ps.1,120,000 in the case of transfers among parents, sons, daughters and spouses. The amount to be taxed, which includes a fixed component and a variable component that is based on differential rates (which range from 1.6026% to 8.7840%), varies according to the property value to be transferred and the degree of kinship of the parties involved. Free transmission of Class B shares or ADSs could be subject to this tax. Holders of Class B shares and ADSs are encouraged to consult a tax advisor as to the particular tax consequences arising in the involved jurisdictions.

### *Court tax*

In the event that it becomes necessary to institute enforcement proceedings in relation to our Class B shares and ADSs in the federal courts of Argentina or the courts sitting in the City of Buenos Aires, a court tax (currently at a rate of 3.0%) will be imposed on the amount of any claim brought before such courts. Certain court and other taxes could be imposed on the amount of any claim brought before the Province courts.

### *Incoming Funds Arising from Non-Cooperative or Low or Nil Tax Jurisdictions*

As defined under Argentine Income Tax Law, non-cooperative jurisdictions are those countries or jurisdictions that do not have an agreement in force with the Argentine government for the exchange of information on tax matters or a treaty to avoid international double taxation with a broad clause for the exchange of information. Likewise, those countries that, having an agreement of this type in force, do not effectively comply with the exchange of information will also be considered as non-cooperative. The aforementioned treaties and agreements must comply with international standards of transparency and exchange of information on fiscal matters to which the Argentine Republic has committed. The Executive Branch shall publish a list of the non-cooperative jurisdictions based on the criteria above. According to Decree No.279/2018, until the new list to be issued by the Executive Power is published, non-cooperative jurisdictions would be deemed as those not included in the “cooperative jurisdictions” list currently published in AFIP’s website, created in accordance with the Decree No.589/2013.

In turn, low or nil tax jurisdictions are defined as those countries, territories, associated states or special tax regimes that foresee a maximum corporate tax rate below 15%. Pursuant to Decree 1170/2018, the 15% threshold rate should be assessed considering the aggregate corporate tax rate in each jurisdiction, regardless of the governmental level in which the taxes were levied. In turn, “special tax regime” is understood as any regulation or specific scheme that departs from the general corporate tax regime applicable in said country and results in an effective rate below that stated under the general regime.

According to the legal presumption under Section 18.2 of Law No. 11,683, as amended, incoming funds from non-cooperative or low or nil jurisdictions could be deemed unjustified net worth increases for the Argentine party, no matter the nature of the operation involved. Unjustified net worth increases are subject to the following taxes:

- income tax would be assessed at 110% of the amount of funds transferred.
- VAT would be assessed at 110% of the amount of funds transferred.

Although the concept of “incoming funds” is not clear, it should be construed as any transfer of funds:

(i) from an account in a non-cooperative/low or nil tax jurisdiction or from a bank account opened outside of a non-cooperative or low or nil tax jurisdiction but owned by an entity located in a non-cooperative or low or nil tax jurisdiction;

(ii) to a bank account located in Argentina or to a bank account opened outside of Argentina but owned by an Argentine party.

The Argentine party may rebut such legal presumption by duly evidencing before the Argentine tax authority that the funds arise from activities effectively performed by the Argentine party or by a third party in such jurisdiction, or that such funds have been previously declared.

### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts**

Not applicable.

### **H. Documents on Display**

We are required to file annual reports, including exhibits, and other information with the SEC and to furnish interim information on Form 6-K. You may read and copy any documents filed by the Company at the SEC’s public reference room at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a website at <http://www.sec.gov> which contains reports and other information regarding registrants that file electronically with the SEC.

We are subject to the reporting requirements of the Exchange Act of 1934, as applied to foreign private issuers. Because we are a foreign private issuer, the SEC's rules do not require us to deliver proxy statements or to file quarterly reports. In addition, our "insiders" are not subject to the SEC's rules that prohibit short-swing trading.

We prepare quarterly and annual reports containing consolidated financial statements in accordance with Central Bank Rules which are translated into English and filed with the SEC. Our annual consolidated financial statements are certified by an independent accounting firm.

We have appointed The Bank of New York Mellon to act as depositary for our ADSs. During the time the deposit agreement remains in force, we will furnish the depositary with:

- our annual reports; and
- summaries of all notices of general meetings of shareholders and other reports and communications that are made generally available to our shareholders.

The depositary will, as provided in the deposit agreement, if we so request, arrange for the mailing of summaries in English of the reports and communications to all record holders of our ADSs. Any record holder of ADSs may read the reports, notices, or summaries thereof, and communications at the depositary's office located at 101 Barclay Street, 22W, New York, New York 10286.

## **I. Subsidiary Information**

Not applicable.

## **Item 11. Quantitative and Qualitative Disclosure about Market Risk**

### ***Market Risk***

As of August 1, 2016, we define market risk as the possibility of incurring losses in on- and off-balance sheet recorded positions as a result of adverse changes in market prices. The market risk minimum capital requirement is the arithmetic sum of the minimum capital requirement for interest rate, stock price, exchange rate and options risks.

The risks subject to the requirement for market risk are the risks of positions in instruments—securities and derivatives—imputed to the trading portfolio and the risks of positions in foreign currencies, regardless of the portfolio—investment or trading—to which they are charged.

To meet this capital requirement, entities must apply a "Standard Measurement Method" based on an aggregate of components that separately capture the specific and general market risks for securities positions. The capital requirement for general market risk is obtained through the residual term method, which consists of the arithmetic sum of the absolute value of the net weighted position in the trading book, the vertical rejection (percentage of positions offset within each time band), horizontal rejection (percentage of positions offset through different time bands) and the net change in option positions.

The requirements are calculated separately for positions in Pesos and in foreign currency, depending on the applicable area, term and coupon value.

The capital requirement for stock price risk is equivalent to the arithmetic sum of the requirement for specific stock price risk (equivalent to 8% of the gross position in shares) and the requirement for general market risk (equivalent to 8% of the net position in shares—total long position minus total short positions in each stock). The capital requirement for exchange rate risk is equivalent to 8% of the total net position.

For measuring options risk, entities that only buy options (and their value is less than 5% of the computable equity liability of the previous month) or whose positions are covered by positions purchased under the same conditions, may use the option so-called "Simplified method". This requirement incorporates both the general market risk and the specific risk. In the remaining cases, entities must use the delta-plus method, which uses Greek letters (delta, gamma and vega) to determine the delta equivalent of each position

The chart below, shows the maximum, minimum, average and closing values for the years 2017 and 2018 of the market risk requirements of foreign currency status and status in securities charged to the Trading portfolio:

In million Pesos	2017	2018	Variation
Minimum	95.9	154.1	58.2
Maximum	863.4	450.5	(412.9)
Average	389.2	287.4	(101.8)
As of December 31,	184.4	212.3	27.9
<b>Market Risk for exchange rates</b>	<b>2017</b>	<b>2018</b>	<b>Variation</b>
Minimum	11.5	78.8	67.3
Maximum	761.9	313.6	(448.3)
Average	296.3	179.1	(117.2)
As of December 31,	100.6	78.8	(21.8)
<b>Market Risk for securities</b>	<b>2017</b>	<b>2018</b>	<b>Variation</b>
Minimum	71.4	70.0	(1.4)
Maximum	131.9	155.9	24.0
Average	92.8	108.0	15.2
As of December 31,	83.4	133.3	49.9
<b>Market Risk for stock price</b>	<b>2017</b>	<b>2018</b>	<b>Variation</b>
Minimum	0.0	0.0	0.0
Maximum	0.4	0.5	0.1
Average	0.0	0.3	0.3
As of December 31,	0.4	0.2	(0.2)

Despite the increases in market risk exposure between 2017 and 2018, there was a decrease in the average exposures and the maximum values. The decrease in average exposure and maximum values was attributable to the fall in capital demand for exchange rate risk, as a result of the capital increase made with foreign funds which took place in 2017. Such position in U.S.\$ substantially increased the exposed maximum amount and the average for the year 2017.

As of December 31, 2017, the foreign exchange exposure amounted to 54% of the total exposure, while in 2018, this value reached 37%. From December 2017 to December 2018, positions in U.S.\$ were reduced due to regulatory changes imposed by the Central Bank in relation to the permitted holdings in U.S.\$ for financial entities (Foreign Currency Net Global Position). For this reason, there was not an increase in such risk in 2018, despite the fact that the exchange rate increased more than 100% between December 2017 and December 2018.

The increase in the exchange rate in 2018, affected prices of dollar-denominated securities. Position in dollar-denominated securities increased in 100%, as well as the interest rate risk exposure, which can be explained by the price and new holdings. Regarding positions in Peso-denominated public securities, the increase in the interest rate risk exposure was not as significant as in the U.S.\$ portfolio. Notwithstanding a 56% increase compared with the previous year, the increase was mostly due to the inclusion of treasury bills, which add little specific risk for its duration.

#### ***Sensitivity to interest rate***

Sensitivity to interest rate arises in our normal course of business as the re-pricing characteristics of its interest-earning assets do not necessarily match those of its interest-bearing deposits and other borrowings. The re-pricing structure of assets and liabilities is matched when an equal amount of assets and liabilities re-price for any given period. Any excess of assets or liabilities over these matched items results in a gap or mismatch.

Our interest rate sensitivity analysis measures the risk arising from the different sensitivity of assets and liabilities when interest rate changes occur ("duration" approach). It covers all the assets and liabilities excluding tradable portfolios.

In this case our VaR model or maximum potential loss in the net economic value of the portfolio of assets and liabilities due to interest rate risk increases, considers a 3-month horizon and with a confidence level of 99%.

Our methodology also captures the real interest rate risk, which is the risk arising from the mismatch produced as a consequence of an imperfect correlation between inflation rate movements and financing interest rate variations.

The following table shows our 3-month 99% confidence for our VaR combined interest rate position for last two years (in millions of Pesos):

	2017	2018
<b>Minimum</b>	3,356.0	2,272.4
<b>Maximum</b>	5,405.7	3,104.6
<b>Average</b>	4,412.9	2,688.5
<b>December 31</b>	5,405.7	2,272.4

It should be noted that, based on the methodological change established since August 2016 by the Central Bank in relation to the requirement for market risk, the instruments—securities and derivatives—not imputed to the trading book are incorporated into the risk measurement by rate variation.

The Central Bank removed all rules and regulations regarding minimum capital requirements for interest rate risk. Notwithstanding this, financial entities must continue to calculate the interest rate risk and remain subject to the Superintendency’s supervision. For additional information regarding market and interest rate risk management see note 50 “Capital Management, Corporate Governance Transparency and Risk Management” to our audited consolidated financial statements as of December 31, 2018 and 2017.

## Item 12. Description of Securities Other Than Equity Securities

A- Not applicable

B- Not applicable

C- Not applicable

### D – American Depositary Shares

#### 1. – 2. See Exhibit 2.1.

#### 3. Fees and Charges Applicable to ADS Holders

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary also collects fees for making distributions to investors, by deducting those fees from amounts being distributed or by selling a portion of the distributable property to pay the fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

**Persons depositing or withdrawing shares may be requested to pay:**

U.S.\$5.00 (or less) per 100 ADSs (or portion thereof)

A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs

U.S.\$0.02 (or less) per ADS (or portion thereof)

Registration fees

**For:**

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders
- Any cash distribution to ADS registered holders
- Registration of transfer of shares on our stock registry to or from the name of the depositary or its nominee or the custodian, or its nominee when making deposits or withdrawals

Persons depositing or withdrawing shares may be requested to pay:

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian, have to pay on any ADS or share underlying an ADS

Any charges incurred by the depositary or its agents, including the custodian, for servicing the deposited securities

For:

- Cable, telex and facsimile transmissions
- Conversion of foreign currencies into U.S. dollars
- As necessary
- As necessary

#### **4. Fees and Direct and Indirect Payments Made by the Depositary to us**

##### **Future Fees and Payments**

The depositary has agreed to reimburse us for expenses incurred by us in connection with the administration and maintenance of the ADSs program, including, but not limited to, investor relation expenses, annual NYSE listing fees or other program related expenses. The depositary has also agreed to pay its standard out-of-pocket administrative, maintenance and shareholder services expenses for providing services to the registered American depositary receipts holders, which consist, without limitation, of expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. There are limits and conditions on the amount of expenses for which the depositary will reimburse us. In 2018, we have received the agreed reimbursement from the Depositary.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

### **Item 15. Controls and Procedures**

#### **Disclosure Controls and Procedures**

We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 31, 2018. There are, as described below, inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon and as of the date of our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Securities Exchange Act is recorded, processed, summarized and reported as and when required.

#### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank;



- b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank; and
- c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on its assessment and those criteria, the Bank's management concluded that, as of December 31, 2018 the Bank's internal control over financial reporting was effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2018, has been audited by Pistrelli, Henry Martin y Asociados S.R.L. (Member of Ernst & Young Global), an independent registered public accounting firm, as stated in their report which appears herein.

#### **Attestation Report of the Independent Registered Public Accounting Firm**

Our independent registered public accounting firm, Pistrelli, Henry Martin y Asociados S.R.L. (Member of Ernst & Young Global), has issued an attestation report on the effectiveness of the Bank's internal control over financial reporting. The report follows below:

#### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of directors of  
BANCO MACRO S.A. and subsidiaries

#### **Opinion on Internal Control over Financial Reporting**

We have audited BANCO MACRO S.A. and its subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, BANCO MACRO S.A. and its subsidiaries (the Bank) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statement of financial position of BANCO MACRO S.A. and its subsidiaries as of December 31, 2018 and 2017 and as of January 1, 2017, the related consolidated statements of income, other comprehensive income, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes and our report dated May 10, 2019 expressed an unqualified opinion thereon.

#### **Basis for Opinion**

The Bank's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

## Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

City of Buenos Aires, Argentina,  
May 10, 2019

PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.  
Member of Ernst & Young Global  
/S/ NORBERTO M. NACUZZI  
Partner

## Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Item 16A. Audit Committee Financial Expert

As of the date of this annual report, Fabián Alejandro de Paul, independent member of the audit committee, met the standards set forth in Item 16A of Form 20-F for "audit committee financial experts."

### Item 16B. Code of Ethics

We have established a Code of Ethics for directors and senior management, including specifically to our chief executive officer, chief financial officer, as well as persons performing similar functions, expecting that their members act according to the highest standards of personal and professional integrity in all aspects of their activities; to comply with the applicable law, to discourage reproachable behaviors and to comply with our Code of conduct and other policies and procedures governing employee conduct. This Code of Ethics is supplemental to our Code of Conduct.

In 2018 we have modified certain conditions of our code of ethics, the updated text of our code of ethics for our directors and senior management is published on our website at: <https://www.macro.com.ar/relaciones-inversores/documento/1517360954165/codigo-de-etica.pdf>

### Item 16C. Principal Accountant Fees and Services

#### *Fees Paid to Our Principal Accountant*

Since 2006 Pistrelli, Henry Martin y Asociados S.R.L. (Member of EY Global) has served as our principal external auditor. Fees payable to Pistrelli, Henry Martin y Asociados S.R.L. (Member of EY Global) in 2017 and 2018 are detailed below.

	2017	2018
	<i>(in thousands of Pesos)</i>	
Audit Fees	47,056	66,999
Audit Related Fees	2,905	—
Tax Fees	140	250
All Other Fees	—	108
<b>Total</b>	<b>50,101</b>	<b>67,357</b>

*Note: figures detailed in the table above have not been adjusted for inflation.*

#### ***Audit Fees***

Audit fees were paid for professional services rendered by the auditors for the audit of our consolidated financial statements.

#### ***Audit-Related Fees***

Audit-related fees are typically services that are reasonably related to the performance of the audit or review of the consolidated financial statements and are not reported under the audit fees item above. This item includes fees for attestation services on our financial information.

#### ***Tax Fees***

Tax fees consist of tax advice services.

#### ***All Other Fees***

Fees disclosed in the table above under “All Other Fees” consisted of other fees paid for professional services.

#### ***Audit Committee’s Pre-approval Policies and Procedures***

Our audit committee is responsible for, among other things, the oversight of our independent auditors. During the year, the audit committee reviews together with management and the independent auditor, the audit plan, audit related services and other non-audit services. The Audit Committee has approved policies and procedures for pre-approving all non-audit work that would be performed by the Bank’s external auditor. All of the services provided by Pistrelli, Henry Martin y Asociados S.R.L. were approved by the Audit Committee pursuant to these approval policies. None of the hours expended on the principal accountant’s engagement to audit our financial statements for 2018 were attributed to work performed by persons other than the principal accountant’s full-time, permanent employees.

#### **Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

#### **Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

##### **Repurchase original program and modifications:**

1. On August 8, 2018 the Board of Directors decided to establish the following terms and conditions for the acquisition of its own shares under the provisions of Section 64 of the Capital Markets Law and the CNV Rules:
  - (a) maximum amount of the investment: up to Ps.5,000,000,000;
  - (b) maximum number of shares to be acquired: up to 5% of the capital stock of the Bank, as established by the applicable Argentine laws and regulations;
  - (c) payable price: up to Ps.158.00 per share, and
  - (d) term for the acquisition: 30 days as from the next day of the date of publication of the information in the Bolsa de Buenos Aires Daily Bulletin, subject to any renewal or extension of the term, which will be informed to the public by the same means.
2. On August 30, 2018 the Board of Directors of the Bank decided to extend the term for the acquisition of shares until September 25, 2018. The maximum investment amount approved was Ps.5 billion and the maximum number of shares subject to the acquisition was 33,483,151 (equivalent to 5% of our share capital). During the term of the repurchase program, 21,463,005 shares were acquired for an amount of Ps. 3.1 billion; remaining as of October 17, 2018, an outstanding amount of Ps.1.9 billion.
3. On October 17, 2018 the Board of Directors decided to resume the repurchase program under the following terms and conditions:
  - (a) maximum amount of the investment: up to Ps. 1,886,075,582;

- (b) maximum number of shares to be acquired: 12,020,146 shares;
  - (c) payable price: up to Ps. 158.00 per share, and
  - (d) term for the acquisition: until November 2, 2018, subject to any term renewal or extension, which in any case will be informed to public.
4. On December 20, 2018, the Board of Directors decided to establish the following terms and conditions for the acquisition of its own shares under the provisions of Section 64 of Law the Capital Markets Law and the CNV Rules:
- (a) maximum amount of the investment: up to Ps. 900,000,000;
  - (b) maximum number of shares to be acquired: up to 1% of the capital of the Bank, as established by the applicable Argentine laws and regulations;
  - (c) payable price: up to Ps. 158.00 per share, and
  - (d) term for the acquisition: until January 10, 2019, subject to any term renewal or extension, which in any case will be informed to public.

In accordance with the above, as of the date of this annual report, we acquired 30,265,275 common Class B shares with a face value of Ps. 1 and entitled to 1 vote each for a total amount of Ps. 4,407,907,175.40.

*Note: figures above-described have not been adjusted for inflation.*

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of the program	Maximum number of shares/Pesos that may yet be purchased under the program	
				in Shares	in \$
August 1, 2018 – August 31, 2018	14,980,495	141.394	14,980,495	18,502,656	2,881,850,080
September 1, 2018 – September 30, 2018	6,482,510	153.609	21,463,005	12,020,146	1,886,075,582
October 1, 2018 – October 31, 2018	6,774,019	147.001	28,237,024	5,246,127	890,289,914
<b>Subtotal</b>	<b>28,237,024</b>	<b>145.543</b>	<b>28,237,024</b>	<b>5,246,127</b>	<b>890,289,914</b>
December 1, 2018 – December 31, 2018	2,028,251	147.022	30,265,275	4,668,379	601,802,911
<b>TOTAL</b>	<b>30,265,275</b>	<b>145.642</b>	<b>30,265,275</b>	<b>4,668,379</b>	<b>601,802,911</b>

*Note: figures represented in the table above are the original amounts and have not been adjusted for inflation.*

#### Item 16F. Change in Registrant's Certifying Accountant

None.

#### Item 16G. Corporate Governance

##### NYSE Corporate Governance Rules

Companies listed on the NYSE must comply with certain standards regarding corporate governance as codified in Section 303A of NYSE's Listed Company Manual, as amended. Nevertheless, the Bank, while a listed company, qualifies also as a foreign private issuer and, as such, is permitted to follow its home country corporate governance practices, governed by the Argentine Corporate Law, the Capital Markets Law and the standards of the CNV and the Central Bank, in lieu of the provisions of Section 303A, except that it is required to comply with the requirements of Sections 303A.06, 303A.11 and 303A.12 (b) and (c). Accordingly: we must comply with four principal NYSE corporate governance rules: (i) we must satisfy the audit committee requirements of Rule 10A-3 under the Securities Exchange Act of 1934 (the "Exchange Act") (Section 303A.06); (ii) we must provide a brief description of any significant differences between our corporate governance practices and those followed by U.S. companies under NYSE listing standards (Section

303A.11); (iii) our Chief Executive Officer must promptly notify the NYSE in writing after any of our executive officers become aware of any non-compliance with the applicable NYSE corporate governance rules (Section 303A.12(b)); and (iv) we must submit an executed written affirmation (in relation to the members of our audit committee) annually or interim written affirmations, if required by the NYSE (Section 303A.12(c)).

The table below discloses any significant differences between the NYSE rules and our corporate governance practices pursuant to Argentine corporate governance rules.

Section	NYSE corporate governance rule for U.S. domestic issuers	Banco Macro Corporate Practices
<b>303A.01-Independent Directors</b>	Listed companies must have a majority of independent directors on their Boards of Directors.	Neither Argentine law nor our bylaws require us to have a majority of independent directors.
<b>303A.02-Independence Tests</b>	<p>This section establishes general standards to determine directors' independence.</p> <p>(a) (i) No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). The board of directors is required to identify its independent directors.</p> <p>(ii) In addition, in affirmatively determining the independence of any director who will serve on the compensation committee of the listed company's board of directors, the board of directors must consider all factors specifically relevant to determining whether a director has a relationship to the listed company which is material to that director's ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to:</p> <p style="padding-left: 40px;">(A) the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the listed company to such director; and</p> <p style="padding-left: 40px;">(B) whether such director is affiliated with the listed company, a subsidiary of the listed company or an affiliate of a subsidiary of the listed company.</p> <p>(b) In addition, a director is not independent if:</p> <p>A. the director is or has been within the last three years, an employee, or an immediate family member is, or has been within the last three years, an executive officer, of the listed company, its parent or a consolidated subsidiary. Employment as interim chairman or CEO or other executive officer shall not disqualify a director from being considered independent;</p>	<p>Pursuant to the CNV Rules, a director will be consider as "independent" if its main relation with the listed company is his / her position in the board of directors. He / she will be appointed taking into account his professional career, suitability, qualified knowledge, and criteria, economic and interest independence, considering also that he can perform his functions objectively and impartially.</p> <p>For the purposes of this definition, it shall be understood that a director does not meet the condition of independent, when one or more of the following circumstances apply to him / her:</p> <p>(a) is a member of the board of directors the parent company or another company belonging to the same economic group of the issuer through a pre-existing relationship at the time of his or her election, or if said relationship had ceased to exist during immediately the previous three years;</p> <p>(b) is or has been associated with the company or any of its shareholders having a direct or indirect "significant participation" on the same, or with corporations with which also the shareholders also have a direct or indirect "signification participation"; or if he or she was associated with them through an employment relationship during the last three years;</p> <p>(c) has any professional relationship or is a member of a corporation that maintains frequent professional relationships of significant nature and volume, or receives remuneration or fees (other than the one received in consideration of his performance as a director) from the issuer or its shareholders having a direct or indirect "significant participation" on the same, or with corporations in which the shareholders also have a direct or indirect "significant participation." This prohibition includes professional relationships and affiliations during the last three years prior to his or her appointment as director;</p> <p>(d) directly or indirectly owns 5% or more of shares with voting rights and/or a capital stock of the issuer or any company with a "significant participation" in it;</p>

- B. the director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than U.S.\$120,000 in direct compensation from the listed company, its parent or a consolidated subsidiary, other than (e) directly or indirectly sells and/or provides goods and/or services (different from those accounted for in section c)) on a regular basis and of a significant nature and volume to the company or to its shareholders with direct or

Section	NYSE corporate governance rule for U.S. domestic issuers	Banco Macro Corporate Practices
	director and committee fees and pension or other forms of deferred compensation for prior services (provided such compensation is not contingent in any way on continued service);	indirect “significant participation”, for higher amounts than his or her remuneration as a member of the board of directors. This prohibition includes business relationships that have been carried out during the last three years prior to his or her appointment as director;
	C. (i) the director is a current partner or employee of a firm that is the listed company’s internal or external auditor; (ii) the director has an immediate family member who is a current partner of such firm; (iii) the director has an immediate family member who is a current employee of such firm and personally works on the company’s audit; or (iv) the director or an immediate family member was within the last three years a partner or employee of such firm and personally worked on the company’s audit within that time;	(f) has been a director, manager, administrator or principal executive of not-for-profit organizations that have received funds, for amounts greater than those described in section I) of article 12 of Resolution No. 30/2011 of the UIF and its amendments, from the issuer, its parent company and other companies of the same group of which it is a part, as well as of the principal executives of any of them;
	D. the director, or an immediate family member is, or has been with the last three years, employed as an executive officer of another company where any of the listed company’s present executive officers at the same time serves or served on that company’s compensation committee;	(g) receives any payment, including the participation in plans or stock option schemes, from the company or companies of the same economic group, other than the compensation paid to him or her as a director, except dividends paid as a shareholder of the company in the terms of section d) and the corresponding to the consideration set forth in section e);
	E. the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from the listed company its parent or a consolidated subsidiary for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of U.S.\$1 million, or 2% of such other company’s consolidated gross revenues.	(h) has served as member of the board of director of the issuer, its parent company or another company belonging to the same economic group for more than ten years. If said relationship had ceased to exist during the previous three years, the independent condition will be recovered;
	A non-independent director will only be deemed independent upon the elapse of a three-year look-back period.	(i) is the spouse or legally recognized partner, relative up to the third level of consanguinity or up to the second level of affinity of persons who, if they were members of the board of directors, would not be independent, according to the above listed criteria;
	“Immediate family member” includes a person’s spouse, parents, children, siblings, mothers and fathers-in law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who share such person’s home.	In all cases, the references made to “significant participation” set forth in the aforementioned independence criteria will be considered as referring to those individuals who hold shares representing at least 5% of the capital stock and or the vote, or a smaller amount when they have the right to elect one or more directors by share class or have other shareholders agreements relating to the government and administration of the company or of its parent company.

In accordance with the provisions of the Central Bank in Communication “A” 5201 and amendments—“Guidelines for Corporate Governance in Financial Entities”, a director does not meet the status of independent if any of the following situations are met:

- (a) a control relationship according to the guidelines established in point 2.2.1. of the rules on “Large exposures to credit risk”.
- (b) performs executive functions or has performed the aforementioned during the last three years as from the day following the last one in which he/she has effectively exercised such position. In the case of public financial entities, this term will be one year.



- (c) is a spouse or relative up to the second degree of consanguinity or first of affinity of those who are in the condition of the preceding points.

In this regard, the following individuals and entities shall be considered “related” to the Bank:

- i) any entity or person other than from the non-financial public sector of the country, having direct or indirect control over the Bank.
- ii) any entity or person, other than from the non-financial public sector of the country, directly or indirectly controlled by an entity or person having direct or indirect control over the Bank.
- iii) any entity or person directly or indirectly controlled by the Bank, pursuant to the provisions of section 28, subsection a) of the Law on Banks and the regulations on “Services supplementary to the financial activity and permitted activities” and “Credit Grading.”
- iv) any Bank or entity engaged in the provision of supplementary services to the financial activity other than those contemplated in the preceding items, subject to consolidated supervision with the Bank.
- v) any entity other than those contemplated in the preceding items, having directors in common with the institution or entity, other than from the non-financial public sector of the country, having direct or indirect control over of with the Bank, to the extent such directors represent a simple majority of the members of the boards of each such entities or the Bank.

To this end, it shall be considered “related” to the director who holds such office in another legal entity or his spouse or partner (by registered cohabiting union) or a relative up to the second degree of consanguinity or first degree of affinity or have exercised it. during the period referred to in item i) of section 1.2.2.2 of the aforementioned rule.

- vi) The parent company and the other branches thereof, in the case of local branches of financial entities abroad.

- vii) Exceptionally, any person who has a relationship with the financial institution or its direct or indirect controller, which may result in financial loss to the financial institution, as of the effective date of the resolution in which it determine the Board of the Central Bank, at the proposal of the Superintendent of Financial and Exchange Institutions.

**NYSE corporate governance rule for U.S.  
domestic issuers**

**Banco Macro Corporate Practices**

Section	NYSE corporate governance rule for U.S. domestic issuers	Banco Macro Corporate Practices
<b>303A.03-Executive Sessions</b>	Non-management directors of each listed company must meet at regularly scheduled executive sessions without management.	<p>Likewise, control by one person or entity over another is defined as:</p> <p>i) holding or controlling, directly or indirectly, 25% or more of the total voting stock in the other entity.</p> <p>ii) having held, directly or indirectly, 50% or more of the total voting stock in the other entity, at the last election of directors or managers.</p> <p>iii) holding a direct or indirect interest in the other entity, even if its voting rights do not amount to 25%, sufficient to adopt resolutions in shareholders' meetings or meetings of the board or a similar corporate body.</p> <p>iv) having direct or indirect controlling influence over the management and/or policies of the other entity, as of the effective date of the relevant resolution of the board of directors of the Central Bank of the Republic of Argentina, based on the recommendation of the Head of the Supervisory Board of Financial and Exchange Institutions (<i>Superintendencia de Entidades Financieras y Cambiarias</i>).</p>
<b>303A.04-Nominating/Corporate Governance Committee</b>	Listed companies must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties and details about committee members and the committee structure.	<p>Neither Argentine law nor our by-laws require the holding of such meetings and we do not hold non-management directors' meetings. Our by-laws provide, however, that the board shall meet as often as required in the best interest of the Bank and at least once a month.</p> <p>Neither Argentine law nor our by-laws require a nominating/corporate governance committee, however, our by-laws provide for the possibility to create a nominating/corporate governance committee. As a result of a general recommendation issued by the Central Bank to all financial institutions, we have created a Corporate Governance and Appointments Committee.</p> <p>The Committee will be formed so that the independent Directors constitute the majority. It has been defined that this Committee is chaired by an independent director.</p> <p>This Committee has an approved charter establishing its functions and responsibilities.</p> <p>Directors are nominated and appointed by the shareholders, with no involvement of the Corporate Governance and Appointments Committee.</p>
<b>303A.05-Compensation Committee</b>	Listed companies must have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties and details about committee members and the committee structure.	Neither Argentine law nor our by-laws require the establishment of a compensation committee. The compensation of our directors is determined at the annual ordinary shareholders' meeting. Additionally, the audit committee must issue an opinion regarding the reasonableness of such compensation.

**NYSE corporate governance rule for U.S.  
domestic issuers**

**Section**

**Banco Macro Corporate Practices**

However, as a result of a general recommendation issued by the Central Bank to all financial institutions, we have created a Personnel Incentives. The Committee will be formed so that the independent Directors constitute the majority. This Committee has an approved charter establishing its functions and responsibilities, and shall meet at least bi-annually.

This Committee is chaired by an independent director.

The Committee's main function is to control that the fixed and variable staff incentives – excluding directors- are consistent with the business culture, long term business plan, goals and business strategy of the Bank as well as with the applicable regulations governing the Bank. The chairmanship of the Committee is held by an independent director.

The Bank has a Compensation Policy that covers both fixed remuneration and variable remuneration, the latter in the framework of an evaluations process of targets and skills

**303A.06/07- Audit Committee/Requirements**

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

- (a) The audit committee must have a minimum of three members. All of its members shall be financially literate or must acquire such financial knowledge within a reasonable period of time after the appointment and at least one of its members shall have experience in accounting or financial management. In addition to meeting any requirement of Rule 10A-3 (b) (1), all audit committee members must satisfy the independence requirements set out in Section 303A.02.
- (b) The audit committee must have a written charter that establishes the duties and responsibilities of its members, including, at a minimum, some of the duties and responsibilities required by Rule 10A-3 of the Exchange Act and the following responsibilities set forth in NYSE Sections 303A.07(b)(iii)(A)-H) of the NYSE Manual.
  - A. at least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised in the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional

- (a) Argentine law requires that the audit committee be composed of three or more members from the Board of Directors (with a majority of independent directors), all of whom must be well-versed in business, financial or accounting matters.

Our Audit Committee is composed by three directors and the Committee's presidency is in charge of an independent Director. All the members of the Audit Committee, according to its designation on April 30, 2019, satisfy the independence requirements of Rule 10A-3.

- (b) Neither Argentine law nor the CNV Rules contain provisions relating to an audit committee member's simultaneous service on the audit committee of other public companies.
- (c) The responsibilities of the audit committee, as provided for in the Capital Markets Law, as regulated by Decree No. 1023 and the CNV Rules) regarding the functions of the Committee, are essentially the same as those provided for under Rule 10A-3 of the Exchange Act, including, without limitation, the following:
  - i. issuing an opinion about the Board of Directors' proposal for the appointment of the external auditors to be retained by the Bank, and ensuring that auditors are independent;



Section	NYSE corporate governance rule for U.S. domestic issuers	Banco Macro Corporate Practices
	<p>authorities, within the preceding five years, with respect to one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the listed company;</p>	<p>ii. overseeing the performance of the internal control systems and the administrative-accounting system as well as the reliability of the latter and of all financial information or other facts which could be submitted to the CNV and self-regulated entities in compliance with the applicable reporting regime;</p>
	<p>B. meet with management and the independent auditor to review and discuss the listed company's annual audited financial statements and quarterly financial statements, including a review of the company's specific disclosures under Operating and Financial Review and Prospects";</p>	<p>iii. supervising the enforcement of the Bank's risk management information policies;</p> <p>iv. providing the market with full disclosure with respect to transactions that give rise to conflict of interests with the members of the Bank's corporate bodies or controlling shareholders;</p> <p>v. issuing an opinion on the reasonableness of any proposal regarding the Directors' and management fees and stock option plans proposed by the Board of Directors;</p>
	<p>C. discuss the listed company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;</p>	<p>vi. issuing an opinion on the compliance with applicable legal requirements and on the reasonableness of the terms of any issuance of stock or convertible securities in case of capital increase excluding or limiting pre-emptive rights;</p>
	<p>D. discuss risk assessment and risk management policies;</p>	
	<p>E. hold separate regular meetings with management, the internal auditors (or other personnel responsible for the internal audit function) and the independent auditors;</p>	<p>vii. assessing compliance with relevant rules of conduct;</p> <p>viii. Issuing a well-founded opinion on transactions with related parties as established in this Decree. Issue a well-founded opinion and inform the same to the self-regulated entities as determined by the CNV in the event of a conflict of interest or a potential conflict of interest.</p>
	<p>F. review any issue or difficulty arising from the audit or management's response with the independent auditor;</p>	<p>In addition, pursuant to the provisions of the CNV Rules, the audit committee is responsible for:</p>
	<p>G. set clear policies for the recruitment of employees or former employees of the independent auditors; and</p>	<ul style="list-style-type: none"> <li>reviewing external and internal auditors' plans, evaluating their performance, and issuing an opinion on such regard upon the publication of the annual financial statements;</li> </ul>
	<p>H. report regularly to the board of directors.</p>	
	<p>(c) Rule 303A.07(c) establishes that each listed company must have an internal audit function to provide management and the audit committee with ongoing advice on the company's risk management processes and internal control systems</p>	<ul style="list-style-type: none"> <li>analysing the various services provided by the external auditors and their independence, as established in the Professional Technical Resolutions of the <i>Federación Argentina De Consejos Profesionales De Ciencias Económicas</i> and any other regulations of the applicable supervisory authorities;</li> </ul>

If a member of the audit committee is simultaneously a member of the audit committee of more than three public companies the board of directors shall determine whether such simultaneous service would prevent such members from effectively serving on the listed company's audit committee, and disclose such determination in the order of business of the annual shareholders' meeting of the listed company or in the company's annual report on Form 10-K filed with the SEC.

- reporting on invoiced fees, broken down as follows: 1) external audit and other related services aiming to ensure reliability (e.g. special analyses on the verification and assessment of internal controls, taxes, involvement in offering memorandums, certifications and special reports required by supervisory authorities, etc.); 2) special services other than those mentioned in item 1) above (e.g. design and implementation of information systems, legal, financial aspects, etc.). Said assessment shall be made by the audit committee including a verification of their respective independence policies to ensure compliance therewith.

Section <b>303A.08-Shareholder Approval of Equity Compensation Plans-</b>	NYSE corporate governance rule for U.S. domestic issuers  Shareholders must be given the opportunity to vote on all equity compensation plans and material amendments thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans.	<b>Banco Macro Corporate Practices</b> We do not currently offer equity-based compensation to our directors, executive officers or employees; therefore, we have no policy on this matter.
<b>303A.09-Corporate Governance Guidelines</b>	Listed companies must adopt and disclose corporate governance guidelines. The corporate governance guidelines must address director qualification standards, director responsibilities, director access to management, director compensation, director orientation and continuing education, management succession, and annual performance evaluation of the board.	Neither Argentine law nor our by-laws require the adoption or disclosure of corporate governance guidelines. However, due to our size and the importance of our business we have implemented a Corporate Governance Code based on the recommended Code of Corporate Governance for listed companies issued by the CNV and the recommended corporate governance guidelines for financial institutions issued by the Central Bank.
<b>303A.10-Code of Business Conduct and Ethics</b>	Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for the benefit of directors or executive officers. Each listed company may determine its own policies, which should address conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of listed company assets, compliance with laws, rules and regulations, and encouraging the reporting of any illegal or unethical behavior.	Neither Argentine law nor our by-laws require the adoption or disclosure of a code of business conduct and ethics.  However, we have adopted a Code of Conduct applicable to all our employees. In addition, we have adopted a specific Code of Ethics applicable to our Directors and Senior Management.  Regarding the ethical standards, we have implemented an Ethical Line or channel for reports that is managed by a third party who assures the confidentiality and anonymity.
<b>303A.12-Certification Requirements</b>	(a) The CEO of each listed company must certify to the NYSE, on an annual basis, that he or she is not aware of any breach by the company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary.  (b) The CEO of each listed company must promptly notify the NYSE in writing upon any executive officer of the listed company becoming aware of any non-compliance with any applicable provisions of this Section 303A.  (c) Each listed company must submit an annual executed Written Affirmation to the NYSE. In addition, each listed company must submit an interim written affirmation as and when required and using the interim written affirmation form specified by the NYSE.	No comparable provisions exist under Argentine law.  However, the Bank is in compliance with the certification requirements of Section 303A.12 (b) and (c) of the NYSE rules.

## PART III

### Item 17. Financial Statements

We have responded to Item 18 in lieu of responding to this Item.

## Item 18. Financial Statements

See pages F-1 through F-114 of this annual report.

## Item 19. Exhibits

### EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
1.1	<u>Restated Bylaws of the Bank, as amended and restated on April 29, 2014, incorporated by reference to the Form 6-K filed by the Bank on August 21, 2014 (File No. 001-32827).</u>
2.1	<u>Deposit Agreement among the registrant, The Bank of New York, as depositary, and the holders from time to time of American depositary shares issued thereunder, including the form of American depositary receipts, incorporated by reference to the Registration Statement on Form F-1, as amended, filed by the Bank on March 20, 2006 (File No. 333-130901).</u>
8.1*	<u>List of subsidiaries of the Bank as of December 31, 2018.</u>
12.1*	<u>Certification by the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
12.2*	<u>Certification by the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
13.1*	<u>Certification by the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
13.2*	<u>Certification by the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

\* Filed herewith



**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**BANCO MACRO S.A.**

By: /s/Gustavo Alejandro Manriquez  
Name: Gustavo Alejandro Manriquez  
Title: Chief Executive Officer

Date: May 10, 2019.



**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018 AND 2017 AND AS OF JANUARY 1, 2017, TOGETHER  
WITH THE REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

F-1

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Shareholders and the Board of directors of**

**BANCO MACRO S.A. and its subsidiaries**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated statement of financial position of BANCO MACRO S.A. (a bank organized under Argentine legislation) and its subsidiaries (the Bank) as of December 31, 2018 and 2017 and as of January 1, 2017, and the related consolidated statements of income, other comprehensive income, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BANCO MACRO S.A. and its subsidiaries as of December 31, 2018 and 2017 and as of January 1, 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards (IFRS) as issued by the Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the internal control over financial reporting of BANCO MACRO S.A. and its subsidiaries as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 10, 2019 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Buenos Aires City, Argentina**

**May 10, 2019**

**PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.**

**Member of Ernst & Young Global**

**We have served as the Bank's auditor since 2003**

**/S/ NORBERTO M. NACUZZI**

**Partner**

**BANCO MACRO SA AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2018 AND 2017 AND JANUARY 1, 2017**

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2018, except otherwise indicated)

<b>Items</b>	<b>Notes</b>	<b>12/31/2018</b>	<b>12/31/2017</b>	<b>01/01/2017</b>
<b>ASSETS</b>				
Cash and Deposits in Banks		74,766,039	52,505,097	66,306,368
Cash		10,696,465	9,982,946	8,975,352
Central Bank of Argentina		50,212,127	34,997,137	52,479,750
Other Local and Foreign Entities		13,401,648	5,583,148	4,849,440
Other		455,799	1,941,866	1,826
Debt Securities at fair value through profit or loss	4	2,635,247	1,603,472	612,613
Derivative Financial Instruments	11	17,293	12,149	17,911
Repo Transactions	7		2,096,284	35,237
Other financial assets	18	2,999,584	3,355,507	2,036,966
Loans and other financing	9	179,166,463	195,864,678	162,864,366
Non financial Public Sector		1,775,507	2,781,024	2,921,334
Other Financial Entities		5,625,848	4,782,999	3,156,606
Non financial Private Sector and Foreign Residents		171,765,108	188,300,655	156,786,426
Other Debt Securities	5	64,584,759	51,238,580	37,579,769
Financial Assets delivered as guarantee	8	6,756,220	11,277,691	6,800,296
Equity Instruments at fair value through profit or loss	6	51,518	417,334	749,675
Investment in associates and joint arrangements	14	108,823	323,265	228,970
Property, Plant and Equipment	15	15,544,258	15,205,782	13,953,683
Intangible Assets	17	2,120,595	1,626,253	1,506,292
Deferred Income Tax Assets	27		1,249	
Other Non financial Assets	18	985,435	2,174,196	2,161,137
Non current assets held for sale	20	1,496,757	368,329	174,283
<b>TOTAL ASSETS</b>		<b><u>351,232,991</u></b>	<b><u>338,069,866</u></b>	<b><u>295,027,566</u></b>

**BANCO MACRO SA AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2018 AND 2017 AND JANUARY 1, 2017**

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2018, except otherwise indicated)

Items	Notes	12/31/2018	12/31/2017	01/01/2017
<b>LIABILITIES</b>				
Deposits		237,954,419	212,800,371	206,113,028
Non financial Public Sector		19,354,087	19,032,549	17,445,381
Financial Sector		148,275	120,123	102,938
Non financial Private Sector and Foreign Residents		218,452,057	193,647,699	188,564,709
Liabilities at fair value through profit or loss			9,523	
Derivative Financial Instruments	11	1,369	34,116	
Repo Transactions	7	164,469	3,968,851	2,018,763
Other Financial Liabilities	23	15,318,513	15,593,151	11,684,864
Financing received from the Central Bank of Argentina and other financial entities		2,998,010	1,733,524	479,907
Issued Corporate Bonds	46	6,377,311	6,957,379	3,104,030
Current Income Tax Liabilities		2,946,479	5,869,385	3,224,097
Subordinated Corporate Bonds	46	15,288,390	11,170,509	11,749,101
Provisions	21	1,056,624	1,026,017	617,268
Deferred Income Tax Liabilities	27	2,341,456	1,875,636	2,917,369
Other Non-financial Liabilities	23	5,875,117	5,279,810	5,830,128
<b>TOTAL LIABILITIES</b>		<b>290,322,157</b>	<b>266,318,272</b>	<b>247,738,555</b>
<b>SHAREHOLDERS' EQUITY</b>				
Capital Stock	39	669,663	669,663	584,563
Additional paid-in capital		23,266,223	23,266,223	3,450,064
Adjustments to Shareholders' Equity		6,361,115	6,361,115	6,306,336
Earnings Reserved		41,999,214	37,626,956	26,504,779
Unappropriated Retained Earnings		(10,656,499)	(2,462,021)	9,935,020
Other Comprehensive (Loss) / Income		(30,167)	40,856	121,075
Net (Loss) / Income for the fiscal year		(701,220)	5,938,807	
Net Shareholders' Equity attributable to the owners of parent company		60,908,329	71,441,599	46,901,837
Net Shareholders' Equity attributable to non-controlling interests		2,505	309,995	387,174
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>60,910,834</b>	<b>71,751,594</b>	<b>47,289,011</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>351,232,991</b>	<b>338,069,866</b>	<b>295,027,566</b>

The accompanying notes 1 to 52 to the consolidated financial statements are integral part of these consolidated financial statements.

**BANCO MACRO SA AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE FISCAL YEARS ENDED DECEMBER 31, 2018 AND 2017**

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2018, except otherwise indicated)

Items	Notes	12/31/2018	12/31/2017
Interest income	28	74,733,441	55,826,695
Interest expense	29	(29,563,908)	(16,971,578)
<b>Net interest income</b>		<b>45,169,533</b>	<b>38,855,117</b>
Commissions income	30	14,474,765	14,987,879
Commissions expense	31	(930,045)	(1,113,684)
<b>Net Commissions income</b>		<b>13,544,720</b>	<b>13,874,195</b>
<b>Subtotal (Net Interest income + Net Commissions income)</b>		<b>58,714,253</b>	<b>52,729,312</b>
Net Income from measurement of financial instruments at fair value through profit or loss	32	1,261,206	944,908
(Loss) / Profit from sold assets at amortized cost		(6,129)	18,885
Difference in quoted prices of gold and foreign currency	33	(1,750,282)	2,252,700
Other operating income	34	3,347,241	2,605,384
Credit loss expense on financial assets		(2,900,048)	(2,613,724)
<b>Net Operating Income</b>		<b>58,666,241</b>	<b>55,937,465</b>
Employee benefits	35	(12,476,567)	(12,536,276)
Administrative expenses	36	(8,273,181)	(7,631,898)
Depreciation and amortization of fixed assets	15, 16 and 17	(1,473,445)	(1,407,331)
Other Operating Expenses	37	(12,393,870)	(11,005,098)
<b>Net operating income after expenses, depreciation and amortization</b>		<b>24,049,178</b>	<b>23,356,862</b>
Income from associates and joint arrangements	14	266,302	290,303
Loss on net monetary position		(15,722,476)	(9,218,751)
<b>Income before tax on continuing operations</b>		<b>8,593,004</b>	<b>14,428,414</b>
Income tax on continuing operations	27	(9,327,117)	(8,408,808)
<b>Net (Loss) / Income from continuing operations</b>		<b>(734,113)</b>	<b>6,019,606</b>
<b>Net (Loss) / Income for the fiscal year</b>		<b>(734,113)</b>	<b>6,019,606</b>
Net (Loss) / Income for the fiscal year attributable to the owners of the Parent Company		(701,220)	5,938,807
Net (Loss) / Income for the fiscal year attributable to non-controlling interests		(32,893)	80,799

**BANCO MACRO SA AND ITS SUBSIDIARIES**  
**CONSOLIDATED EARNINGS/LOSSES PER SHARE**  
**FOR THE FISCAL YEARS ENDED DECEMBER 31, 2018 AND 2017**

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2018, except otherwise indicated)

<u>Items</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Net (Loss) / Profit attributable to Parent's shareholders	(701,220)	5,938,807
PLUS: Potential diluted earnings per common share		
Net (Loss) / Profit attributable to Parent's shareholders adjusted as per diluted earnings	(701,220)	5,938,807
Weighted average of outstanding common shares for the fiscal year	661,141	629,531
PLUS: Weighted average of the number of additional common shares with dilution effects		
Weighted average of outstanding common shares for the fiscal year adjusted as per dilution effect	661,141	629,531
Basic (Loss)/Earnings per share	(1.06)	9.43

**BANCO MACRO SA AND ITS SUBSIDIARIES**

**STATEMENTS OF OTHER COMPREHENSIVE INCOME**

**FOR THE FISCAL YEARS ENDED DECEMBER 31, 2018 AND 2017**

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2018, except otherwise indicated)

<u>Items</u>	<u>Notes</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
<b>Net (Loss) / Income for the fiscal year</b>		<b>(734,113)</b>	<b>6,019,606</b>
<b>Foreign currency translation differences in financial statements conversion</b>		<b>382,728</b>	<b>(63,151)</b>
Foreign currency translation differences for the fiscal year		382,728	(63,151)
<b>Profits or losses for financial instruments measured at fair value through other comprehensive income (FVOCI) IFRS 9(4.1.2)(a)</b>		<b>(453,753)</b>	<b>(17,809)</b>
Profits or losses for the fiscal year from financial instruments at fair value through other comprehensive income (FVOCI)		(605,103)	11,994
Income tax		151,350	(29,803)
<b>Total other comprehensive loss that is subsequently reclassified to profit or loss</b>		<b>(71,025)</b>	<b>(80,960)</b>
<b>Total Other Comprehensive Loss</b>		<b>(71,025)</b>	<b>(80,960)</b>
<b>Total Comprehensive (Loss) / Income for the fiscal year</b>		<b>(805,138)</b>	<b>5,938,646</b>
Total Comprehensive (Loss) / Income attributable to the owners of the parent Company		(772,243)	5,858,588
Total Comprehensive (Loss) / Income attributable to non-controlling interests		(32,895)	80,058

The accompanying notes 1 to 52 to the consolidated financial statements are an integral part of these consolidated financial statements.







**BANCO MACRO SA AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED DECEMBER 31, 2018 AND 2017**

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2018, except otherwise indicated)

<u>Items</u>	<u>Notes</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before tax on continuing operations		8,593,004	14,428,414
Adjustments to obtain cash flows from operating activities:			
Depreciation and amortization of fixed assets		1,473,445	1,407,331
Credit loss expense on financial assets		2,900,048	2,613,724
Difference in quoted prices of gold and foreign currency		(11,187,548)	(640,656)
Effect of inflation on cash and cash equivalents		37,727,661	19,262,485
Other adjustments (*)		(10,222,186)	(1,936,885)
Net increase/ decrease from operating assets:			
Debt Securities at fair value through profit and loss		(1,061,917)	(1,971,265)
Derivative financial instruments		(5,144)	5,762
Repo transactions		2,096,284	(2,061,047)
Loans and other financing			
Non-financial public sector		1,005,517	140,310
Other financial entities		(842,849)	(1,626,393)
Non-financial private sector and foreign residents		13,685,945	(33,989,357)
Other debt securities		12,785,107	(12,740,471)
Financial assets delivered as guarantee		4,521,471	(4,477,395)
Equity instruments at fair value through profit or loss		365,816	332,341
Other assets		1,208,230	(1,347,004)
Net increase/ decrease from operating liabilities:			
Deposits			
Non-financial public sector		321,538	1,587,168
Financial sector		28,152	17,185
Non-financial private sector and foreign residents		24,804,358	5,082,990
Liabilities at fair value through profit or loss		(9,523)	9,523
Derivative financial instruments		(32,747)	34,116
Repo transactions		(3,804,382)	1,950,088
Other liabilities		480,731	3,920,966
Payments for Income Tax		(8,942,784)	(6,866,358)
<b>TOTAL CASH FROM (USED IN) OPERATING ACTIVITIES (A)</b>		<b><u>75,888,227</u></b>	<b><u>(16,864,428)</u></b>

**BANCO MACRO SA AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED DECEMBER 31, 2018 AND 2017**

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2018, except otherwise indicated)

<u>Items</u>	<u>Notes</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments:			
Acquisition of PPE, intangible assets and other assets		(2,285,690)	(2,944,845)
<b>TOTAL CASH FROM (USED IN) INVESTING ACTIVITIES (B)</b>		<b>(2,285,690)</b>	<b>(2,944,845)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments:			
Dividends		(4,511,437)	(1,274,864)
Acquisition or redemption of equity instruments		(4,978,414)	
Non subordinated corporate bonds	38	(2,883,046)	(3,755,566)
Subordinated corporate bonds	38	(879,426)	(704,261)
Acquisition of non controlling interest		(542,605)	
Proceeds:			
Issued Equity instruments			19,956,038
Non subordinated corporate bonds	38	4,321,031	7,675,595
Central Bank of Argentina	38	7,467	1,477
Financing to local financial entities	38	1,173,929	992,426
<b>TOTAL CASH USED IN FINANCING ACTIVITIES (C)</b>		<b>(8,292,501)</b>	<b>22,890,845</b>
<b>EFFECT OF EXCHANGE RATE FLUCTUATIONS (D)</b>		20,830,157	2,456,171
<b>EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS (E)</b>		<b>(37,727,661)</b>	<b>(19,262,485)</b>
<b>TOTAL CHANGES IN CASH FLOWS</b>			
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D+E)</b>		<b>48,412,532</b>	<b>(13,724,742)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FISCAL YEAR</b>	38	<b>82,217,223</b>	<b>95,941,965</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FISCAL YEAR</b>	38	<b>130,629,755</b>	<b>82,217,223</b>

The accompanying notes 1 to 52 to the consolidated financial statements are an integral part of these consolidated financial statements.

(\*) Mainly related to inflation adjustment and exchange differences of Corporate Bonds issued by the Bank.

## BANCO MACRO SA AND ITS SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018 AND 2017 AND AS OF JANUARY 1, 2017

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2018, except otherwise indicated)

#### 1. CORPORATE INFORMATION

Banco Macro SA (hereinafter, the Bank), is a stock corporation (*sociedad anónima*), organized in the Republic of Argentina, with headquarters at Avenida Madero 1182, Ciudad Autónoma de Buenos Aires (CABA). Its by-law expiry date is on March 8, 2066.

The Bank offers traditional banking products and services to companies, including those companies operating in regional economies, as well as to individuals, thus strengthening its goal to be a multiservice bank. In addition, through its subsidiaries, the Bank performs transactions as a trustee agent, manager and administrator of mutual funds and renders stock exchange services.

Macro Compañía Financiera SA was created in 1977, as a non-banking financial institution. In May 1988, it received the authorization to operate as a commercial bank and it was incorporated as Banco Macro SA. Subsequently, as a result of the merger process with other entities, it adopted other names (among them, Banco Macro Bansud SA) and since August 2006, Banco Macro SA.

The Bank's shares have been publicly listed on Bolsas y Mercados Argentinos (BYMA) since November 1994; and as from March 24, 2006 they are listed on the New York Stock Exchange (NYSE). Additionally, on October 15, 2015, they were authorized to be listed on the Mercado Abierto Electrónico SA (MAE).

Since 1994, Banco Macro SA's market strategy was mainly focused on the regional areas outside the City of Buenos Aires. Following this strategy, in 1996, Banco Macro SA started the process to acquire entities and assets and liabilities during the privatization of provincial and other banks.

These consolidated financial statements for the year ended December 31, 2018, were authorized for issue by the Management on May 10, 2019. Even when the Shareholders' has the power to amend these consolidated financial statements after issuance, in Management opinion it will not happen.

#### 2. OPERATIONS OF THE BANK

##### 2.1. Agreement with the Misiones Provincial Government

The Bank and the Misiones Provincial Government entered into a special-relationship agreement whereby the Bank was appointed, for a five-year term since January 1, 1996, as the Provincial Government's exclusive financial agent, as well as revenue collection and obligation payment agent.

On November 25, 1999, and December 28, 2006, extensions to such agreement were agreed upon, making it currently effective through December 31, 2019. Additionally, on October 1, 2018, the above-mentioned agreement was extended for a ten-year term beginning on January 1, 2020, and being effective through December 31, 2029.

As of December 31, 2018 and 2017 and January 1, 2017, the deposits held by the Misiones Provincial Government with the Bank amounted to 5,540,994, 4,806,385 and 4,598,606 (including 430,545, 491,707 and 257,239 related to court deposits), respectively.

##### 2.2. Agreement with the Salta Provincial Government

The Bank and the Salta Provincial Government entered into a special-relationship agreement whereby the Bank was appointed, for a ten-year term since March 1, 1996, as the Provincial Government's exclusive financial agent, as well as revenue collection and obligation payment agent.

On February 22, 2005, and August 22, 2014, extensions to such agreements were agreed upon, making it currently effective through February 28, 2026.

As of December 31, 2018 and 2017 and January 1, 2017, the deposits held by the Salta Provincial Government with the Bank amounted to 2,630,532, 1,341,021 and 2,470,379 (including 644,863, 677,029 and 682,028 related to court deposits), respectively.

## **BANCO MACRO SA AND ITS SUBSIDIARIES**

### **2.3. Agreement with the Jujuy Provincial Government**

The Bank and the Jujuy Provincial Government entered into a special-relationship agreement whereby the Bank was appointed, for a ten-year term since January 12, 1998, as the Provincial Government's exclusive financial agent, as well as revenue collection and obligation payment agent.

On April 29, 2005 and July 8, 2014, extensions to such agreement were agreed upon, making it currently effective through September 30, 2024.

As of December 31, 2018 and 2017 and January 1, 2017, the deposits held by the Jujuy Provincial Government with the Bank amounted to 1,387,236, 6,864,315 and 2,911,807 (including 436,972, 473,684 and 467,312 related to court deposits), respectively.

### **2.4. Banco del Tucumán SA**

Banco del Tucumán SA acts as an exclusive financial agent and as revenue collection and obligation payment agent of the Tucumán Provincial Government, the Municipality of San Miguel de Tucumán and the Municipality of Yerba Buena. The services agreements with the Provincial and Municipalities Governments are effective through years 2031, 2023 and 2020, respectively.

On July 4, 2018 the legislative body of the province of Tucumán enacted, into law a bill issued by the provincial executive, authorizing the sale of the shares held by such province in Banco de Tucumán SA to Banco Macro SA as well as the continuity as a provincial finance agent for an additional period of ten years from the expiration of the contract, and if applicable, the possibility of merging both entities.

On August 10, 2018, the province of Tucumán transferred to Banco Macro SA, 43,960 Class B common registered nonendorsable shares, with a face value of Ps. 100 each one and entitled to one vote, which is equivalent to 10% of its common stock and votes. For this transaction, the Bank paid 524,781. In addition, the Bank acquired from an individual shareholder 59 shares for an amount of 350.

This transaction was registered in the Bank's shareholders' equity, derecognizing, at the carrying amount, the non-controlling interest. The difference between the adjustment of the controlling and non-controlling interests and the fair value of the consideration paid was registered in retained earnings.

On the other hand, on April 30, 2019, the Shareholders' Meeting of Banco Macro SA decided, among other issues, to approved a preliminary merger agreement, whereby Banco Macro SA will incorporate with retroactive effect to January 1, 2019 Banco del Tucumán SA on the basis of the separate financial statements of each of the companies as of December 31, 2018 and of the special consolidated financial statement of merger status as of same date. The exchange ratio has been agreed at 0.65258 ordinary shares of Banco Macro SA for each face value \$ 1 of common share of Banco del Tucumán SA. Therefore, the minority shareholders of Banco del Tucumán SA will be entitled to receive at 0.65258 common shares of Banco Macro SA, for each face value \$ 1 of ordinary shares they hold in the capital of Banco del Tucumán SA.

Consequently, Banco Macro, as the incorporating company, will increase its capital by 15,662 shares, from 669,663 to 669,679 all subject to the approvals of the corresponding agencies.

As of December 31, 2018 and 2017 and January 1, 2017, the deposits held by the Tucumán Provincial Government, the Municipality of San Miguel de Tucumán and the Municipality of Yerba Buena with Banco del Tucumán SA amounted to 6,047,312, 2,825,643 and 4,515,056 (including 1,890,398, 1,810,125 and 1,738,785 related to court deposits), respectively.

## **3. BASIS FOR THE PREPARATION OF THESE FINANCIAL STATEMENTS AND APPLICABLE ACCOUNTING STANDARDS**

### **Presentation basis**

#### **Applicable Accounting Standards**

These consolidated financial statements have been prepared in accordance with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB).

## BANCO MACRO SA AND ITS SUBSIDIARIES

The consolidated financial statements of the Bank comprise the Standards and Interpretations adopted by the IASB and includes:

- the IFRS;
- the International Accounting Standards (IAS); and
- the interpretations developed by the IFRS Interpretations Committee (IFRIC) or former IFRIC (SIC).

In the preparation of these consolidated financial statements, the Bank further contemplated the exceptions and exemptions provided for in IFRS 1 “First-time Adoption of IFRS” and those which were applied are described in the section “First-time Adoption of IFRS” of this note.

Up to the fiscal year ended December 31, 2017, the Bank prepared its financial statements in accordance with the rules and standards issued by the BCRA. The financial information for previous fiscal years and included in these consolidated financial statements for comparative purposes, was modified and is disclosed in accordance with the basis described in the preceding paragraphs. The effects of changes between the standards applied at the end of the fiscal year ended December 31, 2017 and the IFRS, are explained in the reconciliations disclosed under the title “First-time Adoption of IFRS” of this note.

### Going concern

The Bank’s management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank’s ability to continue as a going concern. Therefore, these consolidated financial statements continue to be prepared on the going concern basis.

### Figures expressed in thousands of pesos

The consolidated financial statements disclose figures expressed in thousands of Argentine pesos in terms of purchasing power as of December 31, 2018, except otherwise indicated, and are rounded up to the nearest amount in thousands of pesos, unless otherwise expressly stated.

### Statement of financial position—Disclosure

The Bank presents its assets and liabilities in order of liquidity. The analysis referred to the recovery of assets and settlement of liabilities during the 12 months following the reporting date and more than 12 months after the reporting date is disclosed in note 24.

Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are only offset and reported net when there is a legal and enforceable right to offset such financial assets and liabilities and the Management also intends to settle them on a net basis or to realize assets and settle liabilities simultaneously.

These consolidated financial statements were prepared on the basis of historical cost except for monetary Regulation Instruments of the BCRA and certain Federal Government Securities, which were valued at fair value through Other Comprehensive Income (OCI) and Provincial Government Securities, certain Federal Government Securities, Corporate Bonds, listed Debt Securities and Certificates of Participation in Financial Trusts, unlisted Participation in Financial trust and listed or unlisted Investments in Equity Instruments, which were valued at Fair Value Through Profit or Loss. In addition, derivative instruments (term and forwards transactions) both assets and liabilities were valued at Fair Value through Profit or Loss.

### Comparative information

The statement of financial position as of December 31, 2018, the statement of income and other comprehensive income, the statement of changes in shareholders’ equity and the statement of cash flows for the fiscal year ended December 31, 2018, are presented comparatively with the immediately preceding fiscal year.

The Bank has not restated comparative information for 2017 and 2016 for impairment of financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 and 2016 is reported under previous standards (BCRA Communiqué “A” 2950 and supplementary) and is not comparable with the information presented for 2018. Differences arising from the adoption of IFRS9 have been recognized directly in retained earnings as of January 1, 2018 and are disclosed 3.2.4.3.

Additionally, in compliance with IFRS 1 and since these consolidated financial statements are the first ones being submitted pursuant to IFRS, it is included the opening statement of financial position to the transition date (January 1, 2017).

## BANCO MACRO SA AND ITS SUBSIDIARIES

### Measuring unit

These consolidated financial statements as of December 31, 2018 and the corresponding figures for previous fiscal years have been restated for the changes in the general purchasing power of the functional currency (Argentine pesos) of the Bank as established by IAS 29. As a result, these consolidated financial statements are stated in terms of the measuring unit current at the end of the reporting period, except otherwise indicated.

According with IAS 29, the restatement of financial statements is needed when the functional currency is the currency of a hyperinflationary economy. To achieve consistency in identifying an economic environment of that nature, IAS 29 establishes (i) certain qualitative indicators, not limited to, consist of analyzing the general population behavior, prices, interest rates and wages with changes to a price index and the loss of purchasing power, and (ii) as quantitative characteristic, which is the mostly condition used in practice, to test if a three-year cumulative inflation rate is around 100% or more. Whilst in the recent years there was an important increase in the general level prices, the three-year cumulative inflation had maintained in Argentina below 100%. However, due to miscellaneous macroeconomic factors the three-year inflation rate for 2018 exceeds that figures, and, also the Argentine government goals and other available estimates indicate that this trend will not be reversed in the short term.

The restatement was applied as if the economy had always been hyperinflationary; using a general price index that reflects changes in general purchasing power. To apply the restatement, a series of indexes were used, as prepared and published on a monthly basis by the Argentine Federation of Professionals Councils in Economic Sciences (FACPCE, for its acronym in Spanish), which combines consumer price index (CPI) on a monthly basis published by the Argentine Institute of Statistics and Censuses (INDEC, for its acronym in Spanish) since January 2017 (baseline month: December 2016) with the wholesale prices indexes published by the INDEC until that date. For the months of November and December 2015, for which the INDEC did not publish the wholesale price index (WPI) variation, the CPI variation for CABA was used.

Considering the abovementioned indexes, the inflation rate was 47.64 % and 24.79 % for the fiscal years ended on December 31, 2018 and 2017, respectively.

Below is a description of the restating mechanism provided by IAS 29:

Restatement of the statements of financial position:

- (i) Monetary items (the ones that are already stated in terms of the current measuring unit) are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period. In an inflationary period, an entity holding monetary assets generates purchasing power loss and holding monetary liabilities generates purchasing power gain, provided that the assets and liabilities are not linked to an adjustment mechanism that offsets, in some extent such effects. The net gain or loss on a monetary basis shall be included in profit or loss for the period.
- (ii) Assets and liabilities subject to adjustments based on specific agreements will be adjusted in accordance with such agreements.
- (iii) Nonmonetary items stated at current cost at the end of the reporting period, are not restated for presentation purposes in the statement of financial position, but the adjustment process must be completed to determine, in terms of constant measurement unit, the income or loss produced by holding these nonmonetary items.
- (iv) Nonmonetary items carried at historical cost or at current cost at some earlier date before the reporting date, shall be restated by an index that reflects the general level of price variation from the acquisition or revaluation date to the closing date, proceeding then to compare the restated amounts of those assets with their recoverable amounts. Income or loss for the period related to depreciation of property, plant and equipment and amortization of Intangible Assets and Other nonmonetary cost shall be determined over the new restated amounts.
- (v) When an entity capitalizes borrowing cost in the nonmonetary assets, the part of the borrowing cost that compensates for the inflation during the same period will not be capitalized.
- (vi) The restatement of nonmonetary assets in terms of a current measurement unit at the end of the reporting period, without an equivalent adjustment for tax purposes generates a taxable temporary difference and a deferred income tax liability is recognized and the contra account is recognized as profit or loss for the period. When, beyond the restatement, there is a revaluation of nonmonetary assets, the deferred tax related to the restatement is recognized in profit or loss for the period and deferred tax related with the revaluation is recognized in other comprehensive income for the period.



## BANCO MACRO SA AND ITS SUBSIDIARIES

Restatement of the statements of comprehensive income:

- (i) Income and expenses are restated from the date the items were recorded, except for those income or loss items that reflect or include, in their determination, the consumption of assets measured at the currency purchasing power from a date prior to that which the consumption was recorded, which is restated using as a basis the acquisition date of the assets related to the item, except for gains or losses that derive from indexed assets or liabilities and except for income or losses arising from comparing the two measurements at currency purchasing power of different dates, for which it requires to identify the compared amounts, to restate them separately and to repeat the comparison, with the restated amounts.
- (ii) The gain or loss for holding monetary assets and liabilities, is separately disclosed in the consolidated statement of income.

Restatement of the statements of changes in shareholders' equity:

- (i) As the transition date (the beginning of comparative periods), the Bank has applied the following rules:
  - (a) The components of equity, except earnings reserves and unappropriated retained earnings, were restated from the dates the components were contributed or otherwise arose. The capital stock disclosed in the consolidated statement of changes in shareholders' equity is shown in a nominal basis and its inflation adjustment is included in "adjustment to shareholders' equity".
  - (b) Earnings reserves were stated at nominal value at the transition date.
  - (c) The unappropriated retained earnings were determined as a difference between the restated net asset at the transition date and the other components of equity, restated as mentioned in the abovementioned paragraphs.
- (ii) After the restatement at the transition date abovementioned in (i), all equity's components were restated by applying a general price index as mentioned before from the beginning of the period or the date of contribution, if later.

Restatement of the statements of cash flows:

IAS 29 requires that all items in the statement of cash flows are expressed in terms of the measuring unit current at the end of the reporting fiscal year.

The monetary gain or losses generated by cash and cash equivalents are separately disclosed in the statement of cash flows from the cash flows from operating activities and the effect of exchange rate fluctuation, as a specific item of the reconciliation between cash and cash equivalent at the beginning and the end of the fiscal years.

As a consequence, the application of IAS 29 results in an adjustment for the loss of purchasing power of the Argentine peso recorded in the consolidated statement of income as a loss on the net monetary position. In a period of inflation, as the Bank holds an excess of monetary assets over monetary liabilities, it loses purchasing power, which results in a loss on the net monetary position. This loss is derived as the difference resulting from the restatement of non-monetary assets and liabilities, equity and items in the statement of comprehensive income. Corresponding figures as of December 31, 2017 and January 1, 2017, have also been restated so that they are presented in terms of the purchasing power of the Argentine peso as of December 31, 2018.

### **Basis for Consolidation**

These consolidated financial statements include the financial statements of the Bank and its subsidiaries as of December 31, 2018.

Subsidiaries are all the entities controlled by the Bank. The Bank controls other entity when it is exposed, or has rights, to variable returns from its continuing involvement with such other entity, and has the ability to use its power to direct the operating and financing policies of such other entity, to affect the amounts of such returns.

This generally happens when there is a shareholding of more than half of its shares having voting rights.

Notwithstanding the above, under certain particular circumstances, the Bank may still have control with less than a 50% participating interest or may not have the control even if it holds more than half of the shares of such other entity. Upon evaluating whether it has power over the controlled entity, and therefore controls the variation of its returns, the Bank shall consider all relevant facts and circumstances, including:

- The purpose and design of the controlled entity,

## BANCO MACRO SA AND ITS SUBSIDIARIES

- What the relevant activities are and how decisions about those activities are made and whether the Bank has the ability to direct such relevant activities,
- Contractual arrangements such as call rights, put rights and liquidation rights,
- Whether the Bank is exposed, or has rights, to variable returns from its involvement with such controlled entity, and whether the Bank has the ability to use its power over the controlled entity to affect the amount of the Bank's returns.

The Bank has no interests in structured entities that required to be consolidated.

Subsidiaries are completely consolidated since the date of the effective transfer of the control over the same to the Bank and consolidation ceases when the Bank loses control over the subsidiaries. These consolidated financial statements include the assets, liabilities, income and each component of other comprehensive income of the Bank and its subsidiaries. Transactions between consolidated entities are completely eliminated.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions. However, if a parent company loses control of a subsidiary, it shall derecognize the assets (including any goodwill) and liabilities of the subsidiary, any non-controlling interests in the former subsidiary and other capital components, while any profit or loss derived from the transaction, event or circumstances that resulted in the loss of control shall be recognized as in profit or loss, and any investment retained in the former subsidiary shall be recognized at its fair value at the date when control is lost.

The financial statements of the subsidiaries have been prepared as of the same dates and for the same accounting periods as those of the Bank, using uniform accounting policies consistent with those applied by the entity. In case necessary, adjustments shall be made to the financial statements of the subsidiaries so that the accounting policies used by the group will be uniform.

The Bank considers the Argentine peso as its functional and presentation currency. To such effect, before consolidation, the financial statements of its subsidiary Macro Bank Limited, originally expressed in US dollars, were translated to pesos (presentation currency) using the following method:

- Assets and liabilities were converted at the reference exchange rate of the BCRA, in force for that foreign currency at the closing of business on the last business day of the fiscal years ended December 31, 2018 and 2017 and January 1, 2017.
- Figures related to the owners' contributions (capital stock, stock issuance premium and irrevocable capital contributions) were translated applying the effective exchange rates as of the date on which such contributions were paid in.
- Income for the fiscal years ended December 31, 2018 and 2017 were translated to pesos on a monthly basis, using the monthly average of the reference exchange rate of the BCRA.
- Foreign currency translation differences arising as a result of the preceding paragraphs are recognized as a separate component within the Shareholders' Equity account reporting them in the statement of other comprehensive income, which is called "Foreign currency translation differences in financial statements conversion".

On the other hand, noncontrolling interests represent the portion of income and equity not directly or indirectly attributable to the Bank. In these consolidated financial statements they are disclosed as a separate line in the statement of financial position, the statement of income, the statement of other comprehensive income and the statement of changes in shareholders' equity.

As of December 31, 2018 and 2017 and January 1, 2017, the Bank has consolidated its financial statements with the financial statements of the following companies:

Subsidiaries	Principal Place of Business	Country	Main Activity
Banco del Tucumán SA	San Martín 721 – San Miguel de Tucumán – Province of Tucumán	Argentina	Banking entity
Macro Securities SA (a) and (b)	Av. Eduardo Madero 1182 – Autonomous City of Buenos Aires	Argentina	Stock exchange services
Macro Fiducia SA	Av. Leandro N. Alem 1110– 1st floor. Autonomous City of Buenos Aires	Argentina	Services
Macro Fondos SGFCISA	Av. Eduardo Madero 1182– 24th floor, Office B–. Autonomous City of Buenos Aires	Argentina	Management and administration of mutual funds
Macro Bank Limited (c)	Caves Village, Building 8 Office 1 – West Bay St., Nassau	Bahamas	Banking entity

## BANCO MACRO SA AND ITS SUBSIDIARIES

- (a) Consolidated with Macro Fondos SGFCI SA (80.90% equity interest and voting rights).
- (b) The indirect interest of Banco Macro SA comes from Macro Fiducia SA.
- (c) Consolidated with Sud Asesores (ROU) SA (100% voting rights – Equity interest 3,602).

The tables below show the Bank's equity interest and voting rights in the companies it consolidates:

- As of December 31, 2018:

Subsidiaries	Shares		Bank's interest		Noncontrolling interest	
	Type	Number	Total capital stock	Voting rights	Total capital stock	Voting rights
Banco del Tucumán SA	Common	439,360	99.945%	99.945%	0.055%	0.055%
Macro Securities SA	Common	12,776,680	99.921%	99.932%	0.079%	0.068%
Macro Fiducia SA	Common	6,475,143	98.605%	98.605%	1.395%	1.395%
Macro Fondos SGFCISA	Common	327,183	99.936%	100.00%	0.064%	
Macro Bank Limited	Common	39,816,899	99.999%	100.00%	0.001%	

- As of December 31, 2017 and January 1, 2017:

Subsidiaries	Shares		Bank's interest		Noncontrolling interest	
	Type	Number	Total capital stock	Voting rights	Total capital stock	Voting rights
Banco del Tucumán SA	Common	395,341	89.932%	89.932%	10.068%	10.068%
Macro Securities SA	Common	12,776,680	99.921%	99.932%	0.079%	0.068%
Macro Fiducia SA	Common	6,475,143	98.605%	98.605%	1.395%	1.395%
Macro Fondos SGFCISA	Common	327,183	99.936%	100.00%	0.064%	
Macro Bank Limited	Common	39,816,899	99.999%	100.00%	0.001%	

Total assets, liabilities and net equity of the Bank and each of its subsidiaries as of December 31, 2018 and 2017 and January 1, 2017 are as follows:

As of 12/31/2018	Banco Macro SA	Banco del Tucumán SA	Other Subsidiaries	Eliminations	Consolidated
Assets	331,584,996	21,694,446	4,131,793	(6,178,244)	351,232,991
Liabilities	270,426,096	18,943,772	1,752,351	(800,062)	290,322,157
Equity attributable to the owners of the Bank					60,908,329
Equity attributable to non-controlling interests					2,505

As of 12/31/2017	Banco Macro SA	Banco del Tucumán SA	Other Subsidiaries	Eliminations	Consolidated
Assets	318,567,229	21,987,748	4,339,547	(6,824,658)	338,069,866
Liabilities	247,125,630	18,920,159	1,870,436	(1,597,953)	266,318,272
Equity attributable to the owners of the Bank					71,441,599
Equity attributable to non-controlling interests					309,995

As of 01/01/2017	Banco Macro SA	Banco del Tucumán SA	Other Subsidiaries	Eliminations	Consolidated
Assets	275,489,323	21,344,235	4,089,662	(5,895,654)	295,027,566
Liabilities	228,587,486	17,507,273	2,042,709	(398,913)	247,738,555
Equity attributable to the owners of the Bank					46,901,837
Equity attributable to non-controlling interests					387,174

The Bank's Management considers there are no other companies or structured entities to be included in the consolidated Financial Statements as of December 31, 2018 and 2017.

## BANCO MACRO SA AND ITS SUBSIDIARIES

### Summary of significant accounting policies

Below there is a description of the principal valuation and disclosure criteria used for the preparation of these consolidated financial statements as December 31, 2018 and 2017 and January 1, 2017:

#### 3.1 Assets and liabilities denominated in foreign currency:

The Bank considers the Argentine Peso as its functional and presentation currency. The assets and liabilities denominated in foreign currency, mainly in US dollars, were valued at BCRA benchmark US dollar exchange rate effective as of the closing date of transactions on the last business day of each fiscal year.

Additionally, assets and liabilities denominated in other foreign currencies were translated at the repo exchange rate in US Dollars communicated by the BCRA's dealing room. Foreign exchange differences were recorded in the related Statements of income as "Difference in quoted prices of gold and foreign currency".

#### 3.2 Financial Instruments

##### Initial Recognition and Measurement

The Bank recognizes a financial instrument when it becomes party to the contractual provisions thereof.

The purchase and sale of financial assets requiring the delivery of assets within the term generally established by the rules and regulations or the market conditions are recorded on the transaction's trading date, i.e., on the date the Bank undertakes to acquire or sell the relevant asset.

At initial recognition, the financial assets and liabilities were recognized at fair value. Those financial assets and liabilities not recognized at fair value through profit or loss, were recognized at fair value adjusted for transactions costs directly attributable to the acquisition or issue of the financial asset or liability.

At initial recognition, the fair value of a financial instrument is generally the transaction price. Nevertheless, if part of the consideration received or paid is for something different from the financial instrument, the Bank estimates the fair value of the financial instrument. If the fair value is based on a valuation technique that uses only data from observable markets, the Bank shall recognize the difference between the fair value at the initial recognition and the transaction price as gain or loss. When the fair value is based on a valuation technique that uses data from nonobservable markets, the Bank shall recognize that deferred difference in profit or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability, or when the instrument is derecognized.

Finally, in the normal course of business, the Bank arranges repo transactions. According to IFRS 9, assets involved in repurchase and reverse repurchase transactions and received from or delivered to third parties, respectively, do not qualify to be recognized or derecognized, respectively.

##### Subsequent measurement – Business Model

The Bank established three categories for the classification and measurement of its debt instruments, in accordance with the Bank's business model to manage them and the contractual cash flow characteristics thereof:

- At amortized cost: the objective of the business model is to hold financial assets in order to collect contractual cash flows.
- At fair value through other comprehensive income: the objective of the business model is both collecting the contractual cash flows of the financial asset and/or of those derived from the sale of the financial asset.
- At fair value from profit or loss: the objective of the business model is generating income derived from the purchase and sale of financial assets.

Therefore, the Bank measures its financial assets at fair value, except for those that meet the following two conditions and are measured at amortized cost:

- The financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows,
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The business model is not assessed on an instrument-by-instrument approach, but it should rather be determined on a higher level of aggregation and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel,
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and,
- the expected frequency, value, timing and reasons of sales are also important aspects.

The assessment of the business model is performed on the basis of scenarios that the Bank reasonably expects to occur, without taking into account the scenarios such as the so-called 'worst case' or 'stress case' scenarios. If after the initial recognition cash flows are realized in a way that is different from the Bank's expectations, the classification of the remaining financial assets held in that business model does not change, but it rather considers all relevant information to assess the newly originated or newly purchased financial assets.

### Test of solely payments of principal and interest (SPPI)

As part of the classification process, the Bank assessed the contractual terms of its financial assets in order to determine if such financial instruments give rise to cash flows on specific dates which are solely payments of principal and interest on the principal amount outstanding.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition, provided such amount may change over the life of the financial instrument, for example, if there are repayments of principal or premium amortization or discount.

The most significant elements of interest within a loan agreement are typically the consideration for the time value of money and credit risk.

In order to SPPI test contractual cash flow characteristics, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, financial assets are required to be measured at fair value through profit or loss.

Therefore, the financial assets were classified pursuant to the above expressed as "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" or "Financial assets at amortized cost". Such classification is disclosed in note 12.

- Financial assets and liabilities at fair value through profit or loss

This category presents two subcategories: financial assets at fair value held for trading and financial assets initially designated at fair value by the Management or under section 6.7.1. of IFRS 9. The Bank has only financial assets at fair value through profit or loss for trading purposes.

The Bank classifies the financial assets as held for trading when they have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term or when they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets and liabilities at fair value through profit or loss are recognized at fair value in the statement of financial position. Changes in fair value are recognized under the item "Net Income for measurement of financial instruments at fair value through profit or loss" in the statement of income, as well as interest income or expenses and dividends pursuant to the contractual terms and conditions, or when the right to receive payment of the dividend is established.

The fair value estimation is explained on a detail basis in section "Accounting judgments, estimates and assumptions" of this note.

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Note 12 to these consolidated financial statements describes the valuation process of financial instruments at fair value.

- Financial assets at fair value through other comprehensive income (OCI)

A financial asset shall be measured at fair value through other comprehensive income if (i) the financial instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) the contractual terms of the financial asset meet the determination that cash flows are solely payments of principal and interest on the principal amount outstanding.

Debt instruments at fair value through other comprehensive income are recognized in the statement of financial position at fair value. Profits and losses derived from changes in fair value are recognized in other comprehensive income as “Profits or losses from financial instruments measured at fair value through other comprehensive income”. Interest income (calculating by the “effective interest method”, which is explained in the following section), profit and loss from translation differences and impairment are recognized in the statement of income in the same manner as for financial assets measured at amortized cost and are disclosed as “Interest income”, “Difference in quoted prices of gold and foreign currency” and “Credit loss expense on financial assets”, respectively.

When the Bank has more than one investment on the same security, it must be considered that they shall be disclosed using the first in first out costing method.

On derecognition, gains and losses accumulated previously recognized in OCI are reclassified to profit or loss.

- Financial assets at amortized cost – Effective interest method

They represent financial assets held in order to collect contractual cash flows and the contractual terms of which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these financial assets are recognized in the statement of financial position at amortized cost using the effective interest method, less the allowances for expected credit losses.

Interest income and impairment are disclosed in the statement of income as “Interest income” and “Credit loss expense on financial assets”, respectively. Changes in the allowance are presented in note 9.

The effective interest method uses the rate that allows the discount of estimated future cash payments or receipts through the expected life of the financial instrument or lesser term, if applicable, to the net carrying amount of such financial instrument. When applying this method, the Bank identifies points paid or received, fees, premiums, discounts and transaction costs, incremental and direct costs as an integral part of the effective interest rate. For such purposes, interest is the consideration for the time value of money and for the credit risk associated with the amount of principal outstanding during a specific period of time.

### 3.2.1 Cash and deposits in banks

They were valued at their nominal value plus the relevant accrued interest, if applicable. Accrued interests were allocated in the statement of income as “Interest income”.

### 3.2.2 Repo transactions (purchase and sale of financial instruments)

These transactions were recognized in the statement of financial position as financing granted (received), as “Repo transactions”.

The difference between purchase and sale prices of such instruments were recognized as interest accrued during the effective term of the transactions using the effective interest method and were allocated in the statement of income as “Interest income” and “Interest expense”.

### 3.2.3 Loans and other financing

They are non-derivative financial assets that the Bank holds within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of which give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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After initial recognition, loans and other financing were measured at amortized cost using the effective interest method, less the credit loss expense on financial assets. The amortized cost was calculated taking into account any discount or premium incurred in the origination or acquisition, and origination fees or commissions, which are part of the effective interest rate. Income from interest was allocated in the statement of income as “Interest income”.

### 3.2.4 Impairment of financial assets

The adoption of IFRS 9 has changed the Bank’s accounting for impairments of financial assets by replacing the provisions of BCRA Communiqué “A” 2950 and supplementary provisions of the BCRA, which were built-up based on estimated losses of the credit facilities of the Bank, with a forward-looking expected credit losses (hereinafter, ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank’s impairment method are disclosed in note 50. The impact of applying IFRS 9 as at January 1, 2018 are disclosed in notes 9 and 50.

Impairment losses are included in the statement of income as “Credit loss expense on financial assets”. The section “Accounting judgments, estimates and assumptions” in this note includes a more detailed description of impairment estimates.

#### 3.2.4.1. Policy applicable from January 1, 2018

##### 3.2.4.1.1. Overview of the Expected Credit Loss (ECL) principles

The adoption of section 5.5. “Impairment” of IFRS 9 has changed the Bank’s loss impairment of financial assets method by replacing Central Bank’s Rules incurred loss approach with a forward-looking approach. From January 1, 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under IFRS 9.

The allowance for expected credit loss is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months expected credit loss as described in note 3.2.4.1.2.

The 12 months expected credit loss (hereinafter, 12mECL) is the portion of the lifetime expected credit loss (hereinafter, LTECL) that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both the LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impaired (POCI), as described below:

- Stage 1: when financial assets subject to impairment according to section 5.5 of IFRS 9 are first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 2.

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- Stage 2: when a financial asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 financial assets also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: financial assets considered credit -impaired. The Bank records an allowance for the LTECL.
- POCI: purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted Effective Interest Rate (EIR). ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses. It is worthwhile to mention that the Bank has not purchased nor originated POCI financial assets.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced.

The Bank estimates an allowance for expected credit losses on the following financial assets:

- Loans and other financing.
- Other financial assets at amortized cost.
- Other debt Securities at amortized cost.
- Other debt Securities measured at fair value through Other Comprehensive Income (OCI).
- Loan commitments and letters of credit.
- Guarantees and other commitments.

### 3.2.4.1.2. The calculation of Expected Credit Loss

The Bank calculates ECLs based on a three probability—weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD (Probability of Default): is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- EAD (Exposure at Default): is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, unused agreed commitments and accrued interest from missed payments.
- LGD (Loss Given Default): is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers three scenarios (base case, upside and downside). Each of these is associated with different PDs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.



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With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made on an individual basis for commercial products and on a collective basis for consumer products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

The mechanics of the ECL method are summarized below:

- Stage 1: the 12mECL is calculated as the portion of LTECL that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by effective interest rate (EIR). This calculation is made for each of the three scenarios (base case, upside and downside), as explained above.
- Stage 2: when a financial instrument has shown a significant increase in credit risk since origination, the Bank records a credit loss expense on financial assets for the LTECL. The mechanics are similar to those explained above, including the use of different scenarios, but PDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: for financial assets considered credit -impaired, the Bank recognizes the LTECL for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- Loan commitments and letters of credit: when estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawndown over 12 months or its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawndown, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an estimation to the expected EIR on the loan.

For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognized within Provisions.

- Guarantees and other commitments: the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognized within Provisions.

### 3.2.4.1.3. Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at fair value through Other Comprehensive Income (OCI) do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

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### 3.2.4.1.4. Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with short notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behavior, its unused agreed commitments, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on the Bank's methodology, the period over which the Bank calculates ECLs for these products is three years.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

### 3.2.4.1.5. Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Estimates future interest rates
- Exchange rate
- Nominal and real salary growth
- Estimated Inflation
- Imports and exports
- Monetary base

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

### 3.2.4.1.6. Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under Central Bank's Rules. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodically basis.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using internal procedures. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers.

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### 3.2.4.1.7. Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under Central Bank's Rules. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell (if non-financial assets) at the repossession date, in line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

### 3.2.4.1.8. Write-offs

The Bank's financial instruments are derecognized after the first month in which the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. Any subsequent recoveries impact on the income statement of the current fiscal year under "Recoveries".

### 3.2.4.1.9. Forborne and modified loans

The Bank sometimes makes modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral.

The Bank considers a loan forborne when such modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Risk Management Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis for commercial portfolio and collectively for consumer portfolio. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From January 1, 2018, when the loan has been renegotiated or modified but not derecognized, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain in Stage 2 until it is fully collected or considered impaired (Stage 3).

If modifications are substantial, the loan is derecognized and a new loan with different conditions is recognized.

### 3.2.4.2. Policy applicable before January 1, 2018

Before January 1, 2018 allowances were built-up based on estimated loan losses of the credit facilities of the Bank, deriving, among other aspects, from the assessment of the compliance level of debtors and the guarantees that secure the relevant transactions taking into account the provisions of Communiqué "A" 2950 and supplementary provisions of the BCRA and the allowance policies of the Bank.

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Increases in the reserve were based on the deterioration of the quality of existing loans, while decreases in the reserve were based on improvements in credit risk, regulations requiring the charge off of non-performing loans classified as “non-recoverable, repaid or cured”. The Bank charged-off non-performing loans on the month following the date on which such loans were classified as “irrecoverable without preferred guarantees” and fully provisioned.

In the case of the consumer portfolio, the charge-off took place when the loan was approximately 270 days past due. For the commercial portfolio, the situation depended on the individual evaluation of the credit risk. All charged-off loans were registered in off balance sheet accounts while the Bank continued its collection efforts.

In addition, under Central Bank rules, the Bank recorded recoveries on previously charged-off loans directly to income and recorded the amount of charged-off loans in excess of amounts specifically allocated as a direct charge to the consolidated statement of income. The Bank did not partially charge off troubled loans until final disposition of the loan, rather, the allowance was maintained on a loan-by-loan basis for its estimated settlement value.

The Bank’s consumer portfolio consists principally of personal loans and credit card loans. Personal loans include mainly financing granted to clients under the “Plan Sueldo” payroll services. Clients enrolled in this type of services receive their wages directly through their accounts at the Bank. Payments on such loans are debited directly from the clients’ wages on the due date. The most significant factors affecting the Bank’s consumer portfolio’s credit risk are employment rates and real wages.

The Bank’s commercial portfolio is currently diversified among clients of different size (small, medium-sized businesses and corporations) and who are active in different economic sectors (mainly the agricultural, food, services and construction sectors). The risks associated with this portfolio are principally related to the specific economic performance of each individual client and to economic factors, such as the price and demand of products and services and competitiveness, among others.

The Bank implements monitoring, control and risk-management systems to maintain the credit risk of its loan portfolios at adequate levels.

Under Central Bank rules, a minimum loan loss reserve was calculated primarily based upon the classification of commercial loan borrowers and upon delinquency aging (or the number of days the loan is past due) for consumer and housing loan borrowers. Although the Bank was required to follow the methodology and guidelines for determining the minimum loan loss reserve, as set forth by the Central Bank, the Bank was also allowed by the Central Bank to establish additional loan loss reserve and changes in classification of debtors, as the case maybe, based on the Bank’s risk management policy. The Risk Management Committee decided to increase the amount of the allowance for loan losses by establishing additional allowances after assessing the portfolio risk, basing its decision for example in the analysis macroeconomic conditions.

For commercial loans, the Bank was required to classify all commercial loan borrowers. In order to classify them, the Bank must consider different parameters related to each of those customers.

Pursuant to Central Bank regulations, commercial loans were classified as follows:

Classification	Criteria
In normal situation	Borrowers for whom there is no doubt as to their ability to comply with their payment obligations.
Subject to special monitoring/Under observation	Borrowers that, among other criteria, are up to 30 days past due and, although considered to be able to meet all their financial obligations, are sensitive to changes that could compromise their ability to honor debts absent timely corrective measures.
Subject to special monitoring / Under negotiation or refinancing agreement	Borrowers who are unable to comply with their obligations as agreed with the Bank and, therefore, formally state, within 60 calendar days after the maturity date, their intention to refinance such debts, among others requirements.

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Classification	Criteria
Troubled	Borrowers with difficulties honoring their financial obligations under the loan on a regular basis, which, if uncorrected, may result in losses to the Bank.
With high risk of insolvency	Borrowers who are highly unlikely to honor their financial obligations under the loan.
Irrecoverable	Loans classified as irrecoverable at the time they are reviewed (although the possibility might exist that such loans might be collected in the future). The borrower will not meet its financial obligations with the Bank.
Irrecoverable according to Central Bank Rules	<p>(a) Borrower has defaulted on its payment obligations under a loan for more than 180 calendar days according to the corresponding report provided by the Central Bank, which report includes (1) financial institutions liquidated by the Central Bank, (2) residual entities created as a result of the privatization of public financial institutions, or in the privatization or dissolution process, (3) financial institutions whose licenses have been revoked by the Central Bank and find themselves subject to judicial liquidation or bankruptcy proceedings and (4) trusts in which Seguro de Depósitos S.A. (SEDESA) is a beneficiary, and/or (b) certain kinds of foreign borrowers (including banks or other financial institutions that are not subject to the supervision of the Central Bank or similar authority of the country in which they are incorporated) that are not classified as “investment grade” by any of the rating agencies approved by the Central Bank.</p> <p>For consumer loan portfolio, the Bank classified loans based upon delinquency aging, consistent with the requirements of the Central Bank. Minimum loss percentages required by the Central Bank were also applied to the totals in each loan classification.</p> <p>Under the Central Bank regulations, consumer and housing borrowers were classified as follows:</p>

Classification	Criteria
Performing	If all payments on loans are current or less than 31 calendar days overdue and, in the case of checking account overdrafts, less than 61 calendar days overdue.
Low Risk	Loans upon which payment obligations are overdue for a period of more than 31 and up to 90 calendar days.
Medium Risk	Loans upon which payment obligations are overdue for a period of more than 90 and up to 180 calendar days.
High Risk	Loans in respect of which a legal action seeking collection has been filed or loans having payment obligations overdue for more than 180 calendar days, but less than 365 calendar days.
Irrecoverable	Loans in which payment obligations are more than one year overdue or the debtor is insolvent or in bankruptcy or liquidation.
Irrecoverable according to Central Bank Rules	Same criteria as for commercial loans in the Irrecoverable according to Central Bank Rules.

### 3.2.4.3. Transition disclosure

The transitional exemption mentioned in point E2 of IFRS 1 enables the Bank to present comparative information under the previous applicable rules instead of under IFRS7 and IFRS 9 on the first year of application of IFRS 9. Therefore, the Bank measured the allowances for financial instruments as of December 31, 2017 and January 1, 2017 in accordance with Central Bank rules. The following pages set out the impact of replacing allowances under Central Bank rules with IFRS 9’s ECLs on the statement of financial position and retained earnings.

The impact of transition to IFRS 9 on retained earnings is, as follows:

	Retained earnings
Closing balance under BCRA rules (December 31, 2017)	3,476,786
Recognition of IFRS 9 ECLs	(29,435)
Deferred tax in relation to the above	8,831
Opening balance under IFRS 9’S ECL (January 1, 2018)	3,456,182
Total change in equity due to adopting IFRS 9’s ECL	<u>(20,604)</u>

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The following table reconciles the aggregate opening allowances and provisions for financial instruments in accordance with Central Bank rules to the ECL allowances under IFRS 9. Further details are disclosed in note 9.

	Credit loss provision under BCRA rules	Re - measurement	ECL under IFRS 9 as of January 1, 2018
<b>Impairment allowance for</b>			
Loans and other financing	3,937,321	25,481	3,962,802
Other Debt Securities at amortized cost		58	58
<b>Subtotal</b>	<b>3,937,321</b>	<b>25,539</b>	<b>3,962,860</b>
Letters of credit		3,536	3,536
Guarantees and other commitments		360	360
<b>Subtotal</b>		<b>3,896</b>	<b>3,896</b>
<b>Total</b>	<b>3,937,321</b>	<b>29,435</b>	<b>3,966,756</b>

### 3.2.5 Financial liabilities

After initial recognition, certain financial liabilities were measured at amortized cost using the effective interest method, except for derivatives that were measured at fair value through profit or loss. Interests were allocated in the statement of income as “Interest expense”.

Within other financial liabilities we included guarantees granted and eventual liabilities, which must be disclosed in the notes to the financial statements, when the documents supporting such credit facilities are issued and are initially recognized at fair value of the commission received, in the statement of financial position. After initial recognition, the liability for each guarantee was recognized at the higher of the amortized commission and the best estimate of the disbursement required to settle any financial obligation arising as a result of the financial guarantee.

Any increase in the liabilities related to a financial guarantee was recognized as income. The commission received has been recognized as “Commissions income” in the consolidated statement of income, based on the amortization thereof following the straight-line method over the effective term of the financial guarantee granted.

### 3.2.6 Derivative financial instruments

#### Receivables and payables from forward transactions without delivery of underlying assets

It includes forward purchase and sale transactions of foreign currency without delivery of traded underlying asset. Such transactions were measured at the fair value of the contracts and were performed by the Bank with intermediation purposes on its own account. The originated income was allocated in the statement of income as “Net income for measurement of financial instruments at fair value through profit or loss”.

### Derecognition of financial assets and liabilities

A financial asset (or, if applicable, a part of a financial asset or a part of a group of similar financial assets) shall be derecognized when: (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the Bank transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows received immediately to a third party pursuant to a transfer agreement.

A transfer shall qualify for derecognition of the financial asset only if (i) the Bank has transferred substantially all the risks and rewards of ownership of the financial asset, or (ii) it has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the financial asset, considering that the control is transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

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If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and has retained the control over it, the Bank shall continue to recognize such transferred asset to the extent to which it is exposed to changes in the value of the transferred asset.

The Bank derecognizes a loan when the terms and conditions have been renegotiated and if, substantially, it becomes in a new loan, recognizing the difference for derecognition in profit or loss. If the modification does not generate substantially different cash flows, the modification does not result in derecognition of the loan. The Bank recalculates the gross carrying amount of the assets as present value of modified contractual cash flows, using for the discount the original effective interest rate and recognizes profit or loss from modification.

On the other hand, a financial liability is derecognized when the obligation specified in the relevant contract is discharged or cancelled or expires. When there is an exchange between an existing borrower and lender of debt instruments with substantially different terms, or the terms are substantially modified, such exchange or modification shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, recognizing the difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, in the statement of income as “Other operating income”.

### Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets after the initial recognition thereof, except under extraordinary circumstances when it changes its business model for managing financial assets, as a result of external or internal changes significant to the Bank’s transactions. Financial liabilities are never reclassified. As of December 31, 2018 and 2017 and January 1, 2017, the Bank has not significant reclassification.

### 3.3 Financial Leases

The Bank grants loans through financial leases, recognizing the current value of lease payments as a financial asset, which is registered in the statement of financial position in the item “loans and other financing”. The difference between the total lease receivables and the current value of financing is recognized as interest to accrue. This income is recognized during the term of the lease using the effective interest rate method, which reflects a constant rate of return and is recognized in the consolidated statement of income as “Interest income”. Losses originated for impairment are included in the consolidated statement of income as “Credit loss expense on financial assets” and in note 9 to these consolidated financial statements.

### 3.4 Investment in associates and joint arrangements

An associate is an entity over which the Bank has significant influence, i.e. the power to participate in the financial and operating policy decisions of such controlled entity, but without having the control thereof. Investments in associates were recognized through the equity method and they were initially recognized at cost. The Bank’s share in the profits or losses after the acquisition of its associates was accounted in the statement of income, and its share in other comprehensive income after the acquisition were accounted for in the consolidated statement of other comprehensive income.

A joint arrangement is an arrangement of which the Bank and other party or parties have joint control. Under IFRS 11 “Joint Arrangements”, investments in these arrangements are classified as joint ventures or joint operations depending on the contractual rights and obligations of each investor, regardless of the legal structure of the arrangement. A joint venture is an arrangement pursuant to which the parties having joint control of the arrangement have rights to the net assets of such arrangement. A joint operation is an arrangement pursuant to which the parties having joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. The Bank has assessed the nature of its joint arrangements and determined that the same are joint ventures. Investments in joint ventures were recognized using the equity method described in the paragraph above. See also note 14.

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### 3.5 Property, plant and equipment

The Bank chose the cost model for all kinds of assets accounted for in this accounting item, taking into account the considerations mentioned in the section “First-time Adoption of IFRS” of this note for the real property owned by the Bank. These assets were carried at their cost less any accumulated depreciation and any accumulated impairment losses, if applicable. The historical cost of acquisition includes all expenses directly attributable to the acquisition of the assets. Maintenance and repair costs were accounted for in the statement of income as incurred. Any replacement and significant improvement of an item of property, plant and equipment is recognized as an asset only when it is likely to produce any future economic benefits exceeding the return originally assessed for such asset.

As nonmonetary assets, this item was restated to reflect the inflation adjustments (see section “Measuring unit”), unless for real properties at the transition date (January 1, 2017), that the deemed cost was used as explained in the abovementioned paragraph and adjusted as from such date.

Depreciation of the items of property, plant and equipment was assessed in proportion to the estimated months of useful life, depreciating completely on the acquisition month of the assets and not on the derecognition date. In addition, at least at each financial year-end, the Bank reviews its expectations regarding the useful life of each item of property, plant and equipment differ from previous estimates, in order to detect any material changes in useful life which, if confirmed, shall be adjusted applying the relevant correction to the depreciation of property, plant and equipment accounting item. Depreciation charges are recorded in the related statement of income as “Depreciation and amortization of fixed assets”.

The residual value of the assets, as a whole, does not exceed their recoverable amount.

### 3.6 Intangible Assets

Intangible assets acquired separately were initially measured at cost. After initial recognition, they were accounted for at cost less any accumulated depreciation (for those to which finite useful lives have been allocated) and any accumulated impairment losses, if applicable.

For internally generated intangible assets, only disbursements related with development are capitalized while the other disbursements are not be capitalized and are recognized in the statement of income for the period in which such expenditure is incurred.

As a non monetary asset, this item was restated to reflect the inflation adjustments. See also section “Measuring unit”.

Useful lives of intangible assets may be finite or indefinite.

Intangible assets with finite useful lives are amortized over their economic useful lives, and are reviewed in order to determine whether they had any impairment loss to the extent there is any evidence that indicates that the intangible asset may be impaired. The period and method of amortization for an intangible asset with a finite useful life are reviewed at least at the financial year-end of each reporting period. Depreciation charges of intangible assets with finite useful lives are accounted for in the statement of income as “Depreciation and amortization of fixed assets”.

Intangible assets with indefinite useful lives are not amortized and are subject to annual tests in order to determine whether they are impaired, either individually or as part of the cash-generating unit to which such intangible assets were allocated. The Bank has not intangible assets with indefinite useful lives.

The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, and it shall be recognized in the Statement of income when the asset is derecognized.

Development expenditure incurred in a specific project shall be recognized as intangible asset when the Bank can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- its intention to complete the intangible asset and use or sell it,
- how the intangible asset will generate probable future economic benefits,
- the availability of adequate resources to complete the development, and



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- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

After initial recognition of the development expenditure as an asset, such asset shall be carried at its cost less any accumulated amortization and any applicable accumulated impairment losses. Amortization shall begin when the development phase has been completed and the asset is available for use. The asset amortizes over the period in which the asset is expected to generate future benefits. Amortization is accounted for in the statement of income as “Depreciation and amortization of fixed assets”. During the development phase, the asset is subject to annual tests to determine whether there is any impairment loss.

### 3.7 Investment Property

We included certain real property that the Bank holds for undetermined future use, which were recognized pursuant to IAS 40 “Investment Property”.

For this kind of property, the Bank chose the cost model and as non monetary assets they were restated for inflation as described in note 3.5 Property, plant and equipment.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of income in the period of the retirement or disposal as “other operating income”.

An entity shall transfer a property to, or from, investment property when, and only when, there is a change in use. For a transfer from investment property to an item of property, plant and equipment, the property’s deemed cost for subsequent accounting is its fair value at the date of change in use. If an item of property, plant and equipment becomes an investment property the Bank recognizes the asset up to the date of change in use in accordance with the policy established for property, plant and equipment.

### 3.8 Non-current Assets Held for Sale

The Bank reclassifies in this category non-current assets of which the carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

Non-current assets classified as held for sale are measured, when they are reclassified to this category, at the lower of carrying amount and fair value less costs to sell and are disclosed in a separate item in the statement of financial position. Once these assets are classified as held for sale, depreciation and amortization ceased.

Profit or loss generated in the sale of assets held for sale is recorded in the statement of income as “other operating income”.

### 3.9 Impairment of Non-financial Assets

The Bank evaluates, at least at each fiscal year-end, whether there are any events or changes in the circumstances that may indicate the impairment of non-financial assets or whether there is any evidence that a non-financial asset may be impaired.

When there is any evidence or when an annual impairment test is required for an asset, the Bank shall estimate the recoverable amount of such asset. If the carrying amount of an asset exceeds its recoverable amount, such asset is deemed impaired and its carrying amount shall be reduced to its recoverable amount. To the date of these consolidated financial statements, there is no evidence of impairment of non-financial assets.

### 3.10 Provisions

The Bank recognizes a provision if and only if the following circumstances are met: (a) the Bank has a present obligation as a result of a past event; (b) it is probable (i.e., it is more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

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In order to determine the amount of provisions, the risks and uncertainties were considered taking into account the opinion of independent and internal legal advisors of the Bank. Where the effect of the time value of money is material, the provisions shall be discounted using a pre-tax rate that reflects if applicable, current risks specific to the liability. When the discount is recognized, the effect of the provision derived from the lapse of time is accounted for as “Interest expense” in the statement of income. Based on the analysis carried out, the Bank recognized as provision the amount of the best estimate of the expenditure required to settle the present obligation at the end of each fiscal year.

The provisions accounted for by the Bank are reviewed at the end of each reporting period or fiscal year, as applicable, and adjusted to reflect the current best available estimate. In addition, provisions are recognized with specific allocation to be used only for the expenditures for which they were originally recognized.

In the event: a) the obligation is possible; or b) it is not probable that an outflow of resources will be required for the Bank to settle the obligation; or c) the amount of the obligation cannot be estimated reliably, the contingent liability shall not be recognized and shall be disclosed in notes. Nevertheless, when the possibility of an outflow of resources is remote, no disclosures shall be made.

### 3.11 Recognition of income and expenses

The Bank recognized its streams of income and expenses as is explained below, in accordance with IFRS 9 and 15. The majority of Bank’s income and expenses are related to financial instruments, in general recorded using the effective interest method. The remaining income and expenses are recorded depending on the period in which the performance obligation is satisfied. In notes 28 to 31 are disclosed the streams and amounts for the years ended in December 31, 2018 and 2017.

#### 3.11.1 Revenue from interests income and interests expense

Revenue from interest received and expenses for interest paid were recognized according to their accrual period, applying the effective interest method, which is explained in section “Financial assets at amortized cost – Effective interest method”.

Revenue from interest received includes the return on fixed income investments and negotiable instruments, as well as the discount and premium on financial instruments.

Bond coupons were recognized at the time they were declared.

#### 3.11.2 Loan commissions

Commission charges and direct incremental costs related with the granting of financing facilities were deferred and recognized adjusting the effective interest rate thereof.

#### 3.11.3 Service commissions

These revenues are recognized when (or to the extent) the Bank satisfies each performance obligation by transferring promised services for an amount that reflects the consideration to which the Bank expects to be entitled in exchange for such services.

At each contract inception, the Bank assess the services promised in a contract and identifies as a performance obligation, each promise to transfer a distinct service or a series of distinct services that are substantially the same and that have the same pattern of transfer.

#### 3.11.4 Non-financial revenue and expenses

These items are recognized according to the recognition criteria established in the conceptual Framework, as for example revenues should be accrued.

### 3.12 Customer Loyalty Program

The loyalty program offered by the Bank consists in accumulating points generated by purchases made with the credit cards, which can be exchanged by any reward (including, among other offers, products, benefits and awards) available in the program platform.

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The Bank concluded that the rewards to be granted originate a separate performance obligation. Therefore, at the end of each fiscal year, the Bank recognized a provision for the rewards to be granted in "Other financial liabilities".

Based on the variables that the Bank takes into account in order to estimate the fair value of the points granted to customers (and the relation thereof with the exchange of the Reward), it is worthwhile to mention that such estimates are subject to a significant level of uncertainty (and variation) that should be considered. These considerations are described in the section "Accounting judgments, estimates and assumptions" in this note.

### 3.13 Income Tax and Minimum Presumed Income Tax

#### 3.13.1 Income Tax

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income). This tax is accounted in the consolidated statement of income, except in the case of accounting items that are to be recognized directly in the statements of other comprehensive income. In this case, each accounting item is presented before assessing their impact on Income Tax, which is accounted for in the relevant accounting item.

- Current income tax: the consolidated current income tax expense is the sum of the income tax expenses of the different entities that compose the Group, which were assessed, in each case, by applying the tax rate to the taxable income, in accordance with the Income Tax Law, or equivalent rule or provision, of the countries in which any subsidiary operates.
- Deferred income tax: it is assessed based on the individual financial statements of the Bank and of each of its subsidiaries and reflects the effects of temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Assets and liabilities are measured using the tax rate that is expected to be applied to the taxable income in the years in which these differences are expected to be settled or recovered. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that will follow from the manner in which the Bank and its subsidiaries expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities. Deferred tax assets and liabilities are measured by their nominal figures, without discount, the tax rates that are expected to be applied in the fiscal year in which the asset shall be realized or the liability shall be settled. Deferred tax assets are recognized when it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

On December 29, 2017 the Argentine Executive Power passed and put into effect the Tax Reform Act which, among other things, reduces the corporate rate of income tax applicable to corporate retained earnings and impacts on the measurement of deferred tax assets and liabilities. This reduction in the corporate rate of income shall be implemented gradually over the next four years dropping from the 35% rate applicable for and including the fiscal year 2017, to a 25% rate in 2020. The effects thereof shall be considered from the deferred taxes assessed as of December 31, 2017, as follows: if reverse shall occur from January 1, 2018 and up to December 31, 2019, the applicable tax rate is 30% and if reversion shall occur from January 1, 2020 onwards, the applicable tax rate is 25%. In addition, through this tax reform the Government introduced changes in connection with the balancing tax, tax adjustment for inflation, treatment of acquisitions and investments made from January 1, 2018, tax revaluation and employer contributions among other issues.

#### 3.13.2. Minimum Presumed Income Tax

In the fiscal year 1998, Law No. 25,063 established minimum presumed income tax for a ten-year term. At present, after subsequent extensions, and taking into account the provisions of Law No. 27,260, such tax is effective through the fiscal years ending up to and including December 31, 2018. This tax is supplementary to income tax, while the latter is levied on the taxable income for the year, minimum presumed income tax is a minimum levy assessment applicable on the potential income of certain production assets at a 1% rate. Therefore, the Bank's tax obligation for each year will be equal to the higher of these taxes. In the case of entities subject to the Financial Entities Act, the above mentioned Law provides that such entities shall consider as taxable basis for the minimum presumed income tax 20% of their taxable assets after deducting those defined as non-taxable assets.

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However, if minimum presumed income tax exceeds income tax in a given tax year, such excess may be computed as a payment on account of any income tax in excess of minimum presumed income tax that may occur in any of the following ten years, once accumulated net operating losses (NOLs) have been used.

As of December 31, 2018 and 2017, the amounts recognized for income tax exceeded those assessed for minimum presumed income tax for those same fiscal years. See also note 27.

### 3.14 Earning/Loss per share

Basic earning/loss per share shall be calculated by dividing Net profit/loss attributable to parent's shareholders of the Bank by the weighted average number of ordinary shares outstanding during the fiscal year. See also note 40.

### 3.15 Fiduciary activities and investment management

The Bank renders custody, administration, investment management and advisory services to third parties that originate the holding or placement of assets in the name of such third parties. These assets and the income on them are not included in these consolidated financial statements, since they are not owned by the Bank. The commissions derived from these activities are accounted for as "Commissions income" in the statement of income. See also notes 43, 44 and 47.

### Accounting judgments, estimates and assumptions

The preparation of these consolidated Financial Statements requires the Bank's Management to consider significant accounting judgments, estimates and assumptions that impact on the reported assets and liabilities, income, revenues and expenses, as well as the assessment and disclosure of contingent assets and liabilities, as of the end of the fiscal year. The Bank's reported amounts are based on the best estimate regarding the probability of occurrence of different future events and, therefore, the uncertainties associated with the estimates and assumptions made by the Bank's Management may drive in the future to final amounts that may differ from those estimates and may require material adjustments to the reported amounts of the affected assets and liabilities.

In certain cases, the financial statements prepared in accordance IFRS, require that the assets and liabilities to be recognized and/or presented at their fair value. The fair value is the amount at which an asset can be exchanged, or at which a liability can be settled, in mutual independent terms and conditions between participants of the principal market (or most advantageous market) duly informed and willing to transact in an orderly and current transaction. When prices in active markets are available, we have used them as basis for valuation. When prices in active markets are not available, the Bank estimated those values as values based on the best available information, including the use of models and other assessment techniques.

In estimating accrued taxes, the Bank assesses the relative merits and risks of the appropriate tax treatment considering statutory, judicial and regulatory guidance in the context of the tax position. Because of the complexity of tax laws and regulations, interpretation can be difficult and subject to legal judgment. It is possible that others, given the same information, may reach different reasonable conclusions regarding the estimated amounts of accrued taxes.

In the normal course of business, the Bank is a party to lawsuits of various types. In note 48, are disclosed contingent liabilities with respect to existing or potential claims, lawsuits and other legal proceedings and record an accrual for litigation when it is probable that future costs will be incurred and these costs can be reasonably estimated.

As to the customer loyalty program, the Bank estimates the fair value of the points awarded to customers under the "Macropremia" program by applying statistics techniques. The data that feed the models include assumptions regarding exchange percentages, the product combinations available for exchange in the future and customers' preferences.

Additionally, the measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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### **First-time adoption of IFRS**

IFRS requires the presentation of the following reconciliations:

- between the Bank's shareholders' equity determined in accordance with BCRA standards and the Bank's shareholders' equity determined in accordance IFRS, as of January 1, 2017 (date of transition) and December 31, 2017; and
- between the net income determined in accordance with BCRA standards for the fiscal year ended December 31, 2017 and the total comprehensive income determined in accordance with IFRS to the same date.

In preparing these reconciliations, the Bank's Management considered the IFRSs that are applicable to the preparation of these consolidated financial statements that are the first annual consolidated financial statements that are presented in accordance with IFRS, but applying the exceptions and exemptions under IFRS 1 described below:

- **Optional exemptions**
  - **Business combinations:**

The Bank decided not to apply IFRS 3 "Business Combinations" retroactively to the acquisition of subsidiaries (that are deemed businesses), investments in associates and interests in joint ventures occurred before January 1, 2017 (date of transition).

Using this exemption implies that the carrying amounts of assets and liabilities measured pursuant to the BCRA standards, and that must be recognized in accordance to the IFRSs, are the cost thereof attributed as of the acquisition date. After the acquisition date, measurements shall be made in accordance with the IFRS. Assets and liabilities that do not qualify to be recognized as such according to the IFRSs are excluded from the opening statement of financial position. In this sense, no previous amount which would have been recognized according to the BCRA standards was excluded and no amount which was not previously recognized has been recognized, pursuant to the BCRA standards. IFRS 1 also establishes that the carrying amount of goodwill measured according to the BCRA standards shall be included in the opening statement of financial position, regardless of the adjustments for impairment and for recognition or derecognition of certain intangible assets that qualify or not to be recognized as such according to IAS 38 "Intangible Assets".
  - **Use of fair value as deemed cost for an item of property, plant and equipment and investment properties:**

Properties and properties under construction were measured in the opening statement of financial position as of January 1, 2017 (date of transition) at fair value, determined on the basis of valuations made to such date by an independent appraiser who holds a recognized and relevant professional qualification. The Bank chose to use these values as carrying amount at the date of transition. After the date of transition, measurement of items of property, plant and equipment and investment property were made in accordance with IAS 16 "Property, Plant and Equipment" and IAS 40, respectively. To such effect, the Bank has chosen the cost model provided for under such standards.
  - **Accumulated translation differences:**

The Bank decided to consider as zero accumulated currency translation differences as of January 1, 2017 (date of transition), for the foreign subsidiary Macro Bank Limited.

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- Fair value measurement of financial assets at initial recognition:

For the presentation of the carrying amounts at the date of transition, related to the acquisition of loan portfolio, the Bank decided to go for the exemption contemplated in paragraph D of IFRS 1 and recognized prospectively the cost of transactions related to such acquisitions.

- Allowances:

The Bank applied the short term exception E2 of IFRS 1, and measured the allowances of financial instruments as of December 31, 2017 and January 1, 2017 in accordance with BCRA rules.

The Bank has not used other optional exemptions available under IFRS 1.

- Obligatory exceptions

- Estimates

The significant accounting judgments, estimates and assumptions made by the Bank's Management to determine the amounts according to the IFRS as of January 1, 2017 (date of transition), and as of December 31, 2017, were consistent with those made as of the same dates according to the previous BCRA standards and reflect the current conditions as of the respective dates.

- Non-controlling interests

The total comprehensive income of subsidiaries was attributed to the owners of the parent company and to the non-controlling interests, from January 1, 2017 (date of transition).

### Reconciliations required

- Reconciliation of consolidated equity as of January 1, 2017 (date of transition).

	Previous amounts-BCRA Standards (1) (2)	Reclassifications (1)	Adjustments (1) (3)	Total (1)	Inflation adjustments	Amounts according IFRS
<b>Assets</b>						
Cash and Deposits in Banks	36,089,156	(102,997)		35,986,159	30,320,209	66,306,368
Government and private securities	19,846,269	(19,846,269)				
Loans	87,973,007	(87,973,007)				
Other receivables from financial intermediation	5,313,607	(5,313,607)				
Receivables from financial leases	370,152	(370,152)				
Investment in associates and joint arrangements	11,352	48,886	64,030	124,268	104,702	228,970
Other receivables	1,277,081	(1,277,081)				
Property, Plant and Equipment	1,460,092	1,208,825	4,560,495	7,229,412	6,724,271	13,953,683
Other assets	1,980,746	(1,980,746)				
Intangible assets	664,072	(70,131)	(7,026)	586,915	919,377	1,506,292
Items pending allocation	13,426	(13,426)				
Debt securities at fair value through profit or loss		332,291	190	332,481	280,132	612,613
Derivative Financial Instruments		9,721		9,721	8,190	17,911
Repo transactions		19,124		19,124	16,113	35,237
Other financial assets		1,105,513		1,105,513	931,453	2,036,966
Loans and other financing		88,635,022	(244,376)	88,390,646	74,473,720	162,864,366
Other Debt securities		20,381,467	14,032	20,395,499	17,184,270	37,579,769
Financial Assets delivered as guarantee		3,690,694		3,690,694	3,109,602	6,800,296
Equity Instruments at fair value through profit or loss		325,505	81,363	406,868	342,807	749,675
Other Non Financial Assets		945,950	52,757	998,707	1,162,430	2,161,137
Non current assets held for sale		86,940	7,648	94,588	79,695	174,283
<b>Total Assets</b>	<b>154,998,960</b>	<b>(157,478)</b>	<b>4,529,113</b>	<b>159,370,595</b>	<b>135,656,971</b>	<b>295,027,566</b>

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	Previous amounts-BCRA Standards (1) (2)	Reclassifications (1)	Adjustments (1) (3)	Total (1)	Inflation adjustments	Amounts according IFRS
<b>Liabilities</b>						
Deposits	111,939,740	(76,935)		111,862,805	94,250,223	206,113,028
Other liabilities from financial intermediation	10,528,503	(10,528,503)				
Other liabilities	3,482,907	(3,482,907)				
Provisions	335,007			335,007	282,261	617,268
Subordinated Corporate Bonds	6,407,840		(31,303)	6,376,537	5,372,564	11,749,101
Items pending allocation	16,266	(16,266)				
Minority interest in subsidiaries	182,799	(182,799)				
Repo transactions		1,095,634		1,095,634	923,129	2,018,763
Other financial liabilities		6,341,674		6,341,674	5,343,190	11,684,864
Financing received from the BCRA and other financial entities		260,458		260,458	219,449	479,907
Issued Corporate Bonds		1,684,893	(257)	1,684,636	1,419,394	3,104,030
Current Income Tax Liabilities		1,749,800		1,749,800	1,474,297	3,224,097
Deferred Income Tax Liabilities			1,321,393	1,321,393	1,595,976	2,917,369
Other Non Financial Liabilities		2,814,674	349,485	3,164,159	2,665,969	5,830,128
<b>Total Liabilities</b>	<b>132,893,062</b>	<b>(340,277)</b>	<b>1,639,318</b>	<b>134,192,103</b>	<b>113,546,452</b>	<b>247,738,555</b>
<b>Shareholder' Equity</b>						
Capital Stock	584,563			584,563		584,563
Additional paid-in capital	399,499			399,499	3,050,565	3,450,064
Adjustments to Shareholders' Equity	4,511			4,511	6,301,825	6,306,336
Earnings Reserved	14,384,820			14,384,820	12,119,959	26,504,779
Unappropriated Retained Earnings	6,732,505		2,799,084	9,531,589	403,431	9,935,020
Other Comprehensive Income / (loss)			65,711	65,711	55,364	121,075
<b>Net Shareholders' attributable to the owners of the parent company</b>	<b>22,105,898</b>		<b>2,864,795</b>	<b>24,970,693</b>	<b>21,931,144</b>	<b>46,901,837</b>
<b>Net Shareholders' attributable to the non-controlling interests</b>		<b>182,799</b>	<b>25,000</b>	<b>207,799</b>	<b>179,375</b>	<b>387,174</b>
<b>Total Shareholders' equity</b>	<b>22,105,898</b>	<b>182,799</b>	<b>2,889,795</b>	<b>25,178,492</b>	<b>22,110,519</b>	<b>47,289,011</b>

(1) These amounts are not restated for inflation.

(2) These amounts derived from previous issued consolidated financial statements.

(3) Related to IFRS adjustments.

- Reconciliation of consolidated equity as of December 31, 2017.

Items	Previous amounts-BCRA Standards (1) (2)	Reclassifications (1)	Adjustments (1) (3)	Total (1)	Inflation adjustments	Amounts according to IFRS
<b>Assets</b>						
Cash and Deposits in Banks	34,267,560	1,294,014		35,561,574	16,943,523	52,505,097
Government and private securities	36,624,640	(36,624,640)				
Loans	132,000,226	(132,000,226)				
Other receivables from financial intermediation	13,000,735	(13,000,735)				
Receivables from financial leases	587,486	(587,486)				
Investment in associates and joint arrangements	128,845	71,469	18,633	218,947	104,318	323,265
Other receivables	2,068,724	(2,068,724)				
Property, Plant and Equipment	1,622,184	2,014,432	4,556,825	8,193,441	7,012,341	15,205,782
Other assets	3,018,753	(3,018,753)				
Intangible assets	883,847	(53,207)	(2,618)	828,022	798,231	1,626,253
Items pending allocation	39,704	(39,704)				
Debt securities at fair value through profit or loss		1,085,120	908	1,086,028	517,444	1,603,472
Derivative Financial Instruments		5,191	3,037	8,228	3,921	12,149
Repo transactions		1,419,808		1,419,808	676,476	2,096,284
Other financial assets		2,272,679		2,272,679	1,082,828	3,355,507
Loans and other financing		132,956,818	(298,144)	132,658,674	63,206,004	195,864,678
Other Debt securities		34,719,499	(15,734)	34,703,765	16,534,815	51,238,580
Financial Assets delivered as guarantee		7,638,352		7,638,352	3,639,339	11,277,691
Equity Instruments at fair value through profit or loss		246,343	36,316	282,659	134,675	417,334

**BANCO MACRO SA AND ITS SUBSIDIARIES**

Items	Previous amounts-BCRA Standards (1) (2)	Reclassifications (1)	Adjustments (1) (3)	Total (1)	Inflation adjustments	Amounts according to IFRS
<b>Assets (contd.)</b>						
Other Non Financial Assets		1,174,456	64,785	1,239,241	934,955	2,174,196
Deferred Income Tax Assets			27,762	27,762	(26,513)	1,249
Non current assets held for sale		191,237	8,653	199,890	168,439	368,329
<b>Total Assets</b>	<b>224,242,704</b>	<b>(2,304,057)</b>	<b>4,400,423</b>	<b>226,339,070</b>	<b>111,730,796</b>	<b>338,069,866</b>
<b>Liabilities</b>						
Deposits	144,225,921	(96,744)		144,129,177	68,671,194	212,800,371
Other liabilities from financial intermediation	22,560,819	(22,560,819)				
Other liabilities	5,838,839	(5,838,839)				
Provisions	694,919			694,919	331,098	1,026,017
Subordinated Corporate Bonds	7,589,940		(24,181)	7,565,759	3,604,750	11,170,509
Items pending allocation	27,138	(27,138)				
Minority interest in subsidiaries	174,581	(174,581)				
Liabilities at fair value through profit or loss		6,354	96	6,450	3,073	9,523
Derivative Financial Instruments		14,751	8,356	23,107	11,009	34,116
Repo transactions		2,688,093		2,688,093	1,280,758	3,968,851
Other financial liabilities		10,561,203		10,561,203	5,031,948	15,593,151
Financing received from the BCRA and other financial entities		1,174,111		1,174,111	559,413	1,733,524
Issued Corporate Bonds		4,739,614	(27,398)	4,712,216	2,245,163	6,957,379
Current Income Tax Liabilities		3,975,320		3,975,320	1,894,065	5,869,385
Deferred Income Tax Liabilities			496,849	496,849	1,378,787	1,875,636
Other Non Financial Liabilities		3,060,037	515,964	3,576,001	1,703,809	5,279,810
<b>Total Liabilities</b>	<b>181,112,157</b>	<b>(2,478,638)</b>	<b>969,686</b>	<b>179,603,205</b>	<b>86,715,067</b>	<b>266,318,272</b>
<b>Shareholder' Equity</b>						
Capital Stock	669,663			669,663		669,663
Additional paid-in capital	12,704,215		(275,754)	12,428,461	10,837,762	23,266,223
Adjustments to Shareholders' Equity	4,511			4,511	6,356,604	6,361,115
Earnings Reserved	20,363,386			20,363,386	17,263,570	37,626,956
Unappropriated Retained Earnings			2,799,084	2,799,084	(5,261,105)	(2,462,021)
Other Comprehensive Income / (loss)			204,560	204,560	(163,704)	40,856
Income for the fiscal year	9,388,772		676,586	10,065,358	(4,126,551)	5,938,807
<b>Net Shareholders' attributable to the owners of the parent company</b>	<b>43,130,547</b>		<b>3,404,476</b>	<b>46,535,023</b>	<b>24,906,576</b>	<b>71,441,599</b>
<b>Net Shareholders' attributable to the non-controlling interests</b>		<b>174,581</b>	<b>26,261</b>	<b>200,842</b>	<b>109,153</b>	<b>309,995</b>
<b>Total Shareholder's equity</b>	<b>43,130,547</b>	<b>174,581</b>	<b>3,430,737</b>	<b>46,735,865</b>	<b>25,015,729</b>	<b>71,751,594</b>

(1) These amounts are not restated for inflation.

(2) These amounts derived from previous issued consolidated financial statements.

(3) Related to IFRS adjustments.



## BANCO MACRO SA AND ITS SUBSIDIARIES

- Reconciliation of consolidated income and other comprehensive income for fiscal year ended December 31, 2017.

Items	Previous amounts- BCRA Standards (1) (2)	Reclassifications (1)	Adjustments (1) (3)	Total (1)	Inflation adjustments	Amounts according to IFRS
Financial income	36,500,040	(36,500,040)				
Financial expense	(13,545,381)	13,545,381				
Credit loss expense on financial assets	(1,595,201)	667		(1,594,534)	(1,019,190)	(2,613,724)
Service charge income	10,646,390	(10,646,390)				
Service charge expense	(3,342,116)	3,342,116				
Administrative expenses	(12,863,015)	8,168,255		(4,694,760)	(2,937,138)	(7,631,898)
Other						
Non controlling interest	(84,775)	84,775				
Other income	905,828	(905,828)				
Other expense	(1,448,814)	1,448,814				
Income tax on continuing operations	(5,784,184)	5,784,184				
Interest income		34,627,876	(33,158)	34,594,718	21,231,977	55,826,695
Interest expense		(10,466,547)	20,019	(10,446,528)	(6,525,050)	(16,971,578)
Commissions income		9,205,776	(19,556)	9,186,220	5,801,659	14,987,879
Commissions expense		(682,673)		(682,673)	(431,011)	(1,113,684)
Net income from measurement of financial instruments at fair value through profit or loss		701,508	(109,077)	592,431	352,477	944,908
Profit from sold assets at amortized cost		10,603		10,603	8,282	18,885
Difference in quoted prices of gold and foreign currency		1,380,309		1,380,309	872,391	2,252,700
Other operating income		1,706,872	(99,864)	1,607,008	998,376	2,605,384
Employee benefits		(7,581,127)	(114,042)	(7,695,169)	(4,841,107)	(12,536,276)
Depreciation and amortization of fixed assets		(540,838)	(45,407)	(586,245)	(821,086)	(1,407,331)
Other operating expense		(6,989,981)	205,754	(6,784,227)	(4,220,871)	(11,005,098)
Income from associates and joint arrangements		177,988	18,633	196,621	93,682	290,303
Income tax on continuing operations		(5,786,925)	854,964	(4,931,961)	(3,476,847)	(8,408,808)
Loss on net monetary position					(9,218,751)	(9,218,751)
<b>Net income / (loss) for the fiscal year</b>	<b>9,388,772</b>	<b>84,775</b>	<b>678,266</b>	<b>10,151,813</b>	<b>(4,132,207)</b>	<b>6,019,606</b>
<b>Other comprehensive income / (loss)</b>						
Foreign currency translation differences for the fiscal year			137,148	137,148	(200,299)	(63,151)
Profit / (loss) for the fiscal year from financial instruments at fair value through OCI			1,279	1,279	(19,088)	(17,809)
<b>Total comprehensive income / (loss)</b>	<b>9,388,772</b>	<b>84,775</b>	<b>816,693</b>	<b>10,290,240</b>	<b>(4,351,594)</b>	<b>5,938,646</b>
<b>Comprehensive income / (loss) for the fiscal year attributable to owners of the Parent company</b>	<b>9,388,772</b>		<b>815,435</b>	<b>10,204,207</b>	<b>(4,345,619)</b>	<b>5,858,588</b>
<b>Comprehensive income / (loss) for the fiscal year attributable to non-controlling interest</b>		<b>84,775</b>	<b>1,258</b>	<b>86,033</b>	<b>(5,975)</b>	<b>80,058</b>

- (1) These amounts are not restated for inflation.
- (2) These amounts derived from previous issued consolidated financial statements.
- (3) Related to IFRS adjustments.

### Explanatory notes to the adjustments on transition to IFRS

This section includes a brief description of the main adjustments on transition to the standards established by IFRS affecting equity as of January 1, 2017 (date of transition) and as of December 31, 2017, and the consolidated income and other comprehensive income for the fiscal year ended December 31, 2017, and which arise from comparing the accounting policies applied by the Bank to the preparation of the Financial statements up to the end of the previous fiscal year ended December 31, 2017 (BCRA standards) and the accounting policies applied by the Bank to the preparation of the financial statements from the fiscal year beginning on January 1, 2018 onwards.

## **BANCO MACRO SA AND ITS SUBSIDIARIES**

### Debt securities

Adjustments in this accounting item arise mainly when the valuation established for each business model into which holdings were classified, differs from the valuation established by the BCRA standards. The adjustments that arise from the new measurement policy of these kind of financial instruments impact mainly in “Interest income”, “Net measurement of financial instruments at fair value through profit or loss” and “Profit / (loss) for the fiscal year from financial instruments at fair value through OCI”.

In addition, the Bank carried out repo transactions of which, under BCRA standards, the underlying assets should be recognized as assets of the Bank. Under IFRS, these assets received from third parties do not meet the requirements to be recognized as such.

Furthermore, the Bank received security deposits of securities which, under BCRA standards, implied recognition of such security within this accounting item against a liability for deposits for the principal plus the agreed upon interest and the quoting difference, which was accounted for in Deposits. According to IFRS 9, these transactions neither imply the recognition of the asset nor the offset in liabilities. In addition, interest accrued were reclassified from “Interest expense” to “Commissions expense”.

### Loans and other financing

The Bank’s loan portfolio was generated in a business model structure intended principally to receive contractual cash flows (composed of principal and interest). Under IFRS 9, the loan portfolio shall be measured at amortized cost, measuring it at the beginning at fair value, using the effective interest method, which implies that the commissions charged and the direct incremental costs related to the granting of such financing facilities shall be deferred and recognized over the term of the financing facility.

Under BCRA standards, interests were accrued on the basis of exponential distribution in the periods in which they were generated and the commissions were charged and the direct costs were recognized at the time they were generated.

Furthermore, loan portfolio acquisitions made by the Bank were measured for in accordance with such IFRS, recognizing such acquired loan portfolios at fair value at the date of acquisition. Under BCRA standards, these transactions were recognized at their contractual value.

The adjustments that arise from the new measurement policy mainly impact in “Interest income”.

### Equity instruments at fair value through profit or loss

The contributions to risk funds of Reciprocal Guarantee Companies (SGR, for its acronym in Spanish) in which the Bank participates, do not meet the financial asset individual test, therefore they are not included in the Bank’s business model and were measured at their fair value through profit or loss.

As to those companies in which the Bank has no control or significant influence, such companies were recognized at the best approximation to the fair value through profit or loss according to IFRS 9. Under BCRA standards, these approximations were recognized at cost, plus the nominal value of any dividends received on shares.

The adjustments that arise from the new measurement policy of these kind of financial instruments impact mainly in “Net measurement of financial instruments at fair value through profit or loss”.

### Non-financial assets

Under IFRS 15 “Revenue from Contracts with Customers”, the Bank included Contract Assets for commissions charged for the subscription to one of the Bank’s customer loyalty programs. In such program, the only performance obligation contemplated in the contract is the one that requires the Bank to contact its customer with a recognized airline. As consideration for this service, the Bank receives a membership fee.

### Investments in associates and joint ventures

The Bank holds interests in UTEs (joint ventures), which according to IFRS 11 are accounted for using the equity method. Under BCRA standards, the Bank used the proportional consolidation method.

## **BANCO MACRO SA AND ITS SUBSIDIARIES**

### Property, plant and equipment and investment property

For the presentation of the carrying amount to the date of transition the Bank used the exemption contemplated under “Optional exemptions”, which implied using the fair value as a deemed cost. In order to determine such fair value, the Bank used valuations for all real properties.

Since the Bank chose the cost model, the new cost of acquisition according to the IFRSs implied an increase in depreciations.

### Intangible assets

Under IAS 38, intangible assets shall be measured at cost. Under BCRA standards, the Bank capitalized certain software costs and other organizational expenses, which according to the above mentioned IAS the Bank should have not recognized as intangible assets and, therefore, were accounted for in profit or loss for the fiscal year.

### Corporate Bonds

The Bank issued subordinated and unsubordinated Corporate Bonds that, according to IFRS 9, were measured at amortized cost, using the effective interest method, which implied having to account for lesser liabilities the direct issuance expenses. Under BCRA standards, such Corporate Bonds were measured in accordance with the unpaid balance of principal and accrued interest and the expenses were accounted for in profit or loss at the time they were generated.

The adjustment that arise from the new measurement policy of these kind of financial instruments impact mainly in “Interest expense”.

### Assets and liabilities for deferred income tax

According to IAS 12 “Income Tax”, the Bank recognize (i) the part of the current tax that is expected to be paid or recovered and (ii) the deferred tax that is the tax the Bank expects to settle or recover of Income Tax, for the accumulated tax losses and the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Under BCRA standards, the Bank assessed income tax applying the rate in force to the expected taxable profit, without taking into account the effect of the temporary differences between the carrying amount and its tax base.

As a consequence of the inflation adjustment purposes, the restatement of nonmonetary assets generates a taxable temporary difference and a deferred income tax liability was recognized.

### Other nonfinancial liabilities

According to IFRS 15, the Bank recognized income arising in the course of its ordinary activities so that they represent the transfer of services promised to customers in exchange for an amount that reflects the consideration the Bank expects to have the right to receive in exchange for such services.

In addition, and under IAS 19 “Employee Benefits”, vacations are considered as irrevocable accumulating paid absences and shall be measured at the expected cost of such absences, based on the additional amount that the Bank expects to pay for such paid absences multiplied by the number of days accumulated in favor of the employees and unused at the end of the reporting period. Under BCRA standards, charges for paid vacations were accounted for at the time the personnel used such benefit, i.e., when vacations were paid. The adjustment that arise from the new measurement policy impacts in “Employee benefits”.

### Capital stock – Stock issuance premium

Under IAS 32 “Financial Instruments: Presentation”, the costs incurred by the Bank with respect to the issuance of capital stock are accounted for as a deduction of the amount of such instrument, provided they are incremental costs directly attributable to such equity transaction, which would have been avoided if such transaction had not taken place. According to BCRA standards, the Bank recognized such costs in profit or loss.

### Foreign currency translation

Under IAS 21 “The Effects of Changes in Foreign Exchange Rates”, the Bank recognized and reclassified foreign exchange translation differences, with respect to the Bank’s interest in a foreign subsidiary. The Bank used the voluntary exemption under paragraph D of IFRS 1 “First-time Adoption of IFRS” and did not recognize the translation differences accumulated as of the beginning of the date of transition.

## BANCO MACRO SA AND ITS SUBSIDIARIES

### Explanation of material adjustments in the Statement of Cash Flows

- Preparation method: the Bank chooses the Direct Method, except for the presentation of cash flows from operating activities, for which it shall use the indirect method.
- Cash: (i) it does not include the cash of UTEs, since under IFRS such balances are recognized using the proportional equity method and under BCRA standards UTEs are recognized using the proportional consolidation method; (ii) the Bank incorporated foreign currency purchase and sale spot transactions previously not included in the Statement of Cash Flows under BCRA standards.
- Cash equivalents: according with the accounting policy established by the Bank for cash equivalents, the issuer must be the National Government or the BCRA and they must have maturity periods of 90 days or less from the purchase date, whereas under BCRA standards cash equivalents should meet the following requirements: they should be subject to insignificant risks regarding change of value and have maturity periods of 90 days or less from the purchase date.

### New pronouncements

The standards that are issued, but not yet effective, up to the date of issuance of these consolidated financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective:

- IFRS 16 “Leases”: such standard eliminates the dual accounting method for lessees that distinguishes between finance leases recognized within the Financial statements and operating leases for which future lease payments are not required to be recognized. Instead, it develops a single model, within the balance sheet, which is similar to the present finance lease. As to lessor, the standard maintains the present practice –i.e., lessors keep on classifying leases as finance and operating leases. This standard is applicable to fiscal years beginning on January 1, 2019. The Bank does not expect this standard to have a material impact on the consolidated financial statements.
- IFRIC 23 “Uncertainty over income tax treatments”. This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 “Income tax” when there is uncertainty over income tax treatments. The Bank does not expect that standard to have a material impact on the consolidated financial statements.
- IFRS 3 “Business Combination” – amendments in definition of a business: the amendments will help entities determine whether an acquisition made is a business or the purchase of a group of assets. The new amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits. This standard is applicable to fiscal years beginning on January 1, 2020. The Bank does not expect that standard to have a material impact on the consolidated financial statements.

## 4. DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table shows holdings of debt securities at fair value through profit or loss as of December 31, 2018 and 2017 and January 1, 2017:

Name	Holdings			
	12/31/2018	12/31/2017	01/01/2017	
	Fair value level	Book amounts	Book amounts	Book amounts
<b>DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>				
<b>- Local</b>				
<b>Government securities</b>				
Consolidation bonds in pesos 8° Serie - Maturity: 10-04-2022	1	169,663	156,330	184,495
Debt Securities of Province of Río Negro in pesos - Badlar Private + 500 basis point - Maturity: 07-06-2020	2	122,869	416,185	
National treasury bills capitalized in pesos - Maturity: 01-31-2019	1	120,690		
National treasury bills capitalized in pesos - Maturity: 02-28-2019	1	103,193		
Debt Securities of Province of Buenos Aires in pesos - Badlar Private + 375 basis point - Maturity: 04-12-2025	1	82,429		
Federal government treasury bonds in pesos - Maturity: 10-03-2021	2	79,622		
Federal government treasury bonds in pesos adjustment by CER - Maturity: 07-22-2021	1	77,240		13,143
Federal government bonds in US dollars at 8.75% - Maturity: 05-07-2024	1	61,833	13,191	
International bonds of the Argentina Republic in US dollars at 7.5% - Maturity: 04-22-2026	2	55,358		1,570
Consolidation bonds in pesos 6° Series at 2% - Maturity: 03-15-2024	1	48,396	6	41,067
National treasury bills capitalized in pesos - Maturity: 03-29-2019	1	45,155		
Other		276,401	477,357	269,708
<b>Subtotal local government securities</b>		<b>1,242,849</b>	<b>1,063,069</b>	<b>509,983</b>

**BANCO MACRO SA AND ITS SUBSIDIARIES**

Name (contd.)	Holdings			
	12/31/2018		12/31/2017	01/01/2017
	Fair value level	Book amounts	Book amounts	Book amounts
<b>Private securities</b>				
Debt Securities of Financial Trusts Consubond	3	377,725		
Debt Securities of Financial Trusts Megabono Series 180 Class A—Maturity: 12-24-2019	3	165,980		
Debt Securities of Financial Trusts Agrocap	3	130,735		
Debt Securities of Financial Trusts PVCRED Series 038 Class A—Maturity: 08-12-2019	3	112,600		
Debt Securities of Financial Trusts Consubond Series 149 Class A—Maturity: 10-25-2019	3	111,017		
Debt Securities of Financial Trusts Secubono	3	79,203		
Debt Securities of Financial Trusts Chubut Regalías Hidrocarburíferas—Maturity: 07-01-2020	3	48,366	51,576	
Debt Securities of Financial Trusts Consubond Series 147 Class A—Maturity: 12-26-2019	3	39,576		
Corporate Bonds John Deere Credit financial company Series A Class 016 -Maturity: 04-06-2019	2	38,451		
Debt Securities of Financial Trusts Secubono Series 180—Maturity: 11-28-2019	3	34,635		
Corporate Bonds Banco de Inversión y Comercio Exterior SA Class 006 -Maturity: 06-27-2020			145,583	
Corporate Bonds Province of Buenos Aires Class 2—Maturity: 11-08-2019				19,861
Other		254,110	343,244	82,769
<b>Subtotal local private securities</b>		<u>1,392,398</u>	<u>540,403</u>	<u>102,630</u>
<b>TOTAL DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<u>2,635,247</u>	<u>1,603,472</u>	<u>612,613</u>

**5. OTHER DEBT SECURITIES**

The following table shows holdings of other debt securities as of December 31, 2018 and 2017 and January 1, 2017:

Name	Holdings			
	12/31/2018		12/31/2017	01/01/2017
	Fair value level	Book amounts	Book amounts	Book amounts
<b>OTHER DEBT SECURITIES</b>				
<b>Measured at fair value through other comprehensive income</b>				
<b>- Local</b>				
<b>Government securities</b>				
Federal government bonds in US dollars at 8.75%—Maturity: 05-07-2024	1	530,833	492,431	533,894
Discount bonds denominated in pesos at 5.83%—Maturity: 12-31-2033	1	146,446	2,145	2,457,616
International bonds of the Argentina Republic in US dollars at 7.125—Maturity: 06-28-2117	1	81,630		
Consolidation bonds in pesos Serie 8°—Maturity: 10-04-2022			73,418	204,689
Secured bonds in pesos under Presidential Decree No. 1579/02 at 2%—Maturity: 02-04-2018			16,811	69,842
Treasury Bills in US dollars—Maturity: 03-20-2017				1,454,779
Debt Securities of Province of Buenos Aires Series I Class II—Maturity: 12-06-2019				630,589
Federal government bonds in pesos—Badlar Private + 250 PBS.—Maturity: 03-11-2019				259,593
Province of Neuquén Treasury bills Class 2 Series II—Maturity: 06-06-2018				258,361
Province of Río Negro Treasury bills Class 1 Series VI—Maturity: 03-15-17				173,456
Other				304,362
<b>Subtotal local government securities</b>		<u>758,909</u>	<u>584,805</u>	<u>6,347,181</u>
<b>Central Bank of Argentina Bills</b>				
Liquidity letters of Central Bank of Argentina in pesos—Maturity: 01-04-2019	1	15,546,415		
Liquidity letters of Central Bank of Argentina in pesos—Maturity: 01-08-2019	2	13,787,546		
Liquidity letters of Central Bank of Argentina in pesos—Maturity 01-02-2019	1	12,404,850		
Liquidity letters of Central Bank of Argentina in pesos—Maturity: 01-03-2019	1	7,926,384		
Liquidity letters of Central Bank of Argentina in pesos—Maturity: 01-07-2019	1	5,404,713		

Central Bank of Argentina Internal Bills in pesos – Maturity: 03-21-2018		9,350,534	
Central Bank of Argentina Internal Bills in pesos – Maturity: 01-17-2018		8,957,070	
Central Bank of Argentina Internal Bills in pesos – Maturity: 05-16-2018		8,518,595	
Central Bank of Argentina Internal Bills in pesos – Maturity: 04-18-2018		8,307,994	
Central Bank of Argentina Internal Bills in pesos – Maturity: 02-21-2018		7,894,139	
Central Bank of Argentina Internal Bills in pesos – Maturity: 01-18-2017			9,750,192
Central Bank of Argentina Internal Bills in pesos – Maturity: 02-15-2017			5,019,716
Other		5,186,673	13,112,637
<b>Subtotal Central Bank of Argentina Bills</b>	<b>55,069,908</b>	<b>48,215,005</b>	<b>27,882,545</b>
<b>Private securities</b>			
Corporate Bonds Telecom Personal SA Series 4—Maturity: 11-16-2018			193,854
Corporate Bonds Telecom Personal SA Series 3—Maturity: 05-16-2018			96,106
Corporate Bonds Genneia SA Class 19—Maturity: 02-16-2017			96,323
Corporate Bonds Albanesi SA Class 2—Maturity: 10-25-2018			39,092
Corporate Bonds Ledesma SA Class 3—Maturity: 04-01-2017			26,404
Corporate Bond Integración Eléctrica Sur Arg. SA Class 4—Maturity: 09-26-2017			24,263
Corporate Bond Banco Hipotecario Series 32—Maturity: 05-30-2017			19,404
Corporate Bonds Arcor SAIC Class 8—Maturity: 06-15-2017			11,529
<b>Subtotal local Private securities</b>			<b>506,975</b>
<b>- Foreign</b>			
<b>Government securities</b>			
US Treasury Bill – Maturity: 01-13-2019	1	226,836	
US Treasury Bill – Maturity: 01-02-2019	1	189,042	
US Treasury Bill – Maturity: 01-15-2019	1	188,888	
US Treasury Bill – Maturity: 01-18-2018			664,910
US Treasury Bill – Maturity: 01-11-2018			360,248
US Treasury Bill – Maturity: 01-12-2017			788,458
US Treasury Bill – Maturity: 01-05-2017			204,429
<b>Subtotal foreign government securities</b>	<b>604,766</b>	<b>1,025,158</b>	<b>992,887</b>

**BANCO MACRO SA AND ITS SUBSIDIARIES**

Name (contd.)	Holdings		
	12/31/2018	12/31/2017	01/01/2017
	Book amounts	Book amounts	Book amounts
<b>Private securities</b>			
Corporate Bonds Chevron Corp - Maturity: 03-03-2019		27,439	31,379
Corporate Bonds Ford Motor Credit Corp LLC - Maturity: 01-15-2020			34,413
Corporate Bonds The Dow Chemical Corp - Maturity: 05-15-2019			66,932
Corporate Bonds Johnson & Johnson - Maturity: 07-15-2018			31,281
Corporate Bonds Wal Mart Stores - Maturity: 02-01-2019			30,920
Corporate Bonds Microsoft Corp - Maturity: 06-01-2019			30,837
Corporate Bonds Shell Intl Fin - Maturity: 09-22-2019			31,029
Corporate Bonds Celulosa Arauco - Maturity: 07-29-2019			16,474
<b>Subtotal foreign private securities</b>		27,439	273,265
<b>Total Other debt securities measured at fair value through other comprehensive income</b>	56,433,583	49,852,407	36,002,853
<b>Measured at amortized cost</b>			
<b>- Local</b>			
<b>Government securities</b>			
Federal government bonds in pesos - Fixed rate 26% - Maturity: 11-21-2020	7,991,383		
Discount bonds denominated in pesos at 5.83% - Maturity: 12-31-2033	157,044	173,415	
Secured bonds in pesos under Presidential Decree No. 1579/02 at 2% - Maturity: 02-04-2018		6,304	39,202
Federal government bonds in pesos Badlar + 2.00 - Maturity: 03-28-17			185,597
Bonds Consadep Tucumán - Series 1 in pesos - Maturity: 02-04-2018			5,308
<b>Subtotal local government securities</b>	8,148,427	179,719	230,107
<b>Private securities</b>			
Debt Securities of Financial Trust SAT SAPEM - Maturity: 01-10-2019	2,749	11,178	20,283
Debt Securities of Financial Trust provisional Consubond		532,062	517,862
Debt Securities of Financial Trust provisional Secubono		163,228	229,634
Debt Securities of Financial Trust provisional Garbarino		100,502	
Debt Securities of Financial Trust provisional Accicom Préstamos Personales		75,360	113,945
Debt Securities of Financial Trust provisional Credicuotas Consumo		74,152	28,300
Debt Securities of Financial Trust provisional Agrocap		68,629	
Debt Securities of Financial Trust provisional Mila		48,657	47,256
Debt Securities of Financial Trust provisional Best Consumer Directo		47,447	
Debt Securities of Financial Trust provisional Best Consumer Finance		47,374	
Other		37,865	389,529
<b>Subtotal local private securities</b>	2,749	1,206,454	1,346,809
<b>Total other debt securities measured at amortized cost</b>	8,151,176	1,386,173	1,576,916
<b>TOTAL OTHER DEBT SECURITIES (*)</b>	64,584,759	51,238,580	37,579,769

(\*) These financial assets are high grade credit risk exposures in stage 1 mainly generated during fiscal year 2018. The related ECL as of December 31, 2018 amounted to 57.

As of December 31, 2018, the unrealized gains and losses from government securities amounted to 5,303 and (94,863), respectively; the unrealized losses related to Central Bank Bills amounted to (260,184). All the amounts mentioned before are net of income tax effects.

**6. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

The following table shows holdings of equity instruments at fair value through profit or loss as of December 31, 2018 and 2017 and January 1, 2017:

Item	Holdings			
	12/31/2018	12/31/2017	01/01/2017	
	Fair value level	Book amounts	Book amounts	Book amounts
<b>Equity Instruments at fair value through profit or loss</b>				
<b>Measured at fair value through profit or loss</b>				
<b>- Local</b>				
Mercado Abierto Electrónico SA	3	25,078	30,632	7,037
C.O.E.L.S.A	3	4,826	4,500	2,499

Argentina Clearing SA	3	4,569	4,750	4,409
Sedesa	3	3,975	5,771	6,434
Mercado a Término Rosario SA	3	3,663	3,793	3,482
Laboratorios Richmond SACIF	1	1,256	3,489	
Provincanaje SA	3	758	800	1,857
Sanatorio Las Lomas SA	3	600	596	549
Proin SA	3	513	757	590
El Taura SA	3	185	273	341
Siderar SAIC				197,035
Aluar Aluminio Argentino				145,177
Other		349	356,063	373,529
<b>Subtotal local</b>		<u>45,772</u>	<u>411,424</u>	<u>742,939</u>
<b>- Foreign</b>				
Banco Latinoamericano de Comercio Exterior SA	1	4,777	5,445	6,279
Sociedad de Telecomunicaciones Financieras Interbancarias Mundiales	3	969	465	457
<b>Subtotal foreign</b>		<u>5,746</u>	<u>5,910</u>	<u>6,736</u>
<b>Total Equity Instruments at fair value through profit or loss</b>		<u>51,518</u>	<u>417,334</u>	<u>749,675</u>



## BANCO MACRO SA AND ITS SUBSIDIARIES

### 7. REPO TRANSACTIONS

Securities sold under agreements to repurchase at a specified future date are not derecognized from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest method. When the counterparty has the right to sell or re-pledge the securities, the Bank reclassifies those securities in its statement of financial position to "Financial Assets delivered as guarantee".

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the effective interest method.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded under "Liabilities at fair value through profit or loss".

As of December 31, 2017 and January 1, 2017 the Bank has agreed repurchase transactions of government and private securities for an amount of 2,096,284 and 35,237, respectively, and are recorded under "Repo Transactions".

As of December 31, 2018 and 2017 and January 1, 2017 the Bank has agreed reverse repurchase transactions of government and private securities for an amount of 164,469, 3,968,851 and 2,018,763, respectively, and are recorded under "Repo Transactions". Maturity of the agreed transactions as of December 2018 shall occur during the month of January 2019.

As of December 31, 2018 and 2017 and January 1, 2017, the securities delivered to guarantee the reverse repurchase transactions total 182,448, 4,420,094 and 2,212,958, respectively, and are recorded under "Financial assets delivered as guarantee", while securities received guarantee repurchased transactions as of December 31, 2017 and January 1, 2017 total 2,349,466 and 35,626, respectively and were recognized as an off balance sheet transaction.

Profits generated by the Bank as a result of its repurchase transactions arranged during the fiscal years ended on December 31, 2018 and 2017 total 449,871 and 1,119,217, respectively, and were accounted for in "Interest income" in the statement of income. In addition, losses generated by the Bank as a result of its reverse repurchase transactions arranged during the fiscal years ended on December 31, 2018 and 2017 total 218,635 and 181,685, respectively, and were recognized in "Interests expense" in the statement of income.

### 8. FINANCIAL ASSETS DELIVERED AS GUARANTEE

As of December 31, 2018 and 2017 and January 1, 2017, the Bank delivered as guarantee the following financial assets:

Description	Carrying Amount		
	12/31/2018	12/31/2017	01/01/2017
For transactions with the BCRA	5,719,689	5,914,284	3,858,230
For securities forward contracts	182,448	4,420,094	2,212,958
For guarantee deposits	854,083	943,313	729,108
Total	6,756,220	11,277,691	6,800,296

### 9. LOANS AND OTHER FINANCING

#### 9.1. Exposure to credit risk

	12/31/2018	12/31/2017
Total	183,035,500	199,801,999
Commercial	69,309,152	73,362,164
Consumer	113,726,348	126,439,835
Less: Allowance for ECL/impairment losses	(3,869,037)	(3,937,321)
	<u>179,166,463</u>	<u>195,864,678</u>

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## 9.2. Impairment allowance for loans and other financing

Internal rating grade	12/31/2018					12/31/2017	
	Stage 1	Stage 2	Stage 3	Total	%	Total	%
<b>Performing</b>	<b>157,571,202</b>	<b>16,644,155</b>		<b>174,215,357</b>	<b>95,2%</b>	<b>192,402,475</b>	<b>96,3%</b>
High grade	133,031,127	6,188,786		139,219,913		151,424,523	
Standard grade	21,804,129	6,517,336		28,321,465		33,043,038	
Sub-standard grade	2,735,946	3,938,033		6,673,979		7,934,914	
<b>Past Due but no impaired</b>	<b>800,737</b>	<b>4,580,581</b>		<b>5,381,318</b>	<b>2,9%</b>	<b>5,272,395</b>	<b>2,6%</b>
<b>Non- Performing</b>			<b>3,438,825</b>	<b>3,438,825</b>	<b>1,9%</b>	<b>2,127,129</b>	<b>1,1%</b>
<b>Total</b>	<b>158,371,939</b>	<b>21,224,736</b>	<b>3,438,825</b>	<b>183,035,500</b>	<b>100%</b>	<b>199,801,999</b>	<b>100%</b>
	<b>86,5%</b>	<b>11,6%</b>	<b>1,9%</b>	<b>100%</b>			

## 9.2.1. Commercial

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained and policies on whether ECL allowances are calculated on an individual or collective basis are set out in note 50.

Internal rating grade	12/31/2018					12/31/2017	
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	%	Total	%
<b>Performing</b>	<b>67,170,083</b>	<b>1,015,056</b>		<b>68,185,139</b>	<b>98,4%</b>	<b>72,627,030</b>	<b>99,0%</b>
High grade	56,341,549	249,870		56,591,419		58,819,493	
Standard grade	10,643,340	444,557		11,087,897		12,872,225	
Sub-standard grade	185,194	320,629		505,823		935,312	
<b>Past Due but no impaired</b>						<b>21,497</b>	
<b>Non- Performing</b>			<b>1,124,013</b>	<b>1,124,013</b>	<b>1,6%</b>	<b>713,637</b>	<b>1,0%</b>
<b>Total</b>	<b>67,170,083</b>	<b>1,015,056</b>	<b>1,124,013</b>	<b>69,309,152</b>	<b>100%</b>	<b>73,362,164</b>	<b>100%</b>
	<b>96,9%</b>	<b>1,5%</b>	<b>1,6%</b>	<b>100%</b>			

	Stage			Total
	1	2	3	
<b>Gross Carrying amount as at January 1, 2018</b>	<b>72,362,692</b>	<b>319,235</b>	<b>680,237</b>	<b>73,362,164</b>
New assets originated or purchased	51,953,623	350,121		52,303,744
Assets derecognized or repaid	(26,221,369)	(144,238)	(181,987)	(26,547,594)
Transfers to Stage 1	30,412	2,033	(32,445)	
Transfers to Stage 2	(887,208)	887,208		
Transfers to Stage 3	(1,034,276)	(98,345)	1,132,621	
Amounts Written Off			(87,432)	(87,432)
Monetary effects	(29,033,791)	(300,958)	(386,981)	(29,721,730)
<b>At December 31, 2018</b>	<b>67,170,083</b>	<b>1,015,056</b>	<b>1,124,013</b>	<b>69,309,152</b>

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An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to commercial lending is, as follows:

	Stage			Total
	1	2	3	
<b>ECL as at January 1, 2018</b>	<b>351,172</b>	<b>23,978</b>	<b>236,394</b>	<b>611,544</b>
New assets originated or purchased	603,707	61,608		665,315 (*)
Assets derecognized or repaid	(126,734)	(9,658)	(40,524)	(176,916)
Transfers to Stage 1	722	24	(746)	
Transfers to Stage 2	(9,572)	9,572		
Transfers to Stage 3	(423,005)	(9,746)	432,751	
Amounts Written Off			(58,507)	(58,507)
Monetary effects	(128,936)	(18,126)	(141,426)	(288,488)
<b>At December 31, 2018</b>	<b>267,354</b>	<b>57,652</b>	<b>427,942</b>	<b>752,948</b>

(\*) It includes the impact on year end ECL of exposure between stages during the year.

### 9.2.2. Consumer

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system and policies about whether ECL allowances are calculated on an individual or collective basis are set out in note 50.

	12/31/2018					12/31/2017	
	Stage 1 Collective	Stage 2 Collective	Stage 3	Total	%	Total	%
<b>Internal rating grade</b>							
<b>Performing</b>	<b>90,401,119</b>	<b>15,629,099</b>		<b>106,030,218</b>	<b>93,2%</b>	<b>119,775,445</b>	<b>94,7%</b>
High grade	76,689,578	5,938,916		82,628,494		92,605,030	
Standard grade	11,160,789	6,072,779		17,233,568		20,170,813	
Sub-standard grade	2,550,752	3,617,404		6,168,156		6,999,602	
<b>Past Due but no impaired</b>	<b>800,737</b>	<b>4,580,581</b>		<b>5,381,318</b>	<b>4,7%</b>	<b>5,250,898</b>	<b>4,2%</b>
<b>Non-Performing</b>			<b>2,314,812</b>	<b>2,314,812</b>	<b>2,1%</b>	<b>1,413,492</b>	<b>1,1%</b>
<b>Total</b>	<b>91,201,856</b>	<b>20,209,680</b>	<b>2,314,812</b>	<b>113,726,348</b>	<b>100%</b>	<b>126,439,835</b>	<b>100%</b>
	<b>80,2%</b>	<b>17,8%</b>	<b>2,0%</b>	<b>100%</b>			

### Consumer

	Stage			Total
	1	2	3	
<b>Gross Carrying amount as at January 1, 2018</b>	<b>99,547,755</b>	<b>25,478,622</b>	<b>1,413,458</b>	<b>126,439,835</b>
New assets originated or purchased	48,633,030	5,353,249		53,986,279
Assets derecognized or repaid	(13,298,716)	(7,174,139)	(766,780)	(21,239,635)
Transfers to Stage 1	(719,105)	804,810	(85,705)	
Transfers to Stage 2	(6,331,116)	5,318,062	1,013,054	
Transfers to Stage 3	(975,196)	(941,820)	1,917,016	
Amounts Written Off	(92,064)	(183,422)	(387,321)	(662,807)
Monetary effects	(35,562,732)	(8,445,682)	(788,910)	(44,797,324)
<b>At 31 December 2018</b>	<b>91,201,856</b>	<b>20,209,680</b>	<b>2,314,812</b>	<b>113,726,348</b>

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	Stage			Total
	1	2	3	
<b>ECL as at January 1, 2018</b>	<b>887,715</b>	<b>1,719,408</b>	<b>744,135</b>	<b>3,351,258</b>
New assets originated or purchased	1,526,589	921,940		2,448,529 (*)
Assets derecognized or repaid	(219,769)	(943,576)	(59,697)	(1,223,042)
Transfers to Stage 1	(186,164)	187,937	(1,773)	
Transfers to Stage 2	(65,661)	74,253	(8,592)	
Transfers to Stage 3	(851,908)	(115,518)	967,426	
Amounts Written Off	(46,614)	(104,222)	(156,915)	(307,751)
Monetary effects	(269,761)	(497,726)	(385,418)	(1,152,905)
<b>At 31 December 2018</b>	<b>774,427</b>	<b>1,242,496</b>	<b>1,099,166</b>	<b>3,116,089</b>

(\*) It includes the impact on year end ECL of exposure between stages during the year.

Over the course of 2018, the Bank generated 3,321 and 6,544 from loan portfolio sales in profit or loss, respectively.

An analysis of the changes in the ECL allowances in relation to Commercial and Consumer lending for the fiscal year ended as of December 31, 2017 is as follows:

	Commercial portfolio	Consumer portfolio	Total
As of January 1, 2017	803,369	2,585,862	3,389,231
Increases	276,034	2,571,678	2,847,712
Reversals	(33,732)	(3,554)	(37,286)
Charge off	(15,001)	(1,413,010)	(1,428,011)
Monetary effect	(181,116)	(653,209)	(834,325)
As of December 31, 2017	849,554	3,087,767	3,937,321

The contractual amount outstanding on loans and other financing that have been written off by the Bank as of December 31, 2018 and 2017 that were still subject to enforcement activity was 2,762,951 and 2,134,341, respectively.

### 10. CONTINGENT TRANSACTIONS

In order to meet specific financial needs of customers, the Bank's credit policy also includes, among others, the granting of guarantees, securities, bonds, letters of credit and documentary credits. Although these transactions are not recognized in the consolidated statement of financial position, since they imply a possible liability for the Bank, they expose the Bank to credit risks other than those recognized in statement of financial position and they are, therefore, an integral part of the total risk of the Bank.

As of December 31, 2018 and 2017 and January 1, 2017, the Bank maintains the following contingent transactions:

	12/31/2018	12/31/2017	01/01/2017
Guarantees granted (*)	940,990	656,323	822,668
Overdraft and unused agreed commitments (*)	634,288	1,098,271	537,924
Letters of credit	256,788	133,286	300,903
Total (**)	1,832,066	1,887,880	1,661,495

(\*) Includes transactions not covered by debtor classification standards. For overdraft and unused agreed commitments, it includes an amount of 221,220, 720,726 and 185,984 as of December 31, 2018 and 2017 and January 1, 2017, respectively. For guarantee granted it includes the amount of 166,650, 282,263 and 292,940 as of December 31, 2018 and 2017 and January 1, 2017, respectively.

(\*\*) It includes high grade credit risk exposures in stage 1 generated during fiscal year 2018. The related ECL as of December 31, 2018 amount to 10,730 as disclosed in note 21.

Risks related to the contingent transactions described above have been evaluated and are controlled within the framework of the Bank's credit risk policy described in note 50.

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### 11. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into derivative transactions for trading purposes through Forwards and Futures. These are contractual agreements to buy or sell a specific financial instrument at a given price and a fixed date in the future. Forward contracts are customized contracts traded on an over-the-counter market. Futures contracts, in turn, correspond to transactions for standardized amounts, executed in a regulated market and subject to daily cash margin requirements. The main differences in risks associated with these types of contracts are the credit risk and the liquidity risk. In forward contracts there is counterparty risk since the Bank has credit exposure to counterparties of the agreements. The credit risk related to futures contracts is deemed very low because daily cash margin requirements help to guarantee these contracts are always fulfilled. In addition, forward contracts are generally settled in gross terms and, therefore, they are deemed to have higher settlement risk than futures contract that, unless they are chosen to be executed by delivery, are settled on a net base. Both types of contracts expose the Bank to market risk.

At the beginning, derivatives often imply only a mutual exchange of promises with little or no investment. Nevertheless, these instruments frequently imply high levels of leverage and are quite volatile. A relatively small movement in the value of the underlying asset could have a significant impact in profit or loss. Furthermore, over-the-counter derivatives may expose the Bank to risks related to the absence of an exchange market in which to close an open position. The Bank's exposure for derivative contracts is monitored on a regular basis as part of its general risk management framework. Information on the Bank's credit risk management objectives and policies is included in note 50.

Notional values indicate the amount of pending transactions at year end and are not indicative of either the market risk or the credit risk. Additionally, is presented the fair value of the derivative financial instruments recognized as assets or liabilities in the consolidated statement of financial positions. Changes in fair values were accounted for in profit or loss, the breakdown of which is disclosed in note 32.

	Notional Value Currency	12/31/2018		12/31/2017		01/01/2017	
		Notional Value	Fair Value	Notional Value	Fair Value	Notional Value	Fair Value
<b>Derivative assets</b>							
Transactions of foreign currency contract without delivery of underlying asset	US Dollars	24,867	14,555	11,700	11,316	7,900	17,911
Forward contracts of Government bonds	US Dollars	5,000	2,738	10,000	833		
<b>Total derivatives held for trading</b>		<b>29,867</b>	<b>17,293</b>	<b>21,700</b>	<b>12,149</b>	<b>7,900</b>	<b>17,911</b>

  

	Notional Value Currency	12/31/2018		12/31/2017		01/01/2017	
		Notional Value	Fair Value	Notional Value	Fair Value	Notional Value	Fair Value
<b>Derivative liabilities</b>							
Transactions of foreign currency contract without delivery of underlying asset	US Dollars	1,100	1,369	44,500	34,116		
<b>Total derivatives held for trading</b>		<b>1,100</b>	<b>1,369</b>	<b>44,500</b>	<b>34,116</b>		

Derivatives held for trading are generally related with products offered by the Bank to its customers. The Bank shall also take positions expecting to benefit from favorable changes in prices, rates or indexes, i.e. take advantage of the high level of leverage of these contracts to obtain yields, assuming at the same time high market risk. Additionally, they may be held for arbitrage, i.e. to obtain a benefit free of risk for the combination of a derivative product and a portfolio of financial assets, trying to benefit from anomalous situations in the prices of assets in the markets.

### 12. FAIR VALUE QUANTITATIVE AND QUALITATIVE DISCLOSURES

The fair value is the amount at which an asset can be exchanged, or at which a liability can be settled, in mutual independent terms and conditions between participants of the principal market (or the most advantageous market) who are duly informed and willing to transact in an orderly and current transaction, at the measurement date under the current market conditions whether the price is directly observable or estimated using a valuation technique under the assumption that the Bank is an ongoing business.

When a financial instrument is quoted in a liquid and active market, its price in the market in a real transaction provides the most reliable evidence of its fair value. Nevertheless, when there is no quoted price in the market or it cannot be an evidence of the fair value of such instrument, in order to determine such fair value, the entities may use the market value of another instrument with similar characteristics, the analysis of discounted cash flows or other applicable techniques, which shall be significantly affected by the assumptions used.

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Notwithstanding the above, the Bank's Management has used its best judgment to estimate the fair values of its financial instruments; any technique to perform such estimate implies certain inherent fragility level.

### Fair value hierarchy

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments, according to the valuation technique applied:

- Level 1: quoted prices (unadjusted) observable in active markets that the Bank accesses to at the measurement day for identical assets or liabilities. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available at each reporting period.
- Level 2: Valuation techniques for which the data and variables having a significant impact on the determination of the fair value recognized or disclosed are observable for the asset or liability, either directly or indirectly. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments to level 2 inputs may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3: Valuation techniques for which the data and variables having a significant impact on the determination of the fair value recognized or disclosed are not based on observable market information.

The following tables show the hierarchy in the Bank's financial asset and liability fair value measurement, as of December 31, 2018 and 2017 and January 1, 2017:

### CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES AS OF DECEMBER 31, 2018

Item	Amortized cost	Fair value with changes in other comprehensive income	Fair value with changes in P/L	Fair value hierarchy		
				Level 1	Level 2	Level 3
FINANCIAL ASSETS						
Cash and deposits in banks						
Cash	10,696,465					
Financial institutions and correspondents	63,613,775					
Other	455,799					
Debt securities at fair value through profit or loss			2,635,247	982,116	362,079	1,291,052
Derivative instruments			17,293	13,732	3,561	
Other financial assets	2,586,448		413,136	321,968		91,168
Loans and other financing						
To the non-financial government sector	1,775,507					
Other financial institutions	5,625,848					
To the non financial private sector and foreign residents						
Overdrafts	18,048,532					
Documents	25,159,657					
Mortgage loans	15,852,595					
Pledge loans	4,367,045					
Personal loans	57,516,829					
Credit cards	29,429,548					
Financial leases	448,159					
Other (1)	20,942,743					
Other debt securities	8,151,176	56,433,583		42,646,037	13,787,546	
Financial assets delivered as guarantee	6,605,764		150,456	150,456		
Equity instruments at fair value through profit or loss			51,518	6,110		45,408
TOTAL FINANCIAL ASSETS	271,275,890	56,433,583	3,267,650	44,120,419	14,153,186	1,427,628
FINANCIAL LIABILITIES						
Deposits						
From the non financial government sector	19,354,087					
From the financial sector	148,275					
From the non financial private sector and foreign residents						
Checking accounts	24,435,104					

Savings accounts	68,696,031
Time deposits and Investment accounts	121,252,171
Other	4,068,751

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Item	Amortized cost	Fair value with changes in other comprehensive income	Fair value with changes in P/L	Fair value hierarchy		
				Level 1	Level 2	Level 3
<b>Financial liabilities (contd.)</b>						
Derivative instruments			1,369	593	776	
Repo transactions						
Other financial institutions	164,469					
Other financial liabilities	15,318,513					
Financing received from Central Bank and other financial institutions	2,998,010					
Issued corporate bonds	6,377,311					
Subordinated corporate bonds	15,288,390					
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>278,101,112</b>		<b>1,369</b>	<b>593</b>	<b>776</b>	

(1) Includes the total provisions to the non financial private sector and foreign residents

**CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES  
AS OF DECEMBER 31, 2017**

Item	Amortized cost	Fair value with changes in other comprehensive income	Fair value with changes in P/L	Fair value hierarchy		
				Level 1	Level 2	Level 3
<b>FINANCIAL ASSETS</b>						
Cash and deposits in banks						
Cash	9,982,946					
Financial institutions and correspondents	40,580,285					
Other	1,941,866					
Debt securities at fair value through profit or loss			1,603,472	624,345	926,209	52,918
Derivative instruments			12,149	1,181	10,968	
Repo transactions	2,096,284					
Other financial assets	2,642,016		713,491	474,673		238,818
Loans and other financing						
To the non financial government sector	2,781,024					
Other financial institutions	4,782,999					
To the non financial private sector and foreign residents						
Overdrafts	13,975,052					
Documents	26,045,856					
Mortgage loans	12,273,449					
Pledge loans	6,133,558					
Personal loans	71,497,740					
Credit cards	36,587,962					
Financial leases	876,975					
Other (1)	20,910,063					
Other debt securities	1,386,173	49,852,407		49,593,075	259,332	
Financial assets delivered as guarantee	6,857,596	4,413,734	6,361	4,413,734	6,361	
Equity instruments at fair value through profit or loss			417,334	364,515		52,819
<b>TOTAL FINANCIAL ASSETS</b>	<b>261,351,844</b>	<b>54,266,141</b>	<b>2,752,807</b>	<b>55,471,523</b>	<b>1,202,870</b>	<b>344,555</b>
<b>FINANCIAL LIABILITIES</b>						
Deposits						
From the non financial government sector	19,032,549					
From the financial sector	120,123					
From the non financial private sector and foreign residents						
Checking accounts	30,678,701					
Savings accounts	65,750,239					
Time deposits and Investment accounts	92,155,407					
Other	5,063,352					
Liabilities at fair value with changes in P/L			9,523	9,523		
Derivative instruments			34,116	10,585	23,531	
Repo transactions						



Other financial institutions	3,968,851					
Other financial liabilities	15,593,151					
Financing received from Central Bank and other financial institutions	1,733,524					
Issued corporate bonds	6,957,379					
Subordinated corporate bonds	11,170,509					
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>252,223,785</b>	<b>43,639</b>	<b>20,108</b>	<b>23,531</b>		

(1) Includes the total provisions to the non financial private sector and foreign residents.

**BANCO MACRO SA AND ITS SUBSIDIARIES**  
**CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES**  
**AS OF JANUARY 1, 2017**

		Fair value with changes in other comprehensive income	Fair value with changes in P/L	Fair value hierarchy		
Item	Amortized cost			Level 1	Level 2	Level 3
FINANCIAL ASSETS						
Cash and deposits in banks						
Cash	8,975,352					
Financial institutions and correspondents	57,329,190					
Other	1,826					
Debt securities at fair value through profit or loss			612,613	310,078	300,545	1,990
Derivative instruments			17,911		17,911	
Repo transactions	35,237					
Other financial assets	1,734,244		302,722	302,722		
Loans and other financing						
To the non financial government sector	2,921,334					
Other financial institutions	3,156,606					
To the non financial private sector and foreign residents						
Overdrafts	16,760,056					
Documents	21,112,213					
Mortgage loans	7,724,004					
Pledge loans	4,220,935					
Personal loans	55,830,555					
Credit cards	34,512,143					
Financial leases	689,382					
Other (1)	15,937,138					
Other debt securities	1,576,916	36,002,853		4,862,250	31,140,603	
Financial assets delivered as guarantee	4,587,338	1,544,733	668,225	2,212,958		
Equity instruments at fair value through profit or loss			749,675	683,928	33,698	32,049
TOTAL FINANCIAL ASSETS	237,104,469	37,547,586	2,351,146	8,371,936	31,492,757	34,039
FINANCIAL LIABILITIES						
Deposits						
From the non financial government sector	17,445,381					
From the financial sector	102,938					
From the non financial private sector and foreign residents						
Checking accounts	32,587,686					
Savings accounts	51,377,895					
Time deposits and Investment accounts	88,997,651					
Other	15,601,477					
Repo transactions						
Other financial institutions	2,018,763					
Other financial liabilities	11,684,864					
Financing received from Central Bank and other financial institutions	479,907					
Issued corporate bonds	3,104,030					
Subordinated corporate bonds	11,749,101					
TOTAL FINANCIAL LIABILITIES	235,149,693					

(1) Includes the total provisions to the non financial private sector and foreign residents.

## BANCO MACRO SA AND ITS SUBSIDIARIES

### Description of valuation process

The fair value of instruments categorized as Level 1 was assessed by using quoted prices effective at the end of each fiscal year, in active markets for identical assets or liabilities, if representative. Currently, for government and private securities, there are two principal markets in which the Bank operates: BYMA and MAE. Additionally, in the case of derivatives, both MAE and *Mercado a Término de Rosario SA* (ROFEX) are deemed active markets.

On the other hand, for certain assets and liabilities that do not have an active market, categorized as Level 2, the Bank used valuation techniques that included the use of market transactions performed under mutual independent terms and conditions, between interested and duly informed parties, provided that they are available, as well as references to the current fair value of another instrument being substantially similar, or otherwise the analysis of cash flows discounted at rates built from market information of similar instruments.

In addition, certain assets and liabilities included in this category were valued using price quotes of identical instruments in “less active markets”.

Finally, the Bank has categorized as level 3 those assets and liabilities for which there are no identical or similar transactions in the market. In order to determine the market value of these instruments, the Bank used valuation techniques based on its own assumptions. For this approach, the Bank mainly used the cash flow discount model.

As of December 31, 2018 and 2017 and January 1, 2017, the Bank has neither changed the techniques nor the assumptions used to estimate the fair value of the financial instruments.

Below is the reconciliation between the amounts at the beginning and at the end of the fiscal year of the financial assets and liabilities recognized at fair value, using the valuation technique based on the Bank’s own assumptions, as of December 31, 2018 and 2017:

Description	Fair values using valuation techniques based on the Bank’s own assumptions (level 3) December 31, 2018		
	Debt securities	Other financial assets	Equity instruments at fair value through profit or loss
Amount at the beginning	52,918	238,818	52,819
Transfers to Level 3			
Transfers from Level 3			
Profit and loss (1)	(214,792)	(106,353)	12,418
Purchases, sales, issuance and settlement	1,601,402	8,385	
Monetary effects	(148,476)	(49,682)	(19,829)
Amount at end of the fiscal year	1,291,052	91,168	45,408

Description	Fair values using valuation techniques based on the Bank’s own assumptions (level 3) December 31, 2017		
	Debt securities	Other financial assets	Equity instruments at fair value through profit or loss
Amount at the beginning	1,990		32,049
Transfers to Level 3			
Transfers from Level 3			
Profit and loss (1)	9,273	6,836	31,068
Purchases, sales, issuance and settlement	53,845	250,710	(559)
Monetary effects	(12,190)	(18,728)	(9,739)
Amount at end of the fiscal year	52,918	238,818	52,819

- (1) Profit and loss are recorded under “Net income from measurement of financial instruments at fair value through profit or loss”.

## BANCO MACRO SA AND ITS SUBSIDIARIES

Instruments measured as level 3 include mainly debt securities and certificates of participation in financial trusts, for which the construction of fair values was obtained based on the Bank's own assumptions that are not easily available in the market. The most significant assumption was the placement cutoff rate of such instruments in the market at the end of the period, used to determine the actual value of cash flows.

### Quantitative information about Level 3 Fair Value Measurements

The following table provides quantitative information about the valuation techniques and significant unobservable inputs used in the valuation of substantially all of our Level 3 principal assets and liabilities measured at fair value on a recurring basis for which we use an internal model.

	<u>Fair value of Level 3 Assets 12/31/2018</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range of inputs</u>		
				<u>12/31/2018</u>		
				<u>Off range of inputs</u>		
				<u>Low</u>	<u>High</u>	<u>Unit</u>
Debt Securities of Financial Trusts	637,797	Income approach (discounted cash flow)	Discount rate in pesos	67.04	75.48	%
Debt Securities of Financial Trusts Provisional	653,255	Income approach (discounted cash flow)	Discount rate in pesos	68.21	76.27	%
	<u>Fair value of Level 3 Assets 12/31/2017</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Range of inputs</u>		
				<u>12/31/2017</u>		
				<u>Off range of inputs</u>		
				<u>Low</u>	<u>High</u>	<u>Unit</u>
Interests in Securities of Financial Trusts	238,818	Income approach (discounted cash flow)	Discount rate in pesos	22.67	23.86	%

The table below describes the effect of changing the significant unobservable inputs to reasonable possible alternatives. Sensitivity data are calculated using a number of techniques including analyzing price dispersion of different price sources, adjusting model inputs to reasonable changes within the fair value methodology.

	<u>12/31/2018</u>		<u>12/31/2017</u>	
	<u>Favorable changes</u>	<u>Unfavorable changes</u>	<u>Favorable changes</u>	<u>Unfavorable changes</u>
Debt / Interests in Securities of Financial Trusts	33,411	(25,817)	1,247	(535)
Debt Securities of Financial Trusts Provisional	2,208	(2,139)		

### Changes in fair value levels

The Bank monitors the availability of information in the market to evaluate the classification of financial instruments into the fair value hierarchy, as well as the resulting determination of transfers between levels 1, 2 and 3 at each period end.

As of December 31, 2018 and 2017 and January 1, 2017, the Bank has not recognized any transfers between levels 1, 2 and 3 of the fair value hierarchy.

### Financial assets and liabilities not recognized at fair value

Next follows a description of the methods and assumptions used to determine the fair values of financial instruments not recognized at their fair value in these consolidated financial statements:

## BANCO MACRO SA AND ITS SUBSIDIARIES

- Instruments with fair value similar to the carrying amount: financial assets and liabilities that are liquid or have short-term maturities (less than three months) were deemed to have a fair value similar to the carrying amount.
- Fixed-rate financial instruments: the fair value of financial assets was recognized discounting future cash flows at current market rates, for each fiscal year, for financial instruments of similar characteristics. The estimated fair value of fixed-interest rate deposits and liabilities was assessed discounting future cash flows by using estimated interest rates for deposits or placings with similar maturities to those of the Bank's portfolio.
- For public listed assets and liabilities, or prices reported by certain renown suppliers of prices, the fair value was determined based on such prices.

The following table shows a comparison between the fair value and the carrying amount of financial instruments not measured at fair value as of December 31, 2018 and 2017 and January 1, 2017:

	12/31/2018				Fair value
	Carrying amount	Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and deposits in banks	74,766,039	74,766,039			74,766,039
Other financial assets	2,586,448	2,586,448			2,586,448
Loans and other financing	179,166,463		179,512	162,087,123	162,266,635
Other debt securities	8,151,176	173,337	7,165,102	2,749	7,341,188
Financial assets delivered as guarantee	6,605,764	6,573,772	31,992		6,605,764
	<u>271,275,890</u>	<u>84,099,596</u>	<u>7,376,606</u>	<u>162,089,872</u>	<u>253,566,074</u>
<b>Financial liabilities</b>					
Deposits	237,954,419	106,273,098		131,778,797	238,051,895
Repo transactions	164,469	164,469			164,469
Other financial liabilities	15,318,513	15,152,415	166,522		15,318,937
Financing received from the BCRA and other financial entities	2,998,010	2,532,284	432,346		2,964,630
Issued corporate bonds	6,377,311		4,981,686		4,981,686
Subordinated corporate bonds	15,288,390		12,260,778		12,260,778
	<u>278,101,112</u>	<u>124,122,266</u>	<u>17,841,332</u>	<u>131,778,797</u>	<u>273,742,395</u>
	12/31/2017				Fair value
	Carrying amount	Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and deposits in banks	52,505,097	52,505,097			52,505,097
Repo transactions	2,096,284	2,096,284			2,096,284
Other financial assets	2,642,016	2,642,016			2,642,016
Loans and other financing	195,864,678		716,593	191,160,333	191,876,926
Other debt securities	1,386,173	1,395,068		11,687	1,406,755
Financial assets delivered as guarantee	6,857,596	6,857,596			6,857,596
	<u>261,351,844</u>	<u>65,496,061</u>	<u>716,593</u>	<u>191,172,020</u>	<u>257,384,674</u>
<b>Financial liabilities</b>					
Deposits	212,800,371	115,104,221		97,837,922	212,942,143
Repo transactions	3,968,851	3,968,851			3,968,851
Other financial liabilities	15,593,151	15,308,106	293,622		15,601,728
Financing received from the BCRA and other financial entities	1,733,524		1,736,898		1,736,898
Issued corporate bonds	6,957,379		6,545,095		6,545,095
Subordinated corporate bonds	11,170,509		11,384,641		11,384,641
	<u>252,223,785</u>	<u>134,381,178</u>	<u>19,960,256</u>	<u>97,837,922</u>	<u>252,179,356</u>

# **BANCO MACRO SA AND ITS SUBSIDIARIES**

	01/01/2017				
	Carrying amount	Level 1	Level 2	Level 3	Fair value
<b>Financial assets</b>					
Cash and deposits in banks	66,306,368	66,306,368			66,306,368
Repo transactions	35,237	35,237			35,237
Other financial assets	1,734,244	1,734,244			1,734,244
Loans and other financing	162,864,366		887,425	161,789,325	162,676,750
Other debt securities	1,576,916	1,554,576	5,939	21,515	1,582,030
Financial assets delivered as guarantee	4,587,338	4,587,338			4,587,338
	<u>237,104,469</u>	<u>74,217,763</u>	<u>893,364</u>	<u>161,810,840</u>	<u>236,921,967</u>
<b>Financial liabilities</b>					
Deposits	206,113,028	108,292,371		97,978,484	206,270,855
Repo transactions	2,018,763	2,018,763			2,018,763
Other financial liabilities	11,684,864	11,440,197	249,623		11,689,820
Financing received from the BCRA and other financial entities	479,907		478,649		478,649
Issued corporate bonds	3,104,030		2,990,097		2,990,097
Subordinated corporate bonds	11,749,101		11,044,360		11,044,360
	<u>235,149,693</u>	<u>121,751,331</u>	<u>14,762,729</u>	<u>97,978,484</u>	<u>234,492,544</u>

## **13. LEASES**

The Bank, as lessor, entered into financial lease contracts, under the usual characteristics of this kind of transactions, without there being any issues that may differentiate them in any aspect from those performed in the Argentine financial market in general. The lease contracts in force do not represent significant balances with respect to the total financing granted by the Bank.

The following table shows the reconciliation between the total gross investment of financial leases and the current value of the minimum payments receivables for such leases:

	12/31/2018		12/31/2017		01/01/2017	
	Total gross investment	Current value of minimum payments	Total gross investment	Current value of minimum payments	Total gross investment	Current value of minimum payments
Up to 1 year	314,182	240,231	501,105	350,997	433,280	316,270
From 1 to 5 years	249,561	207,928	651,661	525,724	524,238	368,326
More than 5 years			258	254	4,793	4,786
	<u>563,743</u>	<u>448,159</u>	<u>1,153,024</u>	<u>876,975</u>	<u>962,311</u>	<u>689,382</u>

As of December 31, 2018 and 2017, income for non-accrued interests totaled 115,584 and 276,049 respectively.

Additionally, the Bank celebrates operating leases with an average term of 2 to 10 years.

Future minimum payments for these operating lease contracts are as follows:

	12/31/2018	12/31/2017	01/01/2017
Up to 1 year	277,460	240,820	247,860
From 1 to 5 years	322,568	329,815	385,429
More than 5 years	27,050		2,263
	<u>627,078</u>	<u>570,635</u>	<u>635,552</u>

## BANCO MACRO SA AND ITS SUBSIDIARIES

### 14. INVESTMENTS IN ASSOCIATES AND JOINT ARRANGEMENTS

#### 14.1 Associates entities

The Bank holds an investment in the associate Macro Warrants SA. The existence of significant influence is evidenced by the representation the Bank has in the Board of Directors of the associate. In order to measure this investment, we used accounting information of Macro Warrants SA as of September 30, 2018. Additionally, the Bank has considered, when applicable, the material transactions or events occurring between October 1, 2018, and December 31, 2018.

The following table presents the summarized financial information on the Bank's investment in the associate:

	12/31/2018	12/31/2017	01/01/2017
<b>Summarized statement of financial position</b>			
Total assets	18,111	29,231	31,526
Total liabilities	2,269	4,821	6,309
Shareholders' equity	15,842	24,410	25,217
Proportional Bank's interest	5%	5%	5%
Investment carrying amount	792	1,221	1,260

As of December 31, 2018 and 2017 the investment carrying amount in the net income amounted to 165 and 432, respectively.

On June 30, 2018, the investment in Prisma Medios de Pagos SA was reclassified as noncurrent assets held for sale (see note 20). The following table presents summarized information on the Bank's investments as of December 31, 2017 and January 1, 2017:

	12/31/2017	01/01/2017
<b>Summarized statement of financial position</b>		
Total assets	21,212,003	17,879,867
Total liabilities	18,445,350	16,243,522
Shareholders' equity	2,766,653	1,636,345
Proportional Bank's interest	7.61%	7.61%
Investment carrying amount	210,542	124,526

Additionally, for the years ended on December 31, 2018 and 2017, the Bank's investment carrying amount in the net income of Prisma Medios de Pago SA, amounted to 180,350 and 198,595, respectively.

#### 14.2. Joint ventures

The Bank participates in the following joint ventures, implemented through *Uniones Transitorias de Empresas* (UTE):

- a) Banco Macro SA – Wordline Argentina SA Unión transitoria: on April 7, 1998, the Bank executed an agreement with Siemens Itron Services SA to organize an UTE controlled on a joint basis through a 50% interest, the purpose of which is to facilitate a data processing center for the tax administration, to modernize the systems and tax collection processes of the Province of Salta and manage and recover municipal taxes and fees.

The following table presents the summarized financial information on the Bank's investment in the UTE:

	12/31/2018	12/31/2017	01/01/2017
<b>Summarized statement of financial position</b>			
Total assets	270,287	289,133	245,404
Total liabilities	59,639	80,682	55,944
Shareholders' equity	210,648	208,451	189,460
Proportional Bank's interest	50%	50%	50%
Investment carrying amount	105,324	104,226	94,730

## BANCO MACRO SA AND ITS SUBSIDIARIES

As of December 31, 2018 and 2017 the investment carrying amount in the net income amounted to 70,147 and 51,398, respectively.

- b) Banco Macro SA – Gestiva SA Unión transitoria: on May 4, 2010 and August 15, 2012, the Bank executed with Gestiva SA the UTE agreement to form “Banco Macro SA – Gestiva SA – Unión Transitoria de Empresas”, under joint control, the purpose of which is to render the integral processing and management services of the tax system of the Province of Misiones, the management thereof and tax collection services. The Bank holds a 5% interest in this UTE.

On June 27, 2018, the Bank, the UTE and the tax authorities of the Misiones provincial government entered into an agreement of “termination by mutual agreement” of the adaptation agreement, without implying or modifying the Bank’s rights and obligations as a financial agent of the province for the services provision established in the agreement. As of December 31, 2018, according to the above-mentioned, the remaining investment amounted to 2,707 and the Bank’s investment carrying amount in the net income amounted to 15,640.

The following table presents the summarized financial information on the Bank’s investment as of December 31, 2017 and January 1, 2017:

	12/31/2017	01/01/2017
<b>Summarized Statement of financial position</b>		
Total assets	172,576	197,846
Total liabilities	27,047	28,773
Shareholders’ equity	145,529	169,073
Proportional interest at the Bank	5%	5%
Investment carrying amount	7,276	8,454

Additionally, for the fiscal year ended December 31, 2017, the investment carrying amount in the net income for Banco Macro SA – Gestiva SA Unión transitoria de empresas, amounted to 39,878.

## 15. PROPERTY, PLANT AND EQUIPMENT

As of January 1, 2017, the deemed cost of the Bank’s real property amounted to 12,858,781 and the adjustment for this item totaled 8,402,949. These amounts include the real property booked in property, plant and equipment and investment property.

The changes in property, plant and equipment during the fiscal years ended on December 31, 2018 and 2017 are as follow:

Item	12/31/2018								Residual value at end of the fiscal year
	Original value at beginning of fiscal year	Total life estimated in years	Increases	Decreases	Accumulated at the beginning	Depreciation for the fiscal year	For the fiscal year	At the end	
<b>Cost</b>									
Real property	10,101,443	50	4,753,537	1,666,190	1,106,506	624,349	222,061	704,218	12,484,572
Furniture and facilities	1,265,689	10	397,439	21,641	648,854	45	115,192	764,001	877,486
Machinery and equipment	3,044,688	5	776,172	170,000	2,075,472	399	448,960	2,524,033	1,126,827
Vehicles	414,325	5	45,033	62,598	338,580	57,805	37,688	318,463	78,297
Other	1,156		40	19	1,116		41	1,157	20
Work in progress	4,549,009		2,163,326	5,735,279					977,056
Total property, plant and equipment	<u>19,376,310</u>		<u>8,135,547</u>	<u>7,655,727</u>	<u>4,170,528</u>	<u>682,598</u>	<u>823,942</u>	<u>4,311,872</u>	<u>15,544,258</u>



# **BANCO MACRO SA AND ITS SUBSIDIARIES**

	12/31/2017								
	Original value at beginning of fiscal year	Total life estimated in years	Increases	Decreases	Depreciation for the fiscal year				Residual value at end of the fiscal year
Item					Accumulated at the beginning	Decrease	For the fiscal year	At the end	
Cost									
Real property	9,977,348	50	156,411	32,316	930,288	9,754	185,972	1,106,506	8,994,937
Furniture and facilities	1,192,480	10	73,209		536,673		112,181	648,854	616,835
Machinery and equipment	2,667,739	5	390,398	13,449	1,661,602	13,506	427,376	2,075,472	969,216
Vehicles	394,046	5	35,704	15,425	315,702	14,377	37,255	338,580	75,745
Other	1,133		23		1,061		55	1,116	40
Work in progress	3,166,263		1,466,832	84,086					4,549,009
Total property, plant and equipment	17,399,009		2,122,577	145,276	3,445,326	37,637	762,839	4,170,528	15,205,782

## **16. INVESTMENT PROPERTY**

The changes in investment property during the fiscal years ended on December 31, 2018 and 2017 are as follow:

	12/31/2018								
	Original Value at beginning of fiscal year	Total life estimated in years	Depreciation for the fiscal year				Residual value at the end of the fiscal year (1)		
Item			Increases	Decreases	Accumulated at the beginning	Decrease	For the fiscal year	At the end	
Cost									
Rented properties		50	105,151		14,789		124	14,913	90,238
Other investment properties	1,339,765	50	516,517	1,507,130	54,821	48,429	8,028	14,420	334,732
Total investment property (2)	1,339,765		621,668	1,507,130	69,610	48,429	8,152	29,333	424,970

	12/31/2017								
	Original Value at beginning of fiscal year	Total life estimated in years	Increases	Decreases	Depreciation for the fiscal year				Residual value at the end of the fiscal year
Item					Accumulated at the beginning	Decrease	For the fiscal year	At the end	
Cost									
Other investment properties	1,390,146	50	384,704	435,085	59,236	32,484	18,751	45,503	1,294,262
Total investment property	1,390,146		384,704	435,085	59,236	32,484	18,751	45,503	1,294,262

- (1) The amounts disclosed do not differ significantly from the fair value.
- (2) During the financial year 2018, this item observed transfers to and from property, plant and equipments and/or non current assets held for sale.

## **17. INTANGIBLE ASSETS**

The changes in intangible assets during the fiscal years ended on December 31, 2018 and 2017 are as follow:

	12/31/2018								
	Original Value at beginning of fiscal year	Total life estimated in years	Depreciation for the fiscal year				Residual value at the end of the fiscal year		
Item			Increases	Decreases	Accumulated at the beginning	Decrease	For the fiscal year	At the end	
Cost									
Licenses	955,212	5	338,345	528	641,644	2	145,266	786,908	506,121
Other intangible assets	3,142,728	5	898,261	101,021	1,830,043	634	496,085	2,325,494	1,614,474
Total intangible assets	4,097,940		1,236,606	101,549	2,471,687	636	641,351	3,112,402	2,120,595

## BANCO MACRO SA AND ITS SUBSIDIARIES

Item	12/31/2017							
	Original Value at beginning of fiscal year	Total life estimated in years	Increases	Decreases	Depreciation for the fiscal year			Residual value at the end of the fiscal year
					Accumulated at the beginning	Decrease	For the fiscal year	At the end
<b>Cost</b>								
Goodwill – Business combination	315,008			315,008	199,471	230,807	31,336	
Licenses	499,825	5	455,386		220,459		421,185	641,644
Other intangible assets	2,778,777	5	374,599	10,647	1,667,388	10,565	173,220	1,830,043
<b>Total intangible assets</b>	<b>3,593,610</b>		<b>829,985</b>	<b>325,655</b>	<b>2,087,318</b>	<b>241,372</b>	<b>625,741</b>	<b>2,471,687</b>

### 18. OTHER FINANCIAL AND NON FINANCIAL ASSETS

The breakdown of the other financial and nonfinancial assets account in the statement of financial position is as follows:

Other financial assets	12/31/2018	12/31/2017	01/01/2017
Amounts receivable from spot and forward sales pending settlement	768,603	1,050,350	512,173
Mutual Funds and other securities	413,136	713,491	302,723
Sundry debtors	1,806,953	1,585,322	1,219,146
Other	10,892	6,344	2,924
	<u>2,999,584</u>	<u>3,355,507</u>	<u>2,036,966</u>
Other non financial assets	12/31/2018	12/31/2017	01/01/2017
Advanced prepayments	159,233	260,113	301,406
Advanced tax	147,091	60,050	65,952
Investments in property	424,970	1,294,262	1,330,910
Other	254,141	559,771	462,869
	<u>985,435</u>	<u>2,174,196</u>	<u>2,161,137</u>

### 19. RELATED PARTIES

A related party is a person or entity that is related to the Bank:

- has control or joint control of the Bank;
- has significant influence over the Bank;
- is a member of the key management personnel of the Bank or of the parent of the Bank;
- members of the same group;
- one entity is an associate (or an associate of a member of a group of which the other entity is a member).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers as key management personnel, for the purposes of IAS 24, the members of the Board of Directors and the senior management members of the Risk Management Committee, the Assets and Liabilities Committee and the Senior Credit Committee.

As of December 31, 2018 and 2017 and January 1, 2017, amounts and profit or loss related to transactions generated with related parties are as follows:

# **BANCO MACRO SA AND ITS SUBSIDIARIES**

- Information as of December 31, 2018

	Main subsidiaries (1)						
	Banco del Tucumán SA	Macro Bank Limited	Macro Securities SA	Associates	Key management personnel	Other related parties	Total
<b>Assets</b>							
Cash and deposits in banks		583					583
Other financial assets	2,504		25,276	20,660			48,440
<b>Loans and other financing (2)</b>							
Documents						331,699	331,699
Overdrafts			6		3,505	161,905	165,416
Credit cards			286		19,011	51,424	70,721
Leases			5,746			1,407	7,153
Personal loans					1,388		1,388
Mortgage loans					54,824	356	55,180
Other loans						232,670	232,670
Guarantees granted						391,699	391,699
Other nonfinancial assets			83,178				83,178
<b>Total assets</b>	<u>2,504</u>	<u>583</u>	<u>114,492</u>	<u>20,660</u>	<u>78,728</u>	<u>1,171,160</u>	<u>1,388,127</u>
<b>Liabilities</b>							
Deposits		13	311,073	1,774,149	4,890,280	984,659	7,960,174
Other financial liabilities				101,232	31	514	101,777
Financing received from the BCRA and other financial entities	301,742						301,742
Issued corporate bonds			11,231				11,231
Subordinated corporate bonds						46,605	46,605
Other nonfinancial liabilities						119	119
<b>Total liabilities</b>	<u>301,742</u>	<u>13</u>	<u>322,304</u>	<u>1,875,381</u>	<u>4,890,311</u>	<u>1,031,897</u>	<u>8,421,648</u>
<b>Income</b>							
Interest income	466,201				2,954	78,427	547,582
Interest expense	(61,064)		(3,822)	(226,280)	(408,268)	(25,105)	(724,539)
Commissions income	9		593	137	24	6,831	7,594
Other operating income	32,938						32,938
Administrative expenses	(4)					(11,739)	(11,743)
Other operating expenses				(1,521,802)	(3)	(31,424)	(1,553,226)
<b>Income / (loss)</b>	<u>438,080</u>	<u>—</u>	<u>(3,229)</u>	<u>(1,747,945)</u>	<u>(405,290)</u>	<u>16,990</u>	<u>(1,701,394)</u>

- (1) These transactions are eliminated during the consolidation process.
- (2) The maximum financing amount for loans and other financing as of December 31, 2018 for Banco del Tucumán SA, Macro Bank Limited, Macro Securities SA, associates, Key management personnel and other related parties amounted to 2,550,000, 0, 7,216, 0, 82,297 and 1,551,047, respectively.
- (3) These losses are mainly generated by debit and credit cards processing expenses billed by Prisma Medios de Pago SA.

# **BANCO MACRO SA AND ITS SUBSIDIARIES**

- Information as of December 31, 2017

	Main subsidiaries (1)						
	Banco del Tucumán SA	Macro Bank Limited	Macro Securities SA	Associates	Key management personnel	Other related parties	Total
<b>Assets</b>							
Cash and deposits in banks		19,350					19,350
Debt securities at fair value through profit or loss						123,374	123,374
Other financial assets	2,035						2,035
<b>Loans and other financing</b>							
Other financial entities	1,405,803						1,405,803
Documents						224,271	224,271
Overdrafts					935	10,628	11,563
Credit cards			436		16,213	35,962	52,611
Leases			10,295			3,185	13,480
Personal loans					573	586	1,159
Mortgage loans					19,971	653	20,624
Other loans						217,480	217,480
Guarantees granted			654			79,422	80,076
<b>Total assets</b>	<u>1,407,838</u>	<u>19,350</u>	<u>11,385</u>		<u>37,692</u>	<u>695,561</u>	<u>2,171,826</u>
<b>Liabilities</b>							
Deposits		24	160,015	1,384,411	1,641,543	1,102,644	4,288,637
Other financial liabilities				118,146	19	226	118,391
Subordinated corporate bonds						43,569	43,569
Other nonfinancial liabilities						255	255
<b>Total liabilities</b>	<u></u>	<u>24</u>	<u>160,015</u>	<u>1,502,557</u>	<u>1,641,562</u>	<u>1,146,694</u>	<u>4,450,852</u>
<b>Income</b>							
Interest income	43,594		3,361		5,847	128,654	181,456
Interest expense	(16,445)	(455)		(225,109)	(5,125)	(8,114)	(255,248)
Commissions income	20		404	123	35	8,334	8,916
Commissions expenses						(21)	(21)
Other operating income	35,585	3	1,138				36,726
Administrative expenses	(68)					(21,664)	(21,732)
Other operating expenses			(26,244)	(1,114,152)	(2)	(38,758)	(1,179,154)
<b>Income / (loss)</b>	<u>62,686</u>	<u>(452)</u>	<u>(21,341)</u>	<u>(1,339,138)</u>	<u>757</u>	<u>68,431</u>	<u>(1,229,057)</u>

(1) These transactions are eliminated during the consolidation process.

(2) These losses are mainly generated by debit and credit cards processing expenses billed by Prisma Medios de Pago SA.

## BANCO MACRO SA AND ITS SUBSIDIARIES

- Information as of January 1, 2017

	Main subsidiaries (1)						
	Banco del Tucumán SA	Macro Bank Limited	Macro Securities SA	Associates	Key management personnel	Other related parties	Total
<b>Assets</b>							
Cash and deposits in banks		20,764					20,764
Debt securities at fair value through profit or loss						95,011	95,011
Other financial assets	87						87
<b>Loans and other financing</b>							
Documents						191,211	191,211
Overdrafts					8,507	22,192	30,699
Credit cards			98		15,522	21,355	36,975
Leases			14,807			2,152	16,959
Personal loans					2,257	252	2,509
Mortgage loans					8,800	11,206	20,006
Other loans						1,393,428	1,393,428
Guarantees granted			1,631			26,468	28,099
<b>Total assets</b>	<u>87</u>	<u>20,764</u>	<u>16,536</u>		<u>35,086</u>	<u>1,763,275</u>	<u>1,835,748</u>
<b>Liabilities</b>							
Deposits		31	248,335	23,181	1,994,500	1,106,917	3,372,964
Other financial liabilities				75,545	20	13,663	89,228
Issued corporate bonds		112,792				126,476	239,268
Subordinated corporate bonds						393,718	393,718
Other nonfinancial liabilities		361				385	746
<b>Total liabilities</b>		<u>113,184</u>	<u>248,335</u>	<u>98,726</u>	<u>1,994,520</u>	<u>1,641,159</u>	<u>4,095,924</u>

- (1) These transactions are eliminated during the consolidation process.  
(2) These losses are mainly generated by debit and credit cards processing expenses billed by Prisma Medios de Pago SA.

Transactions generated by the Bank with its related parties to it for transactions arranged within the course of the usual and ordinary course of business were performed in normal market conditions, both as to interest rates and prices and as to the required guarantees.

The Bank does not have loans granted to directors and other key management personnel secured with shares.

Total salaries received as salary and bonus by the key management personnel as of December 31, 2018 and 2017, totaled 140,952 and 130,900, respectively.

In addition, fees received by the Directors as of December 31, 2018 and 2017 amounted to 780,246 and 767,702, respectively.

Additionally, the composition of the Board of Directors and key management personnel is as follows:

	12/31/2018	12/31/2017	01/01/2017
Board of Directors	24	22	21
Senior managers of the key management personnel	15	14	14
	<u>39</u>	<u>36</u>	<u>35</u>

## 20. NONCURRENT ASSETS HELD FOR SALE

As of December 31, 2018, the Bank maintains recorded its investment in Prisma Medios de Pago SA ("Prisma"), under noncurrent assets held for sale, due to the obligation to transfer all its shares within the scope of the Divestment obligation undertaken with the Argentine Antitrust Commission. Therefore, the investment was valued according with IFRS 5 "Non-current assets held for sale and discontinued operations", at the lowest of its carrying amount and the best estimation of the fair value less costs until its sale. As of December 31, 2018 the investment amount, included in this item, amounted to 133,971.

## BANCO MACRO SA AND ITS SUBSIDIARIES

On January 21, 2019, the Bank, together with the other shareholders, accepted a purchase offer made by AI ZENITH (Netherlands) B.V. (a company related to Advent International Corporation) for the acquisition of 1,933,051 common shares of par value Ps.1 each and entitled to one, representing 4.6775 % of its share capital, equivalent to 51% of the Bank's capital stock in such company.

On February 1, 2019, the Bank completed the transfer of such shares and determined that the estimated total purchase price adjusted to that date was (in thousands) USD 64,542 out of which the Bank received on the date hereof (in thousands) USD 38,311 and the payment of the balance for an amount of (in thousands) USD 26,230 shall be deferred during the next 5 years as follows: (i) 30% of such amount in Pesos adjusted by UVA at a 15% nominal annual rate; and (ii) 70% in US Dollars at a 10% nominal annual rate. The purchase price is guaranteed by the issuance of notes in favor of the Bank and pledges of the transferred shares.

In addition, sellers retain the usufruct (dividends) of the shares sold to be reported by Prisma for the year ended December 31, 2018. Besides, the proportion applicable to the buyer of the dividends to be reported for the following fiscal years –with the buyer's commitment to voting in favor of the distribution of certain minimum percentages– will be used to create a guarantee trust to repay the deferred price amount through the concession by the buyer and Prisma of a usufruct over the economic rights of the shares in favor of such trust.

The final price will be determined as established in the transaction documents once the parties approve the price adjustment report.

The accounting effects for this transaction shall be recognized in the consolidated financial statements during 2019.

## 21. PROVISIONS

This item includes the amounts estimated to face a liability of probable occurrence, which if occurring, would originate a loss for the Bank.

The changes in provisions during the fiscal years ended on December 31, 2018 and 2017 and January 1, 2017 are as follow:

Item	Amounts at beginning of fiscal year	Increases	Decreases		Monetary effects	12/31/2018
			Reversals	Charge off		
For administrative, disciplinary and criminal penalties	1,060				(342)	718
Letters of credit, guarantees and other Commitments (*)	3,896	9,785			(2,951)	10,730
Commercial claims	490,388	282,386	35,180	305	(165,895)	571,394
Labor lawsuits	126,058	79,818	48,421		(47,361)	110,094
Pension funds—reimbursement	150,243	171,434	147,480	3,095	(46,824)	124,278
Other	258,268	748,985	643,096	14,119	(110,628)	239,410
<b>Total provisions</b>	<b>1,029,913</b>	<b>1,291,408</b>	<b>874,177</b>	<b>17,519</b>	<b>(374,001)</b>	<b>1,056,624</b>

(\*) The opening balance corresponds to IFRS 9 Impairment initial catch up adjustment disclosed in note 3.2.4.3.

## BANCO MACRO SA AND ITS SUBSIDIARIES

Item	Amounts at beginning of fiscal year	Decreases				12/31/2017
		Increases	Reversals	Charge off	Monetary effects	
For administrative, disciplinary and criminal penalties	16,786		541	13,207	(1,978)	1,060
Commercial claims	236,198	343,769	32,740	7	(56,832)	490,388
Labor lawsuits	53,399	173,519	84,819		(16,041)	126,058
Pension funds—reimbursement	129,950	151,390	98,887		(32,210)	150,243
Other	180,935	466,072	252,694	95,887	(40,158)	258,268
<b>Total provisions</b>	<b>617,268</b>	<b>1,134,750</b>	<b>469,681</b>	<b>109,101</b>	<b>(147,219)</b>	<b>1,026,017</b>

The expected terms to settle these obligations are as follows:

	12/31/2018		12/31/2018	12/31/2017	01/01/2017
	Within 12 months	Beyond 12 months			
For administrative, disciplinary and criminal penalties		718	718	1,060	16,786
Letters of credit, guarantees and other commitments	10,730		10,730		
Commercial claims	59,504	511,890	571,394	490,388	236,198
Labor lawsuits	48,445	61,649	110,094	126,058	53,399
Pension funds—reimbursement	60,556	63,722	124,278	150,243	129,950
Other	210,422	28,988	239,410	258,268	180,935
	<b>389,657</b>	<b>666,967</b>	<b>1,056,624</b>	<b>1,026,017</b>	<b>617,268</b>

In the opinion of the Management of the Bank and its legal counsel, there are no other significant effects than those disclosed in these consolidated financial statements, the amounts and settlement terms of which have been recognized based on the current value of such estimates, considering the probable settlement date thereof.

### 22. EMPLOYEE BENEFITS PAYABLE

The table below presents the amounts of employee benefits payable as of December 31, 2018 and 2017 and January 1, 2017:

	12/31/2018	12/31/2017	01/01/2017
Short-term employee benefits			
Salaries, bonuses and social security contributions	810,905	1,048,421	795,349
Vacation accrual	841,463	808,276	760,982
Total short-term employee benefits	<b>1,652,368</b>	<b>1,856,697</b>	<b>1,556,331</b>

The Bank has not long-term employee benefits or post-employment benefits as of December 31, 2018 and 2017 and January 1, 2017.

### 23. OTHER FINANCIAL AND NON FINANCIAL LIABILITIES

The breakdown of the other financial and nonfinancial liabilities account in the statement of financial position is as follows:

**BANCO MACRO SA AND ITS SUBSIDIARIES**

Other financial liabilities	12/31/2018	12/31/2017	01/01/2017
Amounts payable for spot and forward purchases pending settlement	1,686,392	2,889,961	394,888
Credit card settlement—due to merchants	9,989,032	9,175,548	7,857,222
Collections and other transactions on account and behalf others	740,331	922,405	949,080
Other	2,902,758	2,605,237	2,483,674
	<u>15,318,513</u>	<u>15,593,151</u>	<u>11,684,864</u>
Other non financial liabilities	12/31/2018	12/31/2017	01/01/2017
Salaries and payroll taxes payable	1,842,754	2,050,439	1,737,357
Taxes payable	1,372,317	138,328	1,228,037
Withholdings	1,197,945	1,529,654	1,749,444
Fees payable	154,072	107,988	176,922
Miscellaneous payables	617,882	695,455	662,827
Retirement pension payment orders pending settlement	255,331	249,611	200,767
Other	434,816	508,335	74,774
	<u>5,875,117</u>	<u>5,279,810</u>	<u>5,830,128</u>

**24. ANALYSIS OF FINANCIAL ASSETS TO BE RECOVERED AND FINANCIAL LIABILITIES TO BE SETTLED**

The following tables show the analysis of financial assets and liabilities the Bank expects to recover and settle as of December 31, 2018 and 2017 and January 1, 2017:

12/31/2018	Without due date	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Total up to 12 months	Over 12 months and up to 24 months	Over 24 months	Total over 12 months
<b>Assets</b>									
Cash and deposits in banks	74,766,039								
Debt securities at fair value through profit or loss	1,226	916,326	291,707	259,471	211,948	1,679,452	262,339	692,230	954,569
Derivative instruments		15,836	1,457			17,293			
Other financial assets	1,676,223	1,150,525	7,585	99,041		1,257,151	66,210		66,210
Loans and other financing	1,255,707	51,212,977	20,350,467	19,678,124	21,017,191	112,258,759	19,349,828	46,302,169	65,651,997
Other debt securities		55,677,423		829,760		56,507,183	7,252,751	824,825	8,077,576
Financial assets delivered as guarantee	6,573,772	182,448				182,448			
Equity instruments at fair value through profit or loss	51,518								
<b>Total assets</b>	<b>84,324,485</b>	<b>109,155,535</b>	<b>20,651,216</b>	<b>20,866,396</b>	<b>21,229,139</b>	<b>171,902,286</b>	<b>26,931,128</b>	<b>47,819,224</b>	<b>74,750,352</b>
<b>Liabilities</b>									
Deposits	103,394,451	94,031,128	32,469,390	6,825,953	1,162,963	134,489,434	57,839	12,695	70,534
Derivative instruments		1,019		350		1,369			
Repo transactions		164,469				164,469			
Other financial liabilities		15,134,783	17,924	8,206	11,525	15,172,438	18,973	127,102	146,075
Financing received from the BCRA and other financial entities		423,291	907,790	1,054,312	442,273	2,827,666	62,921	107,423	170,344
Issued corporate bonds		235,912		69,847		305,759		6,071,552	6,071,552
Subordinated corporate bonds				165,070		165,070		15,123,320	15,123,320



Total liabilities	<u>103,394,451</u>	<u>109,990,602</u>	<u>33,395,104</u>	<u>8,123,738</u>	<u>1,616,761</u>	<u>153,126,205</u>	<u>139,733</u>	<u>21,442,092</u>	<u>21,581,825</u>
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**BANCO MACRO SA AND ITS SUBSIDIARIES**

<u>12/31/2017</u>	<u>Without due date</u>	<u>Total up to 12 months</u>	<u>Total over 12 months</u>
<b>Assets</b>			
Cash and deposits in banks	52,505,097		
Debt securities at fair value through profit or loss		203,851	1,399,621
Derivative instruments		12,149	
Repo transactions		2,096,284	
Other financial assets		2,345,719	1,009,788
Loans and other financing	1,313,322	134,972,949	59,578,407
Other debt securities		51,238,580	
Financial assets delivered as guarantee	6,857,597	4,420,094	
Equity instruments at fair value through profit or loss	417,334		
<b>Total assets</b>	<b>61,093,350</b>	<b>195,289,626</b>	<b>61,987,816</b>
<b>Liabilities</b>			
Deposits	109,995,164	102,756,781	48,426
Liabilities at fair value through profit or loss		9,523	
Derivative instruments		34,116	
Repo transactions		3,968,851	
Other financial liabilities		15,335,332	257,819
Financing received from BCRA and other financial entities		1,543,950	189,574
Issued corporate bonds		174,747	6,782,632
Subordinated corporate bonds		118,123	11,052,386
<b>Total liabilities</b>	<b>109,995,164</b>	<b>123,941,423</b>	<b>18,330,837</b>
<u>01/01/2017</u>	<u>Without due date</u>	<u>Total up to 12 months</u>	<u>Total over 12 months</u>
<b>Assets</b>			
Cash and deposits in banks	66,306,368		
Debt securities at fair value through profit or loss		77,882	534,731
Derivative instruments		17,911	
Repo transactions		35,237	
Other financial assets		1,455,364	581,602
Loans and other financing	999,170	115,361,255	46,503,941
Other debt securities		37,579,769	
Financial assets delivered as guarantee	4,587,402	2,212,894	
Equity instruments at fair value through profit or loss	749,675		
<b>Total assets</b>	<b>72,642,615</b>	<b>156,740,312</b>	<b>47,620,274</b>
<b>Liabilities</b>			
Deposits	93,258,135	112,838,457	16,436
Repo transactions		2,018,763	
Other financial liabilities		11,448,761	236,103
Financing received from BCRA and other financial entities		440,066	39,841
Issued corporate bonds		3,104,030	
Subordinated corporate bonds		124,241	11,624,860
<b>Total liabilities</b>	<b>93,258,135</b>	<b>129,974,318</b>	<b>11,917,240</b>

# BANCO MACRO SA AND ITS SUBSIDIARIES

## 25. FOREIGN CURRENCY AMOUNTS

Item	Total parent company and local branches	12/31/2018				12/31/2017	01/01/2017
		Total per currency				Total	Total
		US dollar	Euro	Real	Other		
<b>ASSETS</b>							
Cash and deposits in banks	42,745,328	42,491,761	175,662	18,635	59,270	31,078,498	39,421,169
Debt securities at fair value through profit or loss	388,276	388,276				75,093	23,562
Derivative instruments						833	
Other financial assets	1,545,982	1,545,982				1,292,521	692,814
Loans and other financing	45,904,276	45,904,275				27,714,600	18,678,612
To the non financial government sector	80	80					
Other financial institutions	480,324	480,324				258,550	174,737
From the non financial private sector and foreign residents	45,423,872	45,423,871				27,456,050	18,503,875
Other debt securities	1,217,229	1,217,229				1,613,657	3,530,927
Financial assets delivered as guarantee	929,442	926,839	2,603			364,623	182,371
Equity instruments at fair value through profit or loss	5,746	5,746				5,910	276,016
Investments in associates and joint ventures						1	144
<b>TOTAL ASSETS</b>	<b>92,736,279</b>	<b>92,480,108</b>	<b>178,265</b>	<b>18,635</b>	<b>59,270</b>	<b>62,145,736</b>	<b>62,805,615</b>
<b>LIABILITIES</b>							
Deposits	71,357,886	71,357,861	25			45,992,520	42,930,419
Non financial government sector	2,295,035	2,295,035				5,798,026	1,570,179
Financial sector	100,200	100,200				67,762	51,540
Non financial private sector and foreign residents	68,962,651	68,962,626	25			40,126,732	41,308,700
Other financial liabilities	2,618,946	2,575,391	42,962		593	2,041,478	1,778,632
Financing from the Central Bank and other financial institutions	2,598,810	2,598,810				1,310,090	242,039
Issued corporate bonds							3,104,030
Subordinated corporate bonds	15,288,390	15,288,390				11,170,509	11,749,101
Other non financial liabilities	34,948	34,948				72,446	4,124
<b>TOTAL LIABILITIES</b>	<b>91,898,980</b>	<b>91,855,400</b>	<b>42,987</b>		<b>593</b>	<b>60,587,043</b>	<b>59,808,345</b>

## 26. DISCLOSURES BY OPERATING SEGMENT

For management purposes the Bank's Management has determined that it has only one operating segment related to the banking business. In this sense, the Bank supervises the operating segment income (loss) for the period in order to make decisions about resources to be allocated to the segment and assess its performance, which is measured on a consistent basis with the profit or loss in the financial statements.

## 27. INCOME TAX

This tax shall be recognized following the liability method, recognizing (as credit or debt) the tax effect of temporary differences between the carrying amount of an asset or liability and its tax base, and its subsequent recognition in profit or loss for the fiscal year in which the reversal of such differences occurs, considering as well the possibility of using tax losses in the future.

Deferred tax assets and deferred tax liabilities in the statement of financial position are as follows:

	12/31/2018	12/31/2017	01/01/2017
Deferred tax assets			
Debt securities		7,356	
Loans and other financing	978,858	1,231,407	806,529
Other financial assets	1,077	19,439	13,852
Allowances for contingencies	277,445	307,804	216,043
Provisions and employee benefits	260,393	268,470	290,578
<b>Total deferred tax assets</b>	<b>1,517,773</b>	<b>1,834,476</b>	<b>1,327,002</b>

# **BANCO MACRO SA AND ITS SUBSIDIARIES**

	12/31/2018	12/31/2017	01/01/2017
Deferred tax liabilities			
Property, plant and equipment	3,036,215	2,820,014	3,308,673
Intangible assets	575,055	483,240	557,999
Investment in associates and joint ventures	41,677	247,924	155,388
Other financial and nonfinancial liabilities	206,282	157,685	222,311
Total deferred tax liabilities	<u>3,859,229</u>	<u>3,708,863</u>	<u>4,244,371</u>
Net deferred tax liabilities	<u>2,341,456</u>	<u>1,874,387</u>	<u>2,917,369</u>

Changes in net deferred tax liabilities as of December 31, 2018 and 2017 are summarized as follows:

	12/31/2018	12/31/2017
Net deferred tax liabilities at beginning of year	1,874,387	2,917,369
(Loss) /Profit for deferred taxes recognized in total comprehensive income (*)	(423,630)	1,042,982
Other tax effects	(43,439)	
Net deferred tax liabilities at fiscal year end	<u>2,341,456</u>	<u>1,874,387</u>

- (\*) For changes in fiscal year 2017, the Bank included profits for an amount of 695,443 related to the effect of the rate change, under the tax reform described in Note 3.13.1.

The income tax recognized in the statement of income and in the statement of other comprehensive income differs from the income tax to be recognized if all income were subject to the current tax rate.

The table below shows the reconciliation between income tax and the amounts obtained by applying the current tax rate in Argentina to the income carrying amount:

	12/31/2018	12/31/2017
Income carrying amount before income tax	8,593,004	14,428,414
Applicable income tax rate	30%	35%
Income tax on income carrying amount	<u>2,577,901</u>	<u>5,049,945</u>
Net permanent differences and other tax effects	142,261	(512,862)
Monetary effects	<u>6,606,955</u>	<u>3,871,725</u>
Total income tax	<u>9,327,117</u>	<u>8,408,808</u>

As of December 31, 2018 and 2017, the effective income tax rate is 108.5% and 58.3%, respectively. For income tax purposes and considering the regulations of the tax authority, the inflation adjustment is not applicable for fiscal years 2018 and 2017.

In the consolidated Financial Statements, tax assets (current and deferred) of an entity of the Group shall not be offset with the tax liabilities (current and deferred) of other entity of the Group because they correspond to income tax applicable to different taxable subjects and also they are not legally entitled before the tax authority to pay or receive only one amount to settle the net position.

**BANCO MACRO SA AND ITS SUBSIDIARIES**

**28. INTEREST INCOME**

Description	12/31/2018	12/31/2017
Interest and adjustment for the application of the effective interest rate of financial assets measured at amortized cost		
For cash and bank deposits	27,750	21,347
For government securities	871,134	
For debt securities	226,226	283,588
For loans and other financing		
Non financial public sector		6,518
Financial sector	1,428,390	813,777
Non financial private sector		
Overdrafts	6,569,850	4,421,984
Documents	4,008,412	3,027,789
Mortgage loans	1,577,943	1,321,931
Pledge loans	718,101	820,614
Personal loans	25,279,696	23,268,886
Credit cards	8,488,320	7,245,746
Financial leases	197,267	172,340
Other	5,440,110	4,367,596
For repo transactions		
Central Bank of Argentina	32,070	1,057,405
Other financial institutions	417,801	61,812
Subtotal Interest and adjustment for the application of the effective interest rate of financial assets measured at amortized cost	<u>55,283,070</u>	<u>46,891,333</u>
Interest and adjustment for the application of the effective interest rate of financial assets measured at fair value through other comprehensive income		
Debt government securities	<u>19,450,371</u>	<u>8,935,362</u>
Subtotal Interest and adjustment for the application of the effective interest rate of financial assets measured at fair value through other comprehensive income	<u>19,450,371</u>	<u>8,935,362</u>
	<u>74,733,441</u>	<u>55,826,695</u>

**29. INTEREST EXPENSE**

Description	12/31/2018	12/31/2017
From deposits		
Non financial private sector		
Checking accounts	666,193	
Saving accounts	88,660	191,202
Time deposits and investments accounts	25,575,984	14,952,398
For Financing received from Central Bank of Argentina and other financial institutions	149,037	71,397
For repo transactions		
Other financial institutions	218,635	181,685
For other financial liabilities	57,876	44,691
Issued corporate bonds	1,812,532	780,202
For subordinated corporate bonds	994,991	750,003
	<u>29,563,908</u>	<u>16,971,578</u>

## BANCO MACRO SA AND ITS SUBSIDIARIES

### 30. COMMISSIONS INCOME

Description	12/31/2018	12/31/2017
Performance obligations satisfied at a point in time		
Commissions related to obligations	10,018,834	9,920,433
Commissions related to loans and other financing	4,048,377	4,657,322
Commissions related to loans commitments and financial guarantees	409	
Commissions related to securities	104,209	103,393
Commissions related to trading and foreign exchange transactions	270,743	183,664
Performance obligations satisfied over certain time period		
Commissions related to obligations	5,487	27,195
Commissions related to loans and other financing	5,723	24,480
Commissions related to loans commitments and financial guarantees	966	5,191
Commissions related to trading and foreign exchange transactions	20,017	66,201
	<u>14,474,765</u>	<u>14,987,879</u>

### 31. COMMISSIONS EXPENSE

Description	12/31/2018	12/31/2017
Commissions related to transactions of debt securities	289	447
Commissions paid ATM exchange	390,891	466,598
Checkbooks commissions and compensating clearing houses	214,680	226,737
Commissions Credit cards and foreign trade	324,185	419,902
	<u>930,045</u>	<u>1,113,684</u>

### 32. NET INCOME FROM MEASUREMENT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Description	12/31/2018	12/31/2017
Gain from government securities	547,200	398,654
Gain from private securities	325,840	156,049
Gain from derivative financial instruments		
Forwards transactions	249,438	
Gain from other financial assets	250,345	50,580
Gain from investment in equity instruments	13,358	381,212
Loss from sales or derecognition of financial assets at fair value	(124,975)	
Gain from derivative financial instruments		
Forwards transactions		(41,587)
	<u>1,261,206</u>	<u>944,908</u>

### 33. DIFFERENCE IN QUOTED PRICES OF GOLD AND FOREIGN CURRENCY

Description	12/31/2018	12/31/2017
Translation of foreign currency assets and liabilities into pesos	(3,349,314)	1,712,042
Income from foreign currency exchange	1,599,032	540,658
	<u>(1,750,282)</u>	<u>2,252,700</u>

## BANCO MACRO SA AND ITS SUBSIDIARIES

### 34. OTHER OPERATING INCOME

Description	12/31/2018	12/31/2017
Services	1,437,130	1,516,950
Derecognition or substantial modification of financial liabilities	703,466	
Adjustments and interest from other receivables	264,015	107,355
Sale of investment property and other nonfinancial assets	49,004	16,857
Sale of property, plant and equipment	37,948	410
Other	855,678	963,812
	<u>3,347,241</u>	<u>2,605,384</u>

### 35. EMPLOYEE BENEFITS

Description	12/31/2018	12/31/2017
Salary	9,418,106	9,657,634
Payroll taxes	1,832,895	1,762,682
Compensations and bonuses to employees	913,592	769,160
Employee services	311,974	346,800
	<u>12,476,567</u>	<u>12,536,276</u>

### 36. ADMINISTRATIVE EXPENSES

Description	12/31/2018	12/31/2017
Maintenance, conservation and repair expenses	1,094,844	968,284
Taxes	1,109,700	1,181,146
Fees to directors and statutory audits	869,805	720,597
Security services	865,319	875,748
Electricity and communications	711,516	569,353
Other fees	678,334	580,273
Leases	398,126	368,112
Advertising and publicity	362,895	372,953
Representation, travel and transportation expenses	139,703	134,335
Insurance	74,625	73,615
Stationery and office supplies	71,306	70,626
Hired administrative services	22,212	29,494
Other	1,874,796	1,687,362
	<u>8,273,181</u>	<u>7,631,898</u>

### 37. OTHER OPERATING EXPENSES

Description	12/31/2018	12/31/2017
Turnover tax	7,037,212	5,628,643
Charges for other provisions	1,295,615	1,134,779
Deposit guarantee fund contributions	370,498	353,862
Donations	106,441	156,472
Insurance claims	65,910	53,597
Other	3,518,194	3,677,745
	<u>12,393,870</u>	<u>11,005,098</u>

## BANCO MACRO SA AND ITS SUBSIDIARIES

### 38. ADDITIONAL DISCLOSURES IN THE STATEMENT OF CASH FLOWS

The statement of cash flows presents the changes in cash and cash equivalents derived from operating activities, investing activities and financing activities during the fiscal year. For the preparation of the statement of cash flows, the Bank adopted the indirect method for operating activities and the direct method for investment activities and financing activities.

The Bank considers as “Cash and cash equivalents” the item Cash and deposits in banks and those financial assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the preparation of the statement of cash flows the Bank considered the following:

- Operating activities: the normal revenue-producing activities of the Bank as well as other activities that cannot qualify as investing or financing activities.
- Investing activities: the acquisition, sale and disposal by other means of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the shareholders’ equity and liabilities of the Bank and that are not part of the operating or investing activities.

The table below presents the reconciliation between the item “Cash and cash equivalents” in the statement of cash flows and the relevant accounting items of the statement of financial position:

	12/31/2018	12/31/2017	01/01/2017
Cash and deposits in banks	74,766,039	52,505,097	66,306,368
Debt securities at fair value		30,142	17,663
Other debt securities	55,674,674	29,543,388	29,617,934
Loans and other financing	189,042	138,596	
	<u>130,629,755</u>	<u>82,217,223</u>	<u>95,941,965</u>

The following table shows additional information on operational cash flows interest:

	12/31/2018	12/31/2017
Interest paid	(23,453,005)	(17,301,779)
Interest collected	74,300,282	54,690,035

The following table shows additional information of changes in liabilities arising from financing activities for the year ended December 31, 2018:

	Financing received from the Central Bank of Argentina and other financial entities	Issued Corporate Bonds	Subordinated Corporate Bonds
Opening balance	1,733,524	6,957,379	11,170,509
Cash Flow items:			
Proceeds	1,181,396	4,321,031	
Payments		(2,883,046)	(879,426)
Non Cash Flow items:			
Movement in accrued interest	149,037	1,812,532	994,991
Derecognition or substantial modification of financial liabilities		(703,466)	
Difference in quoted prices of foreign currency	898,032		9,642,609
Monetary effects	(963,979)	(3,127,119)	(5,640,293)
Ending balance	<u>2,998,010</u>	<u>6,377,311</u>	<u>15,288,390</u>



## BANCO MACRO SA AND ITS SUBSIDIARIES

### 39. CAPITAL STOCK

The Bank's subscribed and paid-in capital as of December 31, 2018, amounted to 669,663. Since January 1, 2017, the Bank's capital stock has changed as follows:

SHARES			CAPITAL STOCK		
Class	Number of shares	Votes per share	Issued and outstanding	In portfolio	Paid-in
Registered Class A shares of common stock	11,235,670	5	11,236		11,236
Registered Class B shares of common stock	573,327,358	1	573,327		573,327
Total as of January 1, 2017	584,563,028		584,563		584,563
Increase of Registered Class B shares of common stock (1)	85,099,993	1	85,100		85,100
Total 2017	669,663,021		669,663		669,663
Own shares acquired (2)		1	(28,948)	28,948	
Total 2018	669,663,021		640,715	28,948	669,663

SHARES			CAPITAL STOCK		
Class	Stock number	Votes per share	Issued and outstanding	In portfolio	Paid-in
As of December 31, 2018:					
Registered Class A shares of common stock	11,235,670	5		11,236	11,236
Registered Class B shares of common stock	658,427,351	1	629,479	28,948	658,427
Total 2018	669,663,021		640,715	28,948	669,663

- (1) Related to the capital stock increase arising from (i) the issue of 74,000,000 new, common, registered Class "B" shares with a face value of Ps. 1, each one entitled to one vote, and entitled to dividends under the same conditions as common, registered Class "B" shares, outstanding upon issuance, formalized on June 19, 2017, and (ii) additionally, as established by the abovementioned Meeting, the international underwriters exercised the option to oversubscribe 15% of the capital stock which was formalized on July 13, 2017 through the issuance of 11,099,993 new, common, registered, Class "B" shares each one entitled to one vote and with a face value of Ps.1. On August 14, 2017, such capital increases were registered with the Public Registry of Commerce.

The public offering of the new shares was authorized by CNV Resolution No, 18,716 dated on May 24, 2017 and by the BCBA on May 26, 2017. As required by CNV regulations, it is advised that the funds arising from the public subscription of shares shall be used to finance its general business operations, to increase its borrowing capacity and leverage the potential acquisitions opportunities in the Argentine banking system.

- (2) Related to the repurchase of the Bank's own shares under the programs established by the Bank's Board of Directors on August 8, 2018, October 17, 2018 and December 20, 2018 with the purpose of reducing share price fluctuations, minimizing possible temporary imbalances between market supply and demand.

The Program dated on August 8, 2018, established, that the maximum amount of the investment amounted to 5,000,000 (nominal amount, i.e. not adjusted for inflation) and the maximum numbers of shares to be acquired were equivalent to 5% of the capital stock. At the end of this program the Bank had acquired 21,463,005 common, registered, Class B shares with a face value of Ps. 1 each one entitled with one vote for an amount of 3,626,634 (nominal amount: 3,113,925).

## BANCO MACRO SA AND ITS SUBSIDIARIES

The Program dated on October 17, 2018, established the start over of the repurchase of the Bank's own shares, with the pending use of funds of the abovementioned Program, already expired. At the end of this program, the Bank had acquired 6,774,019 common, registered, Class B shares with a face value of Ps. 1 each one entitled with one vote for an amount of 1,053,584 (nominal amount: 995,786).

On December 20, 2018, for the reasons mentioned in the first paragraph of this section (2), the Board of Directors of Banco Macro SA, decided the terms and conditions for the acquisition of its own shares, in accordance with section 64 Law 26,831 and CNV rules, under the following conditions:

- (1) Maximum amount to invest: up to 900,000 (nominal amount).
- (2) Maximum number of shares for own acquisition: up to 1% of the capital stock.
- (3) Maximum price to pay for shares: up to Ps. 158 per share.
- (4) Terms in which the acquisition took place: up to January 10, 2019, that date included, subject to any renewal or extension of the term, which will be informed in due time.

As of December 31, 2018, the Bank has acquired 2,028,251 common, registered, Class B shares with a face value of Ps. 1 each one entitled with one vote for an amount of 298,197, of which, at the fiscal year-end were only settled 711,386 common shares for an amount of 98,354, pending settlement 1,316,865 common shares for an amount of 199,843.

Additionally, on April 30, 2019, the Shareholders' Meeting of Banco Macro SA, decided, among other issues, to decrease capital stock for an amount of 30,265, equivalent to 30,265,275 common, registered, Class B shares with a face value of Ps. 1 each one entitled with one vote, according to section 98, from BYMA Regulations, equivalent to all the own shares acquired abovementioned and to increase capital stock from 669,663 to 669,679 through the issuance of 15,662 common, registered, Class B shares with a face value of Ps. 1 each one entitled with one vote, due to the merger effects between Banco Macro SA and Banco del Tucumán SA. See additionally note 2.4 to these consolidated financial statements.

### 40. EARNING/LOSS PER SHARE. DIVIDENDS

Basic earnings per share were calculated by dividing net profit attributable to common shareholders of the Bank by the weighted average number of common shares outstanding during the fiscal year.

To determine the weighted average number of common shares outstanding during the fiscal year, the Bank used the number of common shares outstanding at the beginning of the period adjusted, if applicable, by the number of common shares bought back or issued during the fiscal year multiplied by the number of days that the shares were outstanding in the period. Note 39 provides a breakdown of the changes in the Bank's capital stock.

The calculation of basic earnings per share is disclosed in the table of Earnings per share included in the consolidated statement of income.

#### Dividends paid and proposed

Cash dividends paid during the fiscal years 2017 and 2016 to the shareholders of the Bank amounted to 1,186,148 (nominal amount: 701,476) and 1,243,007 (nominal amount: 596,254), respectively, which considering the number of shares outstanding to the date of effective payment and the inflation adjustment, represented 2.03 and 2.13 pesos per share, respectively.

The Shareholders' Meeting held on April 27, 2018, resolved to distribute cash dividends for 4,511,437 (nominal amount: 3,348,315), which considering the number of shares outstanding at the date of such resolution and the inflation adjustment, represented 6.74 pesos per share. These cash dividends were paid and made available on May 15, 2018. See also note 49 to these consolidated financial statements.

Finally, the Shareholders' Meeting held on April 30, 2019 decided, among other issues, to distribute a cash dividend for an amount of 6,393,977, which represents \$10 per share that will be available on May 14, 2019. See additionally note 49.

## BANCO MACRO SA AND ITS SUBSIDIARIES

### 41. DEPOSIT GUARANTEE INSURANCE

Law No. 24485 and Decree No. 540/1995 created the Deposit Guarantee Insurance System, which was featured as a limited, compulsory and onerous system, aimed at covering the risks of bank deposits, as subsidiary and supplementary to the deposit privilege and protection system established under the Financial Entities Law. The above- mentioned legislation also provided for the incorporation of Sedesa with the exclusive purpose of managing the Deposit Guarantee Fund (DGF). Sedesa was incorporated in August 1995.

Banco Macro SA holds an 8.300% interest in the capital stock of Sedesa according to the percentages disclosed by BCRA Communiqué “B” 11816 on February 28, 2019.

All deposits in pesos and foreign currency placed in participating entities in the form of checking accounts, savings accounts, certificates of deposits or other forms of deposit that the BCRA may determine from time to time shall be subject to the abovementioned Deposit Guarantee Insurance System up to the amount of 450, not restated (from March 1, 2019, the amount shall be raised to 1,000, not restated) which must meet the requirements provided for in Presidential Decree 540/1995 and other requirements that the regulatory authority may from time to time determine. On the other hand, the BCRA provided for the exclusion of the guarantee system, among others, of any deposits made by other financial entities, deposits made by persons related to the Bank and securities deposits.

### 42. RESTRICTED ASSETS

As of December 31, 2018 and 2017, the following Bank’s assets are restricted:

<u>Item</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
<b>Debt securities at fair value through profit or loss and other debt securities</b>		
• Discount bonds in pesos regulated by Argentine legislation, maturing 2033 securing the regional economies Competitiveness Program – IDB loan No. 3174/OC-AR.	108,633	145,491
• Discount bonds in pesos regulated by Argentine legislation, maturing 2033 used as security in favor of Sedesa (1).	92,659	173,416
• Discount bonds in pesos regulated by Argentine legislation, maturing 2033 securing the sectorial Credit Program of the Province of San Juan. Production investment financing fund.	64,703	12,851
• Discount bonds in pesos regulated by Argentine legislation, maturing 2033 and, National treasury bills in pesos adjusted by CER, maturing 2021 as of December 31, 2018 and Discount bonds in pesos regulated by Argentine legislation, maturing 2033 for minimum statutory guarantee account required for Agents to act in the new categories contemplated under Resolution No. 622/13 of the CNV	24,998	19,399
• Discount bonds in pesos regulated by Argentine legislation, maturing 2033 securing a IDB loan of Province of San Juan No. 2763/OC-AR.	6,609	13,095
• BCRA Internal Bills in pesos, maturing 02-21-2018 as of December 31, 2017, for the performance of forward foreign currency transactions.		78,339
• BCRA Internal Bills in pesos, maturing 02-21-2018 as of December 31, 2017, securing the operation through the negotiation secured transaction segment as the main counterparty of the MAE.		14,243
• Secured bonds under Presidential Decree No. 1579/2002 as security for a loan received from Banco de Inversión y Comercio Exterior SA (BICE).		6,304
• Other public and private securities.	34,259	40,198
Subtotal debt securities at fair value through profit or loss and other debt securities	<u>331,861</u>	<u>503,336</u>
<b>Other financial assets</b>		
• Sundry debtors – Other	2,414	1,267
• Sundry debtors – attachment within the scope of the claim filed by the DGR against the City of Buenos Aires for differences on turnover tax.	827	1,221
Subtotal Other financial assets	<u>3,241</u>	<u>2,488</u>
<b>Loans and other financing – non-financial private sector and foreign residents</b>		
• Interests derived from contributions made as contributing partner-(2)	<u>32,501</u>	<u>163,662</u>
Subtotal loans and other financing – non-financial private sector and foreign residents	<u>32,501</u>	<u>163,662</u>

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Item (contd.)	12/31/2018	12/31/2017
<b>Financial assets delivered as a guarantee</b>		
• Special guarantee checking accounts opened in the BCRA for transactions related to the electronic clearing houses and similar entities.	5,719,689	5,914,284
• Guarantee deposits related to credit and debit card transactions.	747,487	920,557
• Forward purchase for repo transactions	182,448	4,420,094
• Other guarantee deposits	106,596	22,755
Subtotal Financial assets delivered as a guarantee	<u>6,756,220</u>	<u>11,277,690</u>
<b>Other nonfinancial assets</b>		
• Real property related to a call option sold	73,006	380,623
Subtotal Other nonfinancial assets	<u>73,006</u>	<u>380,623</u>
<b>Total</b>	<u><u>7,196,829</u></u>	<u><u>12,327,799</u></u>

- (1) As replacement for the preferred shares of former Nuevo Banco Bisel SA to secure to Sedesa the price payment and the fulfillment of all the obligations assumed in the purchase and sale agreement dated May 28, 2007, maturing on August 11, 2021.
- (2) In order to keep tax benefits related to these contributions, they must be maintained between two and three years from the date they were made. They are related to the following risk funds: Risk fund Los Grobo SGR and Risk fund of Avaluar SGR as of December 31, 2018 and 2017 and Risk fund of Interagantías SGR and Risk fund of Garantizar SGR as of December 31, 2017.

Additionally, as of January 1, 2017, the amount of restricted assets was 7,722,301.

### 43. TRUST ACTIVITIES

The Bank is related to several types of trusts. The different trust agreements according to the business purpose sought by the Bank are disclosed below:

#### 43.1. Financial trusts for investment purposes

Debt securities include mainly prepayments towards the placement price of provisional trust securities of the financial trusts under public offerings (Consubond, Garbarino, Accicom, Agrocap II, Secubono and Corebono). The assets managed for these trusts are mainly related to securitizations of consumer loans. Trust securities are placed once the public offering is authorized by the CNV. Upon expiry of the placement period, once all trust securities have been placed on the market, the Bank recovers the disbursements made, plus an agreed-upon compensation. If after making the best efforts, such trust securities cannot be placed, the Bank will retain the definitive trust securities.

In addition, the Bank's portfolio is completed with financial trusts for investment purposes, trust securities of definitive financial trusts in public offering (Consubond, PVCRED, Best Consumer Directo, Credimas, Garbarino, Chubut Regalías Hidrocarburíferas, Secubono, Megabono and Credicuotas Consumos) and certificates of participation (Saenz Créditos, Gas Tucumán and Arfintech).

As of December 31, 2018 and 2017 and January 1, 2017, debt securities and certificates of participation in financial trusts for investment purposes, total 1,383,743, 1,493,919 and 1,346,301, respectively.

According to the latest accounting information available as of the date of issuance of these consolidated financial statements, the corpus assets of the trusts exceed the carrying amount in the related proportions.

#### 43.2. Trusts created using financial assets transferred by the Bank (securitization)

The Bank transferred financial assets (loans) to trusts for the purpose of issuing and selling securities for which collection is guaranteed by the cash flow resulting from such assets or group of assets. Through this way the funds that were originally used by the Bank to finance the loans are obtained earlier.

As of December 31, 2018 and 2017 and January 1, 2017, considering the latest available accounting information as of the date of these consolidated financial statements, the assets managed through Macro Fiducia SA (subsidiary) of this type of trusts amounted to 69,842, 172,298 and 108,946, respectively.

## BANCO MACRO SA AND ITS SUBSIDIARIES

### 43.3. Trusts guaranteeing loans granted by the Bank

As it is common in the Argentine banking market, the Bank requires, in some cases, that the debtors present certain assets or entitlements to receive assets in a trust as a guarantee for the loans granted. This way, the risk of losses is minimized and access to the security is guaranteed in case of the debtor's noncompliance.

Trusts usually act as conduits to collect cash from the debtor's flow of operations and send it to the Bank for the payment of the debtor's loans and thus ensure compliance with the obligations assumed by the trustor and guaranteed through the trust.

Additionally, other guarantee trusts manage specific assets, mainly real property.

Provided there is no noncompliance or delays by debtor in the obligations assumed with the beneficiary, the trustee shall not execute the guarantee and all excess amounts as to the value of the obligations are reimbursed by the trustee to the debtor.

As of December 31, 2018 and 2017 and January 1, 2017, considering the latest available accounting information as of the date of these consolidated financial statements, the assets managed by the Bank amounted to 269,507, 484,673 and 832,039, respectively.

### 43.4. Trusts in which the Bank acts as trustee (management)

The Bank, through its subsidiaries, performs management duties of the corpus assets directly according to the agreements, performing only trustee duties and has no other interests in the trust.

In no case shall the Trustee be liable with its own assets or for any obligation deriving from the performance as trustee. Such obligations do not imply any type of indebtedness or commitment for the trustee and they will be fulfilled only through trust assets. In addition, the trustee will not encumber the corpus assets or dispose of them beyond the limits established in the related trust agreements. The fees earned by the Bank from its role as trustee are calculated according to the terms and conditions of the agreements.

Trusts usually manage funds derived from the activities performed by trustors, for the following main purposes:

- Guaranteeing, in favor of the beneficiary the existence of the resources required to finance and/or pay certain obligations, such as the payment of amortization installments regarding work or service certificates, and the payment of invoices and fees stipulated in the related agreements.
- Promoting the production development of the private economic sector at a provincial level.
- Being a party to public work concession agreements granting road exploitation, management, keeping and maintenance.

As of December 31, 2018 and 2017 and January 1, 2017, considering the latest available accounting information as of these consolidated financial statements, the assets managed by the Bank amounted to 3,021,849, 3,249,443 and 3,902,450, respectively.

## 44. MUTUAL FUNDS DEPOSITARY FUNCTION

As of December 31, 2018 Banco Macro SA, in its capacity as depositary company, holds in custody the shares in mutual funds subscribed by third parties and assets from the following mutual funds:

Fund	Number of shares	Equity
Pionero Pesos	1,447,569,372	6,857,392
Pionero Renta Ahorro	679,237,270	5,962,020
Pionero F F	70,582,326	506,973
Pionero Renta	5,832,945	110,029
Pionero Acciones	12,464,227	284,843
Pionero Renta Plus	8,103,317	177,486
Pionero Empresas FCI Abierto PYMES	206,274,022	641,616
Pionero Pesos Plus	92,640,428	262,096
Pionero Renta Ahorro Plus	311,647,574	645,952
Pionero Renta Mixta I	27,058,866	47,610

## BANCO MACRO SA AND ITS SUBSIDIARIES

<u>Fund (contd.)</u>	<u>Number of shares</u>	<u>Equity</u>
Pionero Renta Mixta II	5,275	10
Pionero Renta Estratégico	422,791,472	519,032
Pionero Renta Capital	50,000	50
Pionero Argentina Bicentenario	50,000	50
Pionero Ahorro Dólares	127,000,808	4,965,715
Pionero Renta Global	50,000	1,890
Pionero Renta Fija Dólares	10,693,684	342,257
Argenfunds Renta Pesos	390,039,169	1,112,198
Argenfunds Renta Argentina	31,303,874	122,005
Argenfunds Ahorro Pesos	285,663,973	1,356,155
Argenfunds Renta Privada FCI	129,917,683	732,832
Argenfunds Abierto Pymes	155,767,333	161,281
Argenfunds Renta Total	974,439,315	2,050,167
Argenfunds Renta Flexible	503,464,296	896,682
Argenfunds Renta Dinámica	228,078,430	388,144
Argenfunds Renta Mixta	9,383	8
Argenfunds Renta Global	94,349,770	164,718
Argenfunds Renta Capital	5,307,151	201,447
Argenfunds Renta Balanceada	190,600,849	331,047
Argenfunds Renta Crecimiento	516,144	18,853

### 45. ACCOUNTING ITEMS THAT IDENTIFY THE COMPLIANCE WITH MINIMUM CASH REQUIREMENTS

The items recognized by the Bank to constitute the minimum cash requirement effective for December 2018 are listed below, indicating the amounts as of month-end of the related items:

<u>Description</u>	<u>Banco Macro SA</u>	<u>Banco del Tucumán SA</u>
Cash and deposits in banks		
Amounts in BCRA accounts	46,046,332	4,165,795
Other debt securities		
BCRA Internal Bills computable for the minimum cash requirements	18,800,520	
Government securities computable for the minimum cash requirements	7,158,360	785,400
Financial assets delivered as guarantee		
Special guarantee accounts with the BCRA	5,330,580	389,109
Total	<u>77,335,792</u>	<u>5,340,304</u>

### 46. CORPORATE BONDS ISSUANCE

The corporate bond liabilities recorded by Banco Macro SA in these consolidated financial statements amount to:

<u>Corporate Bonds</u>	<u>Original value</u>		<u>Residual face value as of 12/31/2018</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Subordinated Resettable –Class A	USD 400,000,000	(a.1)	USD 400,000,000	15,288,390	11,170,509
Nonsubordinated – Class B	Ps. 4,620,570,000	(a.2)	Ps. 3,391,052,000	3,460,899	6,957,379
Nonsubordinated – Class C	Ps. 3,207,500,000	(a.3)	Ps. 3,207,500,000	2,916,412	
Total				<u>21,665,701</u>	<u>18,127,888</u>

## BANCO MACRO SA AND ITS SUBSIDIARIES

- a.1) On April 26, 2016, the general regular shareholders' meeting approved the creation of a Global Program for the Issuance of Medium-Term Debt Securities, in accordance with the provisions of Law No. 23,576, as amended and further applicable regulations, up to a maximum amount outstanding at any time during the term of the program of USD 1,000,000,000 (one billion US dollars), or an equal amount in other currencies, under which it is possible to issue simple corporate bonds, not convertible into shares in one or more classes. Also, on April 28, 2017, the General and Special Shareholder' Meeting resolved to extend the maximum amount of the abovementioned Global Program up to USD 1,500,000,000 (one thousand five hundred millions US dollars).

On November 4, 2016, under the abovementioned Global Program, Banco Macro SA issued Subordinated Resetable Corporate Bonds, class A, at a fixed rate of 6.750% p.a. until reset date, fully amortizable upon maturity (November 4, 2026) for a face value of USD 400,000,000 (four hundred million US dollars), under the terms and conditions set forth in the pricing supplement dated October 21, 2016. Interest is paid semiannually on May 4 and November 4 of every year and the reset date will be November 4, 2021. Since reset date, these Corporate Bonds will accrue a benchmark reset rate plus 546.3 basis points, according to the abovementioned terms and conditions.

In addition, the Bank has the option to fully redeem the issuance as the reset date and under the conditions established in the pricing supplement after that date. The Bank used the funds derived from such issuance to grant loans in accordance with BCRA guidelines.

As of January 1, 2017, the recorded amount related to these corporate bonds was 11,749,101.

- a.2) On May 8, 2017, under the Global Program mentioned on item a.1), Banco Macro SA issued non-subordinated simple corporate bonds Class B not convertible into shares, at a fixed rate of 17.50%, fully amortizable upon maturity (May 8, 2022) for a face value of pesos 4,620,570,000 equivalent to USD 300,000,000 (three hundred million US dollars), under the terms and conditions set forth in the price supplement dated April 21, 2017. Interest is paid semiannually on November 8 and May 8 of every year, beginning on November 8, 2017.

In addition, the Bank may fully redeem the issuance for tax matters, but not partially. The Bank used the funds derived from such issuance to grant loans in accordance with BCRA guidelines.

On October 17, 2018 the Board of Directors decided to pay off these corporate bonds for a face value of 1,229,518,000, equivalent to the amount of purchases made to that date.

As of the date of issuance of these consolidated Financial Statement and after the abovementioned date, the Bank made purchases of this issuance for a face value of pesos 147,955,000, with a remaining outstanding face value of 3,243,097,000.

- a.3) On April 9, 2018, under the Global Program mention on item a.1), Banco Macro SA issued non subordinated simple corporate bonds Class C, for a face value of pesos 3,207,500,000, at an annual variable rate equivalent to the sum of (i) Badlar private rate applicable for the related accrued period; plus (ii) applicable margin of 3.5% p.a., fully amortizable upon maturity (April 9, 2021). Interest will be paid quarterly for the periods due on July 9, October 9, January 9 and April 9 of every year, beginning on July 9, 2018.

In addition, the Bank may fully redeem the issuance for tax matters, but not partially. The Bank used the funds derived from such issuance to grant loans in accordance with BCRA guidelines.

As of the date of issuance of these consolidated financial statement, the Bank made purchases of this issuance for a face value of pesos 517,000,000, with a remaining outstanding face value of pesos 2,690,500,000.

As of January 1, 2017 the Bank had recorded 3,104,030 related to Nonsubordinated Corporate Bonds – Class 2, for a face value of USD 150,000,000.

Moreover, on April 27, 2018, the Shareholder's Meeting resolved to increase the maximum amount of the Global Program for the Issuance of Corporate Bonds for a face value from USD 1,500,000,000 to USD 2,500,000,000 or an equal amount in other currencies, as determined by the Board of Directors in due time.

## 47. OFF BALANCE SHEET TRANSACTIONS

In addition to note 10, the Bank recognizes different off balance sheet transactions, pursuant to the BCRA standards. Below are the amounts of the main off Balance sheet transactions as of December 31, 2018 and 2017 and January 1, 2017:

## BANCO MACRO SA AND ITS SUBSIDIARIES

Item	12/31/2018	12/31/2017	01/01/2017
Preferred and other collaterals received from customers (1)	45,544,953	57,946,894	40,750,101
Custody of government and private securities and other assets held by third parties	80,052,243	122,407,840	95,695,009
Written-off credits	2,762,951	3,151,260	3,498,842
Checks already deposited and pending clearance	1,680,896	1,869,645	2,091,203
Outstanding checks not yet paid	3,353,434	3,033,639	3,471,346

- (1) Related to collaterals used to secure loans transactions and other financing, under the applicable rules in force in this matter.

### 48. TAX AND OTHER CLAIMS

#### 48.1. Tax claims

The AFIP (Federal Public Revenue Agency) and tax authorities of the relevant jurisdictions have reviewed the tax returns filed by the Bank related to income tax, minimum presumed income tax and other taxes (mainly turnover tax). As a result, there are claims pending at court and/or administrative levels, either subject to discussion or appeal. The most significant claims are summarized below:

- a) AFIP's challenges against the income tax returns filed by former Banco Bansud SA (for the fiscal years since June 30, 1995, through June 30, 1999, and of the irregular six-month period ended December 31, 1999) and by former Banco Macro SA (for the fiscal years ended since December 31, 1998, through December 31, 2000).

The matter under discussion that has not been resolved as yet and on which the regulatory agency bases its position is the impossibility of deducting credits that have collateral security, an issue that has been addressed by the Federal Administrative Tax Court and CSJN in similar cases, which have issued resolutions that are favorable to the Bank's position.

- b) Ex-officio turnover tax assessments in progress and/or adjustments pending resolution by the tax authorities of certain jurisdictions.
- c) On February 20, 2018, the AFIP required the Bank to amend the returns in connection with employer's contributions for the period between November 2012 to December 2016, or otherwise explain the reasons why it had applied the tax rate set forth in Section 2b) of Presidential Decree No. 814/01 (text as per Section 9 of Law No. 25,453). On March 14, 2018, the Bank submitted a detailed explanation of the grounds supporting its position. As of the date hereof, the Bank has not received an answer from the AFIP. In the understanding of the Bank's management and its tax advisors and legal counsel, no amount for employer's contributions should be claimed for the indicated periods.

The Bank's Management and its legal counsel consider no further significant accounting effects could arise from the final outcome of the above mentioned proceedings other than those disclosed in these consolidated financial statements.

- 48.2. In addition, before merging with and into the Bank, Banco Privado de Inversiones SA (BPI) had a pending class action styled "Adecua v. Banco Privado de Inversiones on ordinary proceedings", File No. 19073/2007, pending with Commercial Court No. 3 in and for the City of Buenos Aires, Clerk's Office No. 5, whereby it was required to reimburse to its clients the life insurance amounts overcharged to amounts payable, as well as to reduce the amounts charged in this regard in the future; this legal proceeding was concluded upon the abovementioned merger because BPI complied in full with the terms of the court-approved agreement reached with Adecua before answering the complaint. However, in March 2013, when BPI had already been merged with and into the Bank, the trial court resolved to amend the terms of the agreement and ordered the reimbursement of amounts of money to a larger number of clients as compared to the number arising from the terms approved by the court in due time. Such resolution was appealed by the Bank as BPI's surviving company. The appeal was dismissed by the Court of Appeals, which abrogated both the trial court decision and the court-approved agreement, thus ordering the Bank to answer the complaint. This gave rise to the filing of an extraordinary appeal against such decision, as well as the subsequent filing of a complaint for the extraordinary appeal denied. It is currently pending with the Argentine Supreme Court.



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Moreover, the Bank is also subject to three class actions initiated by consumers' associations for the same purpose: a) *Adecua v. Banco Macro* on ordinary proceedings, File No. 20495/2007, pending with Commercial Court No. 7 in and for the City of Buenos Aires, Clerk's Office No. 13; b) *Damnificados Financieros Asociación Civil Para Su Defensa et al v. Banco Macro* on summary proceedings, File No. 37729/2007, pending with Commercial Court No. 7 in and for the City of Buenos Aires, Clerk's Office No. 13; c) *Unión de Usuarios y Consumidores v. Nuevo Banco Bisel* on ordinary proceedings, File No. 44704/2008, pending with Commercial Court No. 26 in and for the City of Buenos Aires, Clerk's Office No. 52.

There are also other class actions initiated by consumer protection associations in relation to the collection of certain commissions and/or financial charges or practices and certain withholdings made by the Bank to individuals as Buenos Aires City stamp tax withholding agent.

Furthermore, there is a case challenging the Bank for charging credit card users until December 2014 a commission for "purchase limit excess" that consisted of a percentage over the purchase limit excess amount. It is styled "*User and Consumer Union et. al v. Banco Macro SA* on summary proceedings" [*Unión de Usuarios y Consumidores y otro c/ Banco Macro SA s/ Sumarísimo*], file No. 31958/2010, pending with Commercial Court No. 1 in and for the City of Buenos Aires, Clerk's Office No. 1. On 03/15/2019 a court order was passed against the Bank from a trial court that ordered the reimbursement for all the collected amounts for such items plus VAT and interests. Although this court decision shall be appealed, the Bank understands that it is lowly likely that a favorable ruling shall be obtained from the trial court, as the Bank became aware that the Court of Appeals approved related actions against other two banks.

The Bank's Management and its legal counsel consider no further significant accounting effects could arise from the final outcome of the above-mentioned proceedings other than those disclosed in these financial statements.

### 49. RESTRICTION ON DIVIDENDS DISTRIBUTION

- a) According to BCRA regulations, 20% of Banco Macro SA income (calculated in accordance with BCRA standards) for the year plus/less prior-year adjustments and less accumulated losses as for the prior year-end, if any, should be allocated to the legal retained earnings. Consequently, the shareholders' meeting held on April 30, 2019 applied 3,145,849 out of unappropriated retained earnings, to increase such legal earnings reserves.
- b) Pursuant to Law No. 25,063, dividends to be distributed in cash or in kind in excess of taxable income accumulated at the end of the fiscal year immediately preceding the payment or distribution date shall be subject to a 35% income tax withholding as a single and definitive payment. For this purpose, income to be considered in each year will result from adding dividends or earnings from other corporations not computed in the calculation of those earnings in the same tax period(s) to the earnings determined under application of Income Tax Law, and deducting the tax paid for the tax period(s) in which the earnings, or the related proportional amount, being distributed were generated. This withholding shall not be applicable to earnings distributions accrue in the fiscal years beginning as of January 1, 2018.
- c) Through Communiqué "A" 6464, the BCRA establishes the general procedure to distribute earnings. According to that procedure, earnings may only be distributed if certain circumstances are met such as no records of financial assistance from the BCRA due to illiquidity or shortages in payments of minimum capital or minimum cash requirement deficiencies and not being subject to the provisions of sections 34 and 35 bis of the Financial Entities Law (sections dealing with tax payment and restructuring agreements and reorganization of the Bank), among other conditions listed in the abovementioned communiqué that must be met.

In addition, profits may only be distributed to the extent there are positive results, after deducting, on a nonaccounting basis, from retained earnings and the optional reserves for the future distribution of profits, (i) the amounts of the legal and other earnings reserves which are mandatory, (ii) all debit amounts of each one of the accounting items recognized in "Other Comprehensive Income", (iii) income from of the revaluation of property, plant and equipment, intangible assets and investment property, (iv) the positive net difference between the amortized cost and the fair value of government debt instruments and/or monetary regulation instruments issued by the BCRA for those instruments recognized at amortized cost, (v) the adjustments identified by the Superintendency of Financial and Exchange Entities of the BCRA or by the independent external auditor and that have not been recognized in the accounting records and (vi) certain franchises granted by the BCRA. Additionally, no profit distributions shall be made out of the profit originated as a result of the first-time application of the IFRS, which profit shall be included as a special reserve, the amount of which as of December 31, 2018 is 3,475,669 and is recognized in Retained Earnings.

As of December 31, 2018, the related adjustments (not restated) to be made on unappropriated retained earnings are as follows:

## **BANCO MACRO SA AND ITS SUBSIDIARIES**

- i. Legal earnings reserves 3,145,849.
- ii. Debit amounts of the accounting items recognized in “other comprehensive income” 527,241.
- iii. The positive net difference between the amortized cost and the fair value 42,680.
- iv. Profit originated as a result of the first-time application of the IFRS, included as special reserve 3,475,669.

Additionally, the maximum amount to be distributed shall not be over the minimum capital excess recalculating, exclusively for these purposes, the position in order to consider the above-mentioned adjustments, among other issues.

Finally, the Bank must verify that, after completion of the proposed profit distribution, a capital maintenance margin equal to 3.5% of risk-weighted assets is kept, apart from the minimum capital required by law, to be integrated by Tier 1(Con1) ordinary capital, net of deductible items (CDCOn1).

- d) Pursuant to CNV General Resolution No. 593, the Shareholders’ Meeting in charge of analyzing the annual Financial Statements will be required to decide on the application of the Bank’s retained earnings, such as the actual distribution of dividends, the capitalization thereof through the delivery of bonus shares, the creation of earnings reserves additional to the Legal earnings retained or a combination of any of these applications.

In compliance with the abovementioned paragraphs and according with the shareholders’ meeting held on April 30, 2019, were applied: 3,145,849 to increase the legal retained earnings, 3,475,669 to a special reserve related to the first-time application of IFRS as established by BCRA Communiqué “A” 6618 and 12,583,394 to increase other earnings reserved for future dividends distributions. Moreover, the abovementioned shareholders’ meeting approved a cash dividend distribution which is described in note 40 to these consolidated financial statements.

## **50. CAPITAL MANAGEMENT, CORPORATE GOVERNANCE TRANSPARENCY POLICY AND RISK MANAGEMENT**

As financial institutions, the activities of Banco Macro SA and Banco del Tucumán SA are governed by the Financial Entities Law No. 21,526, as supplementary, and the regulations issued by the BCRA. Moreover, they adhere to the good banking practices laid out in BCRA Communiqué “A” 5201 (Financial Entities Corporate Governance Guidelines) as supplementary.

The Bank publicly trades its shares on the Buenos Aires Stock Exchange (BCBA for its acronym in Spanish language) and, thus, it is subject to the regulations issued by the CNV.

Through General Resolution No. 622/13, the CNV established the minimum contents of the Corporate Governance Code, adding notions of good corporate governance to corporate management as guidelines or recommendations that seek to provide transparency thereto. The CNV does not require that the recommendations be implemented, although it does require that the Bank explain the reasons why it decided not to adopt the good practices described in such resolution. The Bank annually publishes a document called Corporate Governance Explanatory Report together with the Annual Report to the Shareholders for the fiscal year, required by regulations, which is available on the Bank’s website and on that of such enforcement agency.

This regulation reinforces the notions contained in Capital Markets Law establishing principles such as “full disclosure”, “transparency”, “efficiency”, “public investor protection”, “equal footing between investors” and “protection of the stability of financial entities and financial intermediaries”.

On the other hand, as the Bank lists its shares on the NYSE, qualifying as a foreign private issuer, it is required to comply with certain corporate governance standards as established in section 303A of the NYSE’s Listed Company Manual, as amended.

The main guidelines under the BCRA standards contemplated in the revised text “Financial Entities Corporate Governance Guidelines”, as supplementary, are as follows:

## BANCO MACRO SA AND ITS SUBSIDIARIES

- Ownership structure

As of December 31, 2018, the Bank's shareholders are:

<u>FULL NAME/ CORPORATE NAME</u>	<u>Participating Interest</u>	<u>Voting Interest</u>
Brito Jorge Horacio	16.59	18.55
Carballo Delfin Jorge Ezequiel	16.68	18.37
ANSES FGS Law No. 26425	27.49	25.77
Grouped shareholders (Local Stock Exchanges)	10.47	10.35
Grouped shareholders (Foreign stock exchanges)	28.77	26.96

On the other hand, the shareholders of Banco del Tucumán SA are:

<u>FULL NAME/ CORPORATE NAME</u>	<u>Participating Interest</u>	<u>Voting Interest</u>
Banco Macro SA	99.945%	99.945%
Others	0.005%	0.005%

- Board of Directors and Senior Management

The Bank's Board of Directors is currently made up of 13 regular members. Members are renewed by thirds and the appointed Directors remain in office for three fiscal years. In the fiscal year 2016 particularly, due to the reorganization of the Board, some of them were appointed for shorter periods. Directors are nominated and appointed by the Shareholders' Meeting. Once elected, the BCRA must confirm the designation of the Directors, expressly authorizing them to accept the designation, pursuant to the terms as to experience and knowledge, contained in the rules CREFI 2-Creation, Operation and Expansion –XV- Financial Entities Authorities. The following table shows the Bank's Board of Directors as of December 31, 2018:

<u>Name</u>	<u>Position</u>
Delfin Jorge Ezequiel Carballo	Chairman
Jorge Pablo Brito	Vice chairman
Carlos Alberto Giovanelli	Director
Nelson Damián Pozzoli	Director
José Alfredo Sanchez (*) (***)	Director
Martín Estanislao Gorosito (*) (**)	Director
Constanza Brito	Director
Guillermo Stanley	Director
Mario Luis Vicens (*)	Director
Juan Martín Monge Varela (*) (**)	Director
Marcos Brito	Director
Alejandro Eduardo Fargosi (*) (**)	Director
Delfin Federico Ezequiel Carballo	Director
Santiago Horacio Seeber	Alternate director
Alejandro Guillermo Chiti (*)	Alternate director
Fabián Alejandro de Paul (*) (***)	Alternate director

(\*) Independent directors.

(\*\*) Designated by Anses-Fgs.

(\*\*\*) The Shareholders' Meeting held on April 30, 2019, decided, among other issues, the designation of Fabián Alejandro de Paul as a director due to the expiration term of José Alfredo Sanchez and Alan Whamod as an alternate director in the place of Fabián Alejandro de Paul.

The Board of Directors of Banco del Tucumán S.A. in turn is composed of six members. Members are renewed by thirds and the appointed Directors remain in office for three fiscal years. Directors are nominated and appointed by the Shareholders' Meeting.

## BANCO MACRO SA AND ITS SUBSIDIARIES

Name	Position
Jorge Horacio Brito	Chairman
Delfin Jorge Ezequiel Carballo	Vice chairman
Jorge Pablo Brito	Director
Nelson Damián Pozzoli	Director
Claudio Alejandro Cerezo	Director
Marcos Brito	Director
Ernesto Eduardo Medina	Alternate director
María Milagro Medrano	Alternate director
Ignacio Palma	Alternate director
Constanza Brito	Alternate director

Directors should be morally suitable, experienced and knowledgeable in the banking business and meet the requirements established in the effective regulations, issued by the BCRA. Compliance with these requirements is assessed when the Shareholders' Meeting appoints the directors and on a regular basis during their term of office.

At present, six Directors are independent, pursuant to the provisions of the CNV rules and regulations and the provisions of the Financial Entities Corporate Governance Guidelines issued by the BCRA.

Senior Management is directed by a General Manager designated by the Board and includes as well officers reporting directly to the general manager, as well as officers of three staff areas reporting directly to the Board. Members are detailed below:

Gustavo Alejandro Manriquez	General manager
Brian Anthony	Management control and strategic planning manager
Martín Kaplan	Commercial banking manager
Ernesto Eduardo Medina	Human resources manager
Jorge Francisco Scarinci	Finance and investor relation manager
Francisco Muro	Distribution and sales manager
Ana María Magdalena Marcet	Credit risk manager
María Milagro Medrano	Institutional relations and customer service manager
Agustín Devoto	Investment banking manager
María José Perez Van Morlegan	Legal manager
Alberto Figueroa	Comprehensive risk management manager
Adrian Mariano Scosceria	Corporate banking manager
Ricardo Mendoza Alban	Operations and system manager
Juan Domingo Mazzon	Government banking manager
Gerardo Adrián Álvarez	Administration manager

### • Committees

The corporate by-laws state that the Board of Directors may establish such Committees as it deems appropriate for the business of the Bank, as well as appoint their members. The Bank currently features the following Committees:

Committee	Functions
CNV Audit	They are established in Capital Markets Law as supplementary.
Internal Audit (1)	Overseeing the proper operation of the internal control systems defined at the Bank through a periodic assessment thereof and contributing to improving the effectiveness of internal controls.
Integral Risk Management (2)	It is in charge of monitoring Senior Management's activities involving the management of credit, market, liquidity, operational, compliance and reputation risks, among others. It advises the Board of Directors on the Bank's risks.

Assets and Liabilities	Setting out the Bank's financial strategy, analyzing the markets and establishing the policies on assets and liabilities, management of market, liquidity, interest rate and currency risks.
IT (1)	Overseeing the proper operation of the information technology environment and contributing to improving the effectiveness thereof.
Credit (2)	Approving credit transactions based on credit capacity.
Legal Recovery (2)	Incumbent in defining payment arrangements exceeding the predetermined parameters, as well as reclassifying portfolio to be subject to legal proceedings or accounting derecognitions

## BANCO MACRO SA AND ITS SUBSIDIARIES

Committee	Functions
Personnel Incentives (2)	Ensuring the financial incentives for personnel system is consistent with the culture, the objectives, the business in the long term, the strategy and the control environment of the Bank.
Ethics and Compliance (2)	Ensuring the Bank has the proper means with which to promote correct decision-making and compliance with internal and external regulations.
Corporate Governance and Designations (2)	The Committee's duties include those related to the process of renewing and replacing Senior Management members and the succession plans. It is also in charge of applying the Corporate Governance Code at the Bank and at its subsidiaries.
Anti-money Laundering (1)	Planning and coordinating compliance with the policies established by the Board of Directors on the matter.
Financial Services User Protection (2)	The duties of this Committee include those related to ensure the existence and maintenance of a financial services user protection process and a customer service system.

(1) Banco Macro SA and Banco del Tucumán SA have its own Committee

(2) Banco Macro SA' with a view group management.

- Code of ethics

The Bank has established a Code of Ethics for directors and senior management, expecting that their members act according to the highest standards of personal and professional integrity in all aspects of their activities; to comply with the applicable law, to discourage reproachable behaviors and to comply with the Bank's Code of conduct and other policies and procedures governing employee conduct. This Code of ethics is supplemental to the Bank's Code of Conduct.

- Code of Conduct

The Entity promotes a work environment where responsibility, execution, commitment, results, loyalty, honesty, good communication and teamwork are encouraged.

The goal is to base daily relationships on mutual respect, trust and cordial and simple behavior, between coworkers and bosses as well as with suppliers and customers, developing all the activities with the highest ethical working and personal principles.

In that direction, the Code of Conduct is intended to establish the principles and values that all Bank members must comply. The trust provided by shareholders, customers and the general public depends to a large extent on compliance with these principles.

- Ethical line

According with ethical behavior standards, it was implemented for the Bank and its subsidiaries, Banco del Tucumán SA y Macro Securities SA, Macro Fondos SGFCI SA y Macro Fiducia SA, an Ethical line or a report channel, which is managed by an external third party, ensuring compliance with anonymity and confidentiality principles.

Reports are received by the Ethical and Compliance Committee, who takes knowledge of them, as well as the resolution of cases, following the protocols.

### Branches

The Bank has a broad network of branches throughout the entire country, featuring as of December 31, 2018, 437 branches of Banco Macro SA and 34 branches of Banco del Tucumán SA.

### Subsidiaries

The Bank carries out certain transactions through its subsidiaries, which are identified in note 3. to the Bank's consolidated financial statements.

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### Business lines

The Bank's business lines and transactions with trusts are mentioned in notes 1 and 43, respectively.

- Incentive practices

The Bank adopts a compensation policy that comprises fixed and variable compensation; the latter is granted within the framework of an objective and competency assessment process.

The variable compensation program, in the context of the compensation policy, is consistent with the Bank's mission, values, organization, objectives, long-term business sustainability, strategy, control environment and the prudent assumption of risk. It is aimed at recognizing the extraordinary performance displayed by employees according to:

- Their contribution to the results reached
- Their management in keeping with the Bank's mission and values

The key variables in determining compensation are:

- The level of responsibility and complexity of the position
- The person's competencies and potential
- The person's performance and outcomes
- The position with respect to the benchmark market
- The results reached by the Bank

The Incentives Committee is in charge of ensuring the financial incentives for personnel system is consistent with the culture, the objectives, the business in the long term, the strategy and the control environment of the Bank, and the prudent assumption of risks.

The Bank aims at compensating personnel ensuring performance recognition, internal equity, competitiveness, productivity, efficiency and added value.

- Role of financial agent

The Bank acts as financial agent in the Provinces of Misiones, Salta and Jujuy. In addition, the controlled entity, Banco del Tucumán SA, acts as financial agent of the Province of Tucumán and the Municipalities of Yerba Buena and San Miguel de Tucumán.

- Corporate Sustainability Policy

The Bank is aware of its responsibility towards the surrounding communities. The Corporate Sustainability area promotes this development by fostering and implementing policies and actions that exert a positive social, environmental and economic impact.

Thus, it engages in constant dialogue with the different areas and stakeholders with the ultimate goal of creating social value and drafting policies aimed at promoting a fair, supporting and equal world.

These sustainability values are disclosed in the Comprehensive Report as a major milestone to align the financial information (in documents such as the Letter to the Shareholders and financial statements) and ensure their integration and consistency with corporate sustainability.

- Anticorruption policy

Pursuant to Law No. 27,401 (Law on Corporate Criminal Liability), the Board establishes that officers and employees of the Bank and its subsidiaries shall not offer to pay, pay or authorize the payment of money or anything of value to (public) officers to obtaining or keeping a business. It also extends these guidelines to the private sphere. These principles are contained in the Ethics Code for directors and senior managers, and the Code of Conduct for all employees. Besides, the Bank has a Code of Conduct for suppliers.

The laws of other jurisdictions with similar prohibitions apply, especially the Foreign Corrupt Practices Act (FCPA) because Banco Macro S.A. is a foreign company that lists its shares in the NYSE and is subject to SEC control and oversight.

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The Group companies that wish to perform any transaction involving any public administration officer, public agency or public company, either Argentine or foreign, shall communicate this event in advance to the Board through the General Manager and inform, before the transaction is conducted, the agents or intermediaries that may be involved in the transaction. The Bank also has a manual with guidelines for interacting with public officers.

This communication duty is not mandatory for the transactions derived from agreements with provincial financial agents (except for the subscription of framework agreements), ordinary bank transactions (for example, payroll processing) and the transactions that do not pose any major risk due to the minimum amounts involved.

These anticorruption policies, although they are aimed at transactions within the public sector, also apply to transactions between private parties, as specifically set forth in the Ethic Code and the Code of Conduct.

The Bank has in place an Anticorruption Policy and an Integrity Program. The Ethics and Compliance Committee will be responsible for its adoption, follow-up and period reporting to the Board.

- Transactions with related parties – Policy on conflict of interest

As an authorized financial institution, Banco Macro SA complies with the provisions and reporting requirements established in Financial and Foreign Exchange Entities Act No. 21526 and the regulations issued by the regulatory agency (BCRA).

As established by law (Argentine Business Company Law No. 19550), specific applicable regulations (Capital Markets Law, as supplementary), professional accounting standards (Technical Resolution No. 21), IAS 24 and best practice recommendations, the Bank reports on the transactions with related parties in notes to the financial statements. Such transactions are carried out under usual market conditions. See also note 19 to these consolidated financial statements.

Under current Argentine legislation, directors are required to perform their duties with the loyalty and diligence of a prudent business man. Directors are jointly and severally liable to the Bank, the shareholders and third parties for a poor performance of duties and infringements to the law, bylaws and regulations, as the case may be, and are responsible for repairing the damages caused by fraud, abuse of authority or negligence.

The loyal duties of a director are considered to include: (i) the ban from using corporate assets and the confidential information to which he/she may have access for personal purposes; (ii) the ban from taking advantage or, due to errors or omissions, allowing a third party to take advantage of the Bank's business opportunities, (iii) the obligation of acting as director only for the purposes established in the law, the Bank's bylaws or the intention of the shareholders or the Board of Directors; and (iv) the obligation of taking extreme care so that the acts conducted by the Board of Directors have no direct or indirect effects against the Bank's interests.

A director should notify the Board of Directors and the Audit Committee about any conflict of interest such director may have in a transaction proposal and should refrain from voting on the matter.

- Public information

The information related to corporate governance at the Bank is included within the transparency policy contained in such precepts and, hence, is available to interested members of the public on the website [www.macro.com.ar](http://www.macro.com.ar) ("*Conocenos*" – *Relaciones con Inversores*) and, [www.bancodeltucuman.com.ar](http://www.bancodeltucuman.com.ar) ("*Información institucional e Inversores*") additionally, some guidelines are disclosed in other notes to these Financial Statements. Moreover, the Bank's public information is disclosed on the websites of the BCRA ([www.bkra.gob.ar](http://www.bkra.gob.ar)) and the CNV ([www.cnv.gob.ar](http://www.cnv.gob.ar)).

In addition, the Bank publishes the Market Discipline Report, pursuant to the guidelines established by the BCRA for such information regime, in accordance with the criteria of the Basel Banking Supervision Committee, which is available in the Bank's website.

### Risk management

Within the framework of the Corporate Governance policy, the Board of Directors of the Bank resolved the creation of a Risk Management Committee and appointed a Head of Integral Risk Management.

Its duties includes ensuring that an independent risk management be established, establishing policies, procedures and measurement methodologies and report systems which allow the identification, measurement and monitoring of the risk under its charge and also, the duties of each organizational level in the process.



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The risk management process includes the establishment of the exposure limits for each risk by the Board of Directors, a follow-up on the exposure to each limit by the persons in charge, the preparation of regular reports for the Risk Management Committee, a follow-up on the alerts and the implementation of action plans regarding the alerts and the guidelines for developing stress tests.

The system is supplementary with policies and procedures specific to each risk (Financial, Credit, Operational, Counterparty Credit, Country Risk, Securitization, Reputational, Compliance, Strategic Risks, among others).

In addition, the Credit Risk Management area is in charge of interpreting, executing and guaranteeing the application of the General Credit Policy as approved by the Board of Directors, pursuant to the internal and external standards and regulations on the matter. Credit Risk Management reports functionally to the General Manager.

### Integral Risk Management

The Integral Risk Management area is formed by the Compliance Department and the Risk Management Department, in charge of the Financial Risk, Credit Risk and Operating and Technology Risk areas.

The main procedures carried out by the Risk Management Department are:

- Stress tests

The process of stress test includes documenting and formalizing the program as well as the persons in charge of carrying it out, the frequency of testing and the validation of the system. It also contemplates the Contingency Plan based on the test results. The Risk Management Committee leads and coordinates this application.

- Economic Capital Calculation

The Risk Management Department estimates the economic capital for each one of the individual risks (Market, Liquidity, Interest Rate, Credit, Counterparty Credit, Concentration, Operational, Securitization, Strategic and Reputational) determined for the Bank on a consolidated basis with its subsidiaries with the same scope as the regulation. The methods used to deal with subsidiaries are exactly the same.

The economic capital sufficiency evaluation process is an integral part of the corporate governance and risk management culture of the entities.

Quantified economic capital was implemented as a formal procedure, both currently and prospectively, and is a tool used in the day-to-day management of risks, in preparing the Business Plan and the Stress Tests.

The methods used to measure the economic capital of each risk were documented and approved by the Management, pursuant to the internal rules on Corporate Governance and Risk Management.

The results must serve to support decision-making, including strategic decisions adopted by the Board and the Senior Management. In this way they may:

- Estimate the level and trend of the relevant risks and the effects thereof on capital needs.
- Evaluate the reasonability of the basic assumptions used in the capital measuring system and the sensitivity of the results to changes in those assumptions.
- Determine whether the Bank has sufficient regulatory capital to cover the different risks and if it meets the capital sufficiency goals required.
- Consider its future capital requirements based on the risk profile and, according thereto, introduce the necessary adjustments into the strategic plan.

The essential elements of the capital evaluation include:

- Policies and proceedings ensuring the risk management process.
- A process connecting economic capital with risk level.
- A process establishing capital sufficiency goals based on the risks, taking into account the strategic approach and the business plan.

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- An internal control process, in order to secure a comprehensive risk management.

The Bank actively uses guarantees to mitigate its credit risk.

Excessive risk concentration:

To avoid excessive risk concentrations, the Bank's policies and procedures include specific guidelines to focus on keeping a diversified portfolio. The identified credit risk concentrations are controlled and managed accordingly. The selective coverage is used at the Bank to manage risk concentrations both in terms of relationships and industry.

In addition, note that the Bank meets the provisions established by the BCRA as regards maximum assistance limits to given groups of debtors, in order to atomize the portfolio, reducing credit risk concentration.

The main types of risks that the Bank is exposed to are those related to *credit risk, liquidity risk, market risk, interest rate risk, foreign currency risk, and operational risk*.

Minimum capital requirements:

The table below shows the minimum capital requirements measured on a consolidated basis, effective for the month of December 2018, together with the integration thereof (computable equity) as of the end of such month:

Description	12/31/2018
Minimum capital requirements	20,437,130
Computable equity	66,113,167
Capital surplus	45,676,037

The following are the policies and processes aimed at identifying, assessing, controlling and mitigating each one of the main risks:

### 50.1. Credit Risk

#### The Bank's credit rating grades

The credit risk is the existing risk regarding the possibility for the Bank to incur a loss because one or several customers or counterparties fail to meet their obligations.

In order to manage and control the credit risk, the Bank establishes limits regarding the amount of risk it is willing to accept, so as to monitor the indicators with respect to such limits.

The Board of Directors approves the Bank's credit policy and credit assessment in order to provide a framework for the creation of businesses to attain an adequate correlation between the risk assumed and profitability. The Bank has procedure manuals that contain guidelines, the compliance with current regulations and the prescribed limits. Such manuals are aimed at achieving the following goals:

- Achieving an adequate portfolio segmentation by type of customer and by economic sector;
- Boosting the use of the risk analysis and assessment tools that best adjust to the customer's profile;
- Setting consistent standards for granting loans, following conservative parameters based on the customer's solvency, cash flows and profitability in the case of companies, and revenues and equity in the case of individuals;
- Setting limits to individual powers for granting loans depending on the amount, promoting the existence of specific committees that, according to their sphere of competence, will be in charge of defining assistance levels;
- Optimizing the quality of risks assumed, having appropriate guarantees according to the loan term and the level for the risk involved; and
- Monitoring the loan portfolio and the level of customers' compliance permanently.

Credit risk management implies the existence of a structure having the necessary characteristics to achieve the organizational goals in all stages of the credit cycle: admission, follow-up, monitoring and recovery.

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The risk assessment process varies depending on whether it's about Corporate Banking customers or Consumer Banking customers.

For the assessment of Corporate Banking customers, the Bank features different methods involving several responsible levels and which become more complex according to the magnitude of the transactions, as to amounts and type of assistance, weighted by terms and existing coverage.

When transactions exceed in amount the authorization instances by delegated powers or through the decentralized risk analysis, lines of credits are approved at Credit Committees. The powers vested on the different decision-making bodies are continuously reviewed, in order to adjust them to the number of transactions the Bank faces and optimize the credit risk rating.

The risk analysis of assistance discussed in Credit Committees is performed at the Corporate Risk Management Department: specialized risk analysts prepare separate Risk Reports per client or Economic Group, which serves to support the credit decisions made by Committee members.

Risk reports include –at least- information regarding the application of the loans and their repayment source, debtor's historical and current behavior and the economic group to which debtor belongs; debtor's repayment capacity based on debtor's cash flows; the guarantees that shall secure the obligations, the ownership situation of such collaterals, enforcement possibilities and their sensibility to changes in the economy; the market in which debtor operates and debtor's position; debtor's equity, economic and financial position and debtor's possibility to access to loans.

The resolutions of the Committees include the terms and conditions applicable to the assistance regarding amount, currency, terms, coverage with guarantees, follow-up provisions, etc. Committee decisions are based on debtor's risk of non-performance and only on secondary basis on debtor's equity and risk mitigating factors of the transaction.

Credit risk assessment for Consumer Banking customers, assessment systems are based mainly on a qualification score and certain maximum indebtedness and installment/income relationship rules.

There are specific rules regarding debtor's file integration, in order to duly document the data entered into the assessment systems. Credit risk officers also define a credit power regime based on the margins to be approved and –if applicable- the admitted exceptions.

The Bank features processes to detect interrelated debtor groups that must be considered as a single customer (economic groups) and to group risk exposures with the same debtor or counterparty in different credit facilities.

Before credit rating approval, the Bank performs a series of controls in order to mitigate related credit risks, as well as to conform the transactions to the regulatory framework of technical relationships.

The Bank features a formal, strong and well-defined process to manage loans experiencing any problem. Proceedings vary according to the type of portfolio and the delinquency status.

To mitigate credit risk, the Bank requests the granting of guarantees on the agreed financing. A particular area of the Credit Risk Management Department is responsible for the administration of all guarantees received by the Bank, as well as of the periodic evaluation and update of the value thereof, in order to monitor the quality of risk mitigants.

### 50.1.1. Impairment assessment (Policy applicable from January 1, 2018)

The references below show where the Bank's impairment assessment and measurement approach is set out in these consolidated financial statements. It should be read in conjunction with note 3.2.4.1.

#### 50.1.1.1 Basis for analysis

##### Clients evaluated on a collective basis

Asset classes where the Bank calculates ECL on a collective basis include Loans and other financing of the Consumer portfolio. This portfolio comprises individual loans and commercial loans up to 19,500.

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### Clients evaluated on an individual basis

Asset classes where the Bank calculates ECL on an individual basis include:

- Other Debt Securities at amortized cost.
- Other Debt Securities at fair value through Other Comprehensive Income.
- Loans and other financing of Commercial portfolio which comprises corporate loans above 19,500, Public sector loans and financial sector loans.

#### 50.1.1.2. Definition of default and cure

##### Clients evaluated on a collective basis:

In some circumstances, the Bank has no reasonable and sustainable information available without effort or disproportionate cost to measure ECL over the life of the asset on an individual instrument basis. In such cases, the ECL during the life of the asset will be recognized on a collective basis.

In these cases, the Bank considers all financial instruments of the same client defaulted and therefore Stage 3 (credit -impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

##### Clients evaluated on an individual basis:

The Bank performs a qualitative assessment of whether a customer is in default, by considering a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events are mainly:

- Significant arrears in the main credit lines granted.
- Judicial demand by the Bank to collect the assistance granted.
- Request for reorganization proceeding or bankruptcy.
- Forborne loans with principal still outstanding.

It is the Bank's policy to consider a financial instrument as "cured" and therefore reclassified out of Stage 3 when none of the default criteria are present. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

#### 50.1.1.3. The Bank's internal rating and PD estimation process

The Bank's Risk Management Department operates its internal rating models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. Additionally, these models were developed for the commercial and consumer portfolios, as detailed below.

##### Commercial lending

The rating module developed by the entity, in order to identify the risks and concentrations associated with the PDs in accordance with the commercial strategies is based on a Behavior Module considering the behavior scores of the commercial portfolio segments contemplate variables of internal behaviour and variables from public sources. The Probabilities of Default are established based on the behavior scores of the commercial portfolio, in order to determine the ECL over each customer's credit exposure.

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### Consumer lending

To classify the consumer portfolio per risk levels, the Bank has developed a dual-matrix methodology that combines generic Market Scores with the Bank's internal behavior scores, to determine each customer's Probability of Default (PD).

Credit Risk Management is responsible for the development of the Score Models.

The proposals for implementing the models, as well as the changes in the policy conditions or model parameters, are submitted to the Risk Management Committee for approval. The methodologies, variables, development population, observation windows and results that support the preparation of the models are documented in special reports, as well as their frequent validation.

### The Bank's internal credit rating grades

<u>Category</u>	<u>Ponderate PD</u>	<u>% Gross Carrying Amount</u>
<b>Performing</b>	2.16%	95.19%
High Grade	1.13%	79.94%
Standard Grade	4.52%	16.23%
Sub-Standard Grade	13.57%	3.83%
<b>Past Due but not impaired</b>	23.60%	2.93%
<b>Non-Performing</b>	100.00%	1.88%
<b>Total</b>		<b>100.00%</b>

#### 50.1.1.4. Exposure at default

The EAD represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for Stage 1 financial assets, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3 financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank developed a calculation method for the products that have a defined flow schedule, and another method for the products that provide the customers with a credit line (revolving products). For revolving products, the Bank calculated a credit risk factor that contemplates the use that this credit line could represent in case of default. Upon building the credit risk factors, the aging of the product and level of use was considered, among other characteristics.

#### 50.1.1.5. Loss given default

LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

It is the complement to the unit of the recovery rate; that is, the proportion not collected by the Bank with respect to the EAD. Consequently, the default amount is compared with the current value of the amounts recovered after the date of default.

The Bank segments its loans into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a different set of transaction characteristics (e.g., product type, different range of collateral types) as well as borrower characteristics.

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The most usual approach is that known as “workout LGD”, in which estimates are based on the historical information observed in the Bank, by discounting the flows that are recorded throughout the recovery process of the contracts in default at a certain time using the EIR.

Once the recovery rates are obtained, this behavior is projected through a triangular method to estimate the periods with less aging. Finally, the weighted average of the loss for each portfolio is determined.

The work-out period corresponds to the term observed for recovery flows as from the date of default, so that an increase in the observation period does not significantly alter the recovery amount. In other words, it is a period in which it is assumed that all recovery efforts are practically exhausted.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rates. When assessing forward-looking information, the expectation is based on different scenarios.

### 50.1.1.6. Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses qualitative and quantitative information whether there has been a significant increase in credit risk since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

The significant increase in credit risk is assessed by comparing PD as from the date of origin and the PD as from the reporting date adjusted by the forward-looking factor. The Bank considered that there is a significant increase in credit risk when there is more than one level of variation in the clients risk category at the reporting date, except for clients considered of very low risk where the variation required two categories.

Moreover, when estimating ECLs on an individual basis, the Bank also applies a qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list considering the following situations:

- Clients with more than 30 days past due, or
- Clients with more than 10 rejected checks that amount more than 40% of its total debt and which were not repaid in the last 3 months, or
- Clients who are non performing in more than two financial entities and whose debt is at least 20% of its total debt to the Argentinian financial system.

Those clients are individually assessed by credit analysts who determine if they present a significant increase in credit risk. Once clients are on the watch list, they remain there for 60 days more after the reason why they were included there disappears.

Moreover, the Bank monitors the effectiveness of the criteria used in identifying the significant increase in credit risk through periodic reviews to confirm that:

- The criteria are able to identify significant increases in credit risk before an exposure defaults.
- The average time between a significant increase in credit risk is identified and the date the default occurs is reasonable.
- In general, exposures are not transferred directly from the measurement of the 12mECL to impaired financial instruments.

### 50.1.1.7. Staging

The conditions and indicators used by the Bank to include customers in each of the three stages, both individually and collectively, are presented below.

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### Definition of the conditions for each Stage

#### Customers analyzed on a collective basis

##### Stage 1

- Customers with arrears equal to or less than 30 days as of the date of reporting in any of its financial instruments; or
- Customers who do not present a significant risk variation from the origin date through the date of the report.
- Low risk customers who have a strong capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce their ability to fulfil their contractual cash flow obligations.

##### Stage 2

- Customers with arrears greater than 30 days at the time of reporting in any of its financial instruments; or
- Customers who present a significant risk variation from the origin date through the date of the report. This significant increase in credit risk is explained in further detail in note 50.1.1.6.

##### Stage 3

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit -impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

When estimating ECLs on a collective basis for a group of similar assets (as set out in note 50.1.1.7.), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

#### Customers analyzed on an individual basis

##### Stage 1

The customers whose individual assessment reflects the following characteristics are considered included in Stage 1:

- The customer did not experience significant increases in the risk of its financial instruments, according to their internal risk rating.
- The customer's cash flow analysis shows that is capable of adequately meeting all of its financial obligations.
- The customer has financial liquidity, with a low level and a proper structure of indebtedness with respect to its profit-generating capacity and shows a high ability to settle payables (principal and interest) in the agreed-upon conditions.
- The customer's cash flows are not susceptible to drastic changes in the event of major variations in the behavior of own and sector variables.
- The customer regularly complies with the payment of its obligations, even when there are minor and insignificant arrears.

This stage also includes customers previously included in Stage 2 who improved their credit risk indicators, and therefore comply with the parameters defined for Stage 1.

##### Stage 2

This stage includes the customers in the Watch List who, based on the individual analysis of their payment capacity, suffer a significant increase in their risk.

Some elements considered upon defining the existence of a significant increase in risk are:

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- The customer presents indicators of profitability, liquidity and solvency that tend to weaken.
- Significant increase in the customer's debt without a consistent rise in revenues.
- Major decline in operating margins or negative operating result.
- Adverse changes in the regulatory, technological or economic environment that negatively impacts the customer's future financial flows.
- Drastic drop in demand or negative changes in the customer's business plans.
- Changes in the customer's internal behavior rating or individual assessment, which resulted in a decrease in the credit rating in real terms.
- Significant changes in the value of the guarantees received.

This stage also includes customers previously included in Stage 3, who improved their credit risk indicators and thus they are no longer in default, but whose status prevents them from being recategorized to Stage 1.

### Stage 3

It includes customers that comprise the watch list and, after an individual analysis, experience some of the following situations:

- The customer incurs in significant arrears in the major credit lines granted, and this has not been agreed with the Bank.
- The customer has been sued judicially by the Bank for the recovery of the assistance granted.
- The customer requested its own reorganization proceeding or went into bankruptcy.
- The customer systematically refinances its debts and has still not settled over 5% of the refinanced principal.
- The analysis of the customer's cash flows shows it is highly unlikely that the customer may meet all its financial obligations in the agreed-upon conditions.

This stage also includes customers previously included in Stage 2, with significantly impaired risk indicators.

### 50.1.2. Analysis of inputs to the ECL model under different economic scenarios

An overview of the approach to estimating ECLs is set out in Note 3.2.4.1. and Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources and a team of economists within its Credit Risk Department verifies the accuracy of inputs to the Bank's ECL models including determining the weights attributable to the multiple scenarios.

The following table set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as of December 31, 2018.

The table shows the values of the key forward looking economic variables/assumptions in Argentina used in each of the economic scenarios for the ECL calculations as of December 31, 2018. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario.

Key Drivers	ECL Scenario	Assigned Probabilities	2019 %	2020 %	2021 %	2022 %
<b>GDP growth %</b>	Upside	10%	-1.00%	4.25%	4.30%	4.00%
	Base case	60%	-1.50%	3.50%	3.30%	3.00%
	Downside	30%	-2.25%	1.75%	0.80%	1.00%
<b>Unemployment rates %</b>	Upside	10%	10.0%	9.5%	9.0%	8.0%
	Base case	60%	10.1%	10.3%	9.8%	9.6%
	Downside	30%	11.0%	11.5%	12.0%	12.0%



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Key (contd.)	Drivers	ECL Scenario	Assigned Probabilities	2019	2020	2021	2022
<b>Central Bank base rates %</b>							
		Upside	10%	37.8%	30.5%	20.0%	13.7%
		Base case	60%	36.0%	29.0%	19.0%	13.0%
		Downside	30%	37.8%	34.8%	26.6%	24.7%
<b>House Price index %</b>							
		Upside	10%	31.5%	25.2%	18.9%	14.7%
		Base case	60%	30.0%	24.0%	18.0%	14.0%
		Downside	30%	33.0%	31.1%	28.9%	26.7%

### 50.1.3. Impact on regulatory capital

The economic capital model is detailed in note 50, section “Economic Capital Calculation”. Since this model responds to the requirements established by the BCRA, which does not contemplate using ECL, currently it has no impact on economic capital. The BCRA will adopt the Impairment requirements included in IFRS 9 for the years beginning January 1, 2020.

The Bank does not expect significant effects on regulatory capital from the adoption of ECL methodology.

### 50.1.4. Overview of modified and forborne loans

From a risk management point of view, once an asset is forborne or modified, the Bank’s special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognized.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank.

The amortized cost of financial assets modified during the period and the associated net modification amounted to 610,992 and 46,564, respectively.

### 50.1.5. Credit quality per asset classes and industry

The Bank’s concentrations of risk are managed by client/counterparty and industry sector. The following table shows the risk concentration by industry for the components of the statement of financial position. Additional disclosures for credit quality and the maximum exposure for credit risk per categories based on the Bank’s internal credit rating system and year-end stage classification are further disclosed in notes 5, 9.1. and 10.

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	Stage					12/31/2018	12/31/2017
	1		2		3		
	Individual	Collective	Individual	Collective	Total		
<b>Loans and other financing</b>	<b>67,170,083</b>	<b>91,201,856</b>	<b>1,015,056</b>	<b>20,209,680</b>	<b>3,438,825</b>	<b>183,035,500</b>	<b>199,801,999</b>
<b>Non-financial Public Sector</b>	<b>1,761,377</b>			<b>8,103</b>	<b>29</b>	<b>1,769,509</b>	<b>2,816,761</b>
<b>Other Financial Entities</b>	<b>5,626,003</b>	<b>686</b>				<b>5,626,689</b>	<b>6,524,316</b>
<b>Non-financial Private Sector and Foreign Residents</b>	<b>59,782,703</b>	<b>91,201,170</b>	<b>1,015,056</b>	<b>20,201,577</b>	<b>3,438,796</b>	<b>175,639,302</b>	<b>190,460,922</b>
Individuals	78,280	73,081,033		9,272,840	1,504,397	83,936,550	104,714,493
Manufacturing industry	28,181,427	2,806,262	208,220	1,833,684	727,922	33,757,515	27,942,827
Agricultural livestock, hunting, forestry and fishing	7,708,045	4,490,328	380,135	3,665,239	278,639	16,522,386	15,034,976
Commercial activities	6,627,492	2,985,112	179,312	2,255,325	567,314	12,614,555	14,492,972
Services	2,023,869	5,829,613	75,550	2,328,427	260,422	10,517,881	13,373,077
Exploration of mines and quarries	8,482,248	61,999		49,922	556	8,594,725	3,959,071
Construction activities	2,352,499	676,431	171,839	550,885	48,990	3,800,644	7,178,720
Electricity supply, gas, steam and air conditioner	2,721,492	62,666		8,998	899	2,794,055	1,549,383
Financial intermediation and insurance services	849,937	498,372		42,949	12,872	1,404,130	979,625
Public administration, defense and compulsory social security		569,483		125,380	16,703	711,566	700,336
Information and communications	545,800	73,999		45,584	12,880	678,263	240,440
Water supply, sewerage, waste management and recovery of materials, and public sanitation	211,614	65,872		22,344	7,202	307,032	295,002

The analysis of the calculation of ECL additionally includes the exposure to credit risk of unused agreed commitments amounted to 80,852,518.

# **BANCO MACRO SA AND ITS SUBSIDIARIES**

## 50.1.6. Collateral and other credit improvements

The table below shows the types of guarantees received as of December 31, 2018:

Class of financial instrument	Maximum exposure to credit risk	Fair value of collateral						Total collateral	Net exposure	Associated ECLs
		Pledges on time deposits	Deferred payment checks	Mortgage on real property	Pledges on vehicles and machinery	Pledges on personal property	Other			
Letters of credit	256,788						104,486	104,486	152,302	3,461
Guarantees and other commitments	1,575,278								1,575,278	7,269
Loans and other financing	183,035,500	406,244	3,439,059	18,396,210	4,335,920	741,408	18,121,626	45,440,467	137,595,033	3,869,037
Debt securities at fair value through profit or loss	2,635,247								2,635,247	
Other debt securities at amortized cost	8,151,176								8,151,176	57
Other debt securities at fair value through OCI	56,433,583								56,433,583	
<b>TOTAL</b>	<b>252,087,572</b>	<b>406,244</b>	<b>3,439,059</b>	<b>18,396,210</b>	<b>4,335,920</b>	<b>741,408</b>	<b>18,226,112</b>	<b>45,544,953</b>	<b>206,542,619</b>	<b>3,879,824</b>

The table below provides an analysis of the current fair values of collateral held for stage 3 assets as of December 31, 2018:

Class of financial instrument	Maximum exposure to credit risk	Fair value of collateral						Total collateral	Net exposure	Associated ECLs
		Pledges on time deposits	Deferred payment checks	Mortgage on real property	Pledges on vehicles and machinery	Pledges on personal property	Other			
Loans and other financing	3,438,825	3,905	70,171	489,570	142,248	463,511	1,169,405	2,269,420	1,527,108	
<b>TOTAL</b>	<b>3,438,825</b>	<b>3,905</b>	<b>70,171</b>	<b>489,570</b>	<b>142,248</b>	<b>463,511</b>	<b>1,169,405</b>	<b>2,269,420</b>	<b>1,527,108</b>	

The table below shows the types of guarantees received as of December 31, 2017:

Class of financial instrument	Maximum exposure to credit risk	Fair value of collateral						Total collateral	Net exposure	
		Pledges on time deposits	Deferred payment checks	Mortgage on real property	Pledges on vehicles and machinery	Pledges on personal property	Other			
Letters of credit	133,286						68,363	68,363	64,923	
Guarantees and other commitments	1,754,594	1,419					277,521	278,940	1,475,654	
Loans and other financing	199,801,999	652,038	6,024,417	14,847,202	6,267,483	1,118,784	28,689,667	57,599,591	142,202,408	
Debt securities at fair value through profit or loss	1,603,472								1,603,472	
Other debt securities at amortized cost	1,386,173								1,386,173	
Other debt securities at fair value through OCI	49,852,407								49,852,407	
<b>TOTAL</b>	<b>254,531,931</b>	<b>653,457</b>	<b>6,024,417</b>	<b>14,847,202</b>	<b>6,267,483</b>	<b>1,118,784</b>	<b>29,035,551</b>	<b>57,946,894</b>	<b>196,585,037</b>	

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The table below provides an analysis of the current fair values of collateral held for stage 3 assets as of December 31, 2017:

Class of financial instrument	Maximum exposure to credit risk	Fair value of collateral				Total collateral	Net exposure
		Deferred payment checks	Mortgage on real property	Pledges on vehicles and machinery	Other		
Loans and other financing	2,093,697	9,417	263,463	64,505	419,866	757,251	1,336,446
<b>TOTAL</b>	<b>2,093,697</b>	<b>9,417</b>	<b>263,463</b>	<b>64,505</b>	<b>419,866</b>	<b>757,251</b>	<b>1,336,446</b>

### 50.2. Liquidity Risk

Liquidity risk is defined as the risk of imbalances occurring between marketable assets and payable liabilities (“mismatches” between payments and collections) that could affect the Bank’s ability to meet all of its current and future financial obligations, taking into consideration the different currencies and settlement terms of its rights and obligations, without incurring significant losses.

The Bank features policies regarding liquidity, the purpose of which is to manage liquidity efficiently, optimizing cost and diversification of funding sources, and maximizing the profit from placements through prudent management that ensures the necessary funds to allow the continuity of transactions and compliance with the rules and regulations in force.

In order to reduce the liquidity risk deriving from the uncertainty that the Bank may be exposed to with respect to its capacity to honor the financial commitments assumed with its customers in due time and manner, a policy has been established, the main aspects of which are as follows:

Assets: a high-liquidity assets portfolio will be maintained to cover at least 25% of total liabilities, comprising deposits, the corporate bonds issued by the Bank, the repo agreements taken and the financial and interbank loans borrowed.

Liabilities: to minimize the unintended effects of illiquidity, deriving from the possible withdrawal of deposits and the repayment of interbank loans taken, the Bank has implemented the following policies, the follow-up and control of which are under the charge of the Assets and Liabilities Committee:

- a) Giving priority to the attraction of retail deposits in order to have an atomized portfolio, avoiding the risk of concentrating the portfolio in a few investors. The level of retail deposits is expected to be at least 50% of total deposits.
- b) The interest held in time deposit portfolio of institutional investors (foreign investors, mutual funds, insurance companies and pension fund managers) shall not exceed 15% of total liabilities.
- c) The certificates of deposit taken shall not exceed 5% of total time deposit, or a fixed amount determined by the Bank.
- d) No investor may have time deposit for an amount exceeding 10% of the total deposits portfolio.
- e) Finally, financial and interbank loans borrowed may not exceed 20% of total liabilities. No institution can exceed 50% of such limit.

In addition, the Bank implemented a series a risk measurement and control tools, including the regular monitoring of liquidity gaps, separated by currency, as well as different liquidity ratios, included “bi-monetary liquidity ratio”, “Liquidity Coverage Ratio” (LCR) and “Net Stable Funding Ratio” (NSFR), among others.

The Executive Risk Management Department regularly monitors compliance of the different levels set by the Board of Directors in relation to liquidity risk, which include minimum levels of liquidity, maximum concentration levels allowed by type of deposit and by type of customer, among others.

The Bank features policies regarding liquidity, the purpose of which is to manage liquidity efficiently, optimizing cost and diversification of funding sources, and maximizing the profit from placements through prudent management that ensures the necessary funds to allow the continuity of transactions and compliance with the rules and regulations in force.

## BANCO MACRO SA AND ITS SUBSIDIARIES

In the event of a liquidity crisis, the Bank has a contingency plan with the following actions:

- a) Sale of high-liquidity assets;
- b) Repo agreements with the BCRA with assets issued thereby, which are held in the Bank's portfolio;
- c) Limit any new credit assistance; and
- d) Requesting financial assistance from the BCRA in the event of illiquidity. Current BCRA rules set forth the criteria to grant financial assistance to financial institutions in the event of illiquidity problems.

The following table shows the liquidity ratios during the fiscal years 2018 and 2017, which arise from dividing net liquid assets, made up of cash and cash equivalents, by total deposits.

	2018	2017
December, 31	55.40%	47.00%
average	47.48%	46.20%
max	57.08%	51.90%
min	42.23%	40.84%

The tables below summarize the maturity of the contractual cash flows of loans and other financing, including interest and charges to be accrued until maturity of the contract as of December 31, 2018 and 2017 and January 1, 2017:

		Remaining terms to maturity as of December 31, 2018						
Item	Past due	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Over 12 months and up to 24 months	Over 24 months	Total
Non financial government sector		156,275	403,613	434,592	745,089	968,517	323,784	3,031,870
Financial sector		1,097,205	1,733,758	1,205,293	1,698,740	598,110	22,143	6,355,249
Non financial private sector and foreign residents	1,896,929	52,337,082	23,411,664	25,455,967	30,819,902	35,342,048	69,687,361	238,950,953
<b>Total</b>	<b>1,896,929</b>	<b>53,590,562</b>	<b>25,549,035</b>	<b>27,095,852</b>	<b>33,263,731</b>	<b>36,908,675</b>	<b>70,033,288</b>	<b>248,338,072</b>

		Remaining terms to maturity as of December 31, 2017						
Item	Past due	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Over 12 months and up to 24 months	Over 24 months	Total
Non financial government sector		76,520	332,942	270,689	802,978	1,450,392	1,293,752	4,227,273
Financial sector		1,318,043	667,597	1,056,931	1,133,026	1,490,682	382,808	6,049,087
Non financial private sector and foreign residents	1,313,322	54,217,784	27,751,201	26,559,754	30,112,374	45,297,068	79,558,577	264,810,080
<b>Total</b>	<b>1,313,322</b>	<b>55,612,347</b>	<b>28,751,740</b>	<b>27,887,374</b>	<b>32,048,378</b>	<b>48,238,142</b>	<b>81,235,137</b>	<b>275,086,440</b>

		Remaining terms to maturity as of January 1, 2017						
Item	Past due	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Over 12 months and up to 24 months	Over 24 months	Total
Non financial government sector		1,379,189	235,318	709,154	262,540	501,535	424,583	3,512,319
Financial sector		745,121	952,178	900,053	718,461	471,306	136,828	3,923,947
Non financial private sector and foreign residents	999,170	54,829,527	23,981,844	22,566,721	25,541,148	35,645,714	47,260,716	210,824,840
<b>Total</b>	<b>999,170</b>	<b>56,953,837</b>	<b>25,169,340</b>	<b>24,175,928</b>	<b>26,522,149</b>	<b>36,618,555</b>	<b>47,822,127</b>	<b>218,261,106</b>

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Additionally, the tables below disclose the maturity of the contractual future cash flows of financial liabilities, including interest and charges to be accrued until maturity of the contracts, as of December 31, 2018 and 2017 and January 1, 2017:

Item	Remaining terms to maturity as of December 31, 2018						Total
	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Over 12 months and up to 24 months	Over 24 months	
<b>Deposits</b>	198,459,625	33,817,014	7,493,854	1,310,113	64,511	15,985	241,161,102
From the non financial government sector	17,319,378	1,670,962	639,754	46,091	206		19,676,391
From the financial sector	148,275						148,275
From the non financial private sector and foreign residents	180,991,972	32,146,052	6,854,100	1,264,022	64,305	15,985	221,336,436
<b>Derivative instruments</b>	1,019		350				1,369
<b>Repo Transactions</b>	164,667						164,667
Other financial institutions	164,667						164,667
<b>Other financial liabilities</b>	15,140,459	18,645	9,221	13,064	20,085	140,505	15,341,979
<b>Financing received from the Central Bank of Argentina and other financial institutions</b>	425,053	918,813	1,083,024	470,177	87,151	125,173	3,109,391
<b>Issued corporate bonds</b>	362,534		584,698	734,105	1,441,379	7,387,182	10,509,898
<b>Subordinated corporate bonds</b>			510,412	510,412	1,020,824	21,757,164	23,798,812
<b>Total</b>	<u>214,553,357</u>	<u>34,754,472</u>	<u>9,681,559</u>	<u>3,037,871</u>	<u>2,633,950</u>	<u>29,426,009</u>	<u>294,087,218</u>

  

Item	Remaining terms to maturity as of December 31, 2017						Total
	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Over 12 months and up to 24 months	Over 24 months	
<b>Deposits</b>	181,183,593	29,262,291	4,101,328	794,401	42,426	11,593	215,395,632
From the non financial government sector	16,960,126	1,697,075	471,333	1,670	25,934		19,156,138
From the financial sector	120,123						120,123
From the non financial private sector and foreign residents	164,103,344	27,565,216	3,629,995	792,731	16,492	11,593	196,119,371
<b>Liabilities as fair value through profit or loss</b>	9,523						9,523
<b>Derivative instruments</b>	34,116						34,116
<b>Repo Transactions</b>	3,968,851						3,968,851
Other financial institutions	3,968,851						3,968,851
<b>Other financial liabilities</b>	15,355,113	32,069	15,828	24,388	37,737	242,087	15,707,222
<b>Financing received from the Central Bank of Argentina and other financial institutions</b>	1,369,280	135,384	17,134	23,575	50,626	138,948	1,734,947
<b>Issued corporate bonds</b>			596,931	596,931	1,193,862	9,806,722	12,194,446
<b>Subordinated corporate bonds</b>			392,858	401,500	802,999	16,708,703	18,306,060
<b>Total</b>	<u>201,920,476</u>	<u>29,429,744</u>	<u>5,124,079</u>	<u>1,840,795</u>	<u>2,127,650</u>	<u>26,908,053</u>	<u>267,350,797</u>

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Item	Remaining terms to maturity as of January 1, 2017						Total
	Up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months	Over 12 months and up to 24 months	Over 24 months	
<b>Deposits</b>	173,114,760	31,834,826	3,229,799	580,267	17,530	6,712	208,783,894
From the non financial government sector	13,109,910	4,034,951	491,221	159,705	216		17,796,003
From the financial sector	102,938						102,938
From the non financial private sector and foreign residents	159,901,912	27,799,875	2,738,578	420,562	17,314	6,712	190,884,953
<b>Repo Transactions</b>	2,018,763						2,018,763
Other financial institutions	2,018,763						2,018,763
<b>Other financial liabilities</b>	10,605,033	885,593	12,730	12,655	19,947	271,144	11,807,102
<b>Financing received from the Central Bank of Argentina and other financial institutions</b>	158,242	90,587	166,526	26,177	18,180	23,548	483,260
<b>Issued corporate bonds</b>		3,126,512					3,126,512
<b>Subordinated corporate bonds</b>			394,266	394,266	788,529	17,990,167	19,567,228
<b>Total</b>	185,896,798	35,937,518	3,803,321	1,013,365	844,186	18,291,571	245,786,759

### 50.3. Market Risk

Market risk is defined as the possibility of suffering losses in positions on and off the Bank's balance sheet as a result of the adverse fluctuations in the market prices of different assets.

Market risks arise from interest rate, currency and price positions, all of which are exposed to general and specific market changes and changes in the price volatility such as interest rates, credit margins, foreign currency exchange rates and prices of shares and securities, among others.

The Bank determines the market risk exposure arising from the fluctuation in the value of portfolios of investments for trading, which result from changes in market prices, the Bank's net positions in foreign currency, and government and private securities with normal quoted prices.

These risks arise from the size of the Bank's net positions and/or the volatility of the risk factors involved in each financial instrument.

The Bank features Market Risk Management Policies in which the Bank establishes the proceedings to monitor and control of risks derived of the variations in the quotes of financial instruments in order to optimize the risk-return relationship, making use of the appropriate structure of limits, models and management tools. In addition, the Bank features proper tools and proceedings allowing the Risk Management Committee and the Assets and Liabilities Committee to measure and administer this risk.

Risks to which those investment portfolios are exposed are monitored through historical simulation techniques of "Value at Risk" (VaR). The Bank applies the VaR methodology to calculate the market risk of the main positions adopted and the expected maximum loss based on a series of assumptions for a variety of changes in market conditions.

The Bank calculates the economic capital by market risk using the Value at Risk methodology, using the historical simulation approach.

In order to carry out the above mentioned simulation, the Bank needs to have the Price historical series of those instruments that compose the portfolio.

Prices are corrected by purging the effects of coupon payments and dividend payments, in the case of shares, in order to avoid affecting returns.

In this way the Bank obtains the prices of business days for each instrument between the valuation date and the oldest date, the latter to be established based on the days of history with which the Bank intends to calculate VaR.

Once the Bank has obtained the Price matrix, it proceeds to calculate price variations (10-days returns since it is the established Holding Period) occurred in the history during a period of time similar to the chosen holding period, for each instrument separately, obtaining the return matrix.

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With the return matrix, in order to generate the different simulations of prices of each of the “n” instruments, the Bank multiplies the current price of each instrument by the relevant returns.

In order to get the portfolio simulations, the Bank multiplies instrument simulations by the position of each instrument in the portfolio and adds the positions of all instruments for each date.

Once all simulations are completed, the Bank obtains the critical value of the portfolio, giving the relevant percentage to confidence level chosen (99% confidence level).

Finally, the Economic Capital by market risk is obtained as the difference between the current value of the portfolio and the critical value previously obtained.

### 50.4. Interest Rate Risk

The interest rate risk is defined as the possibility that changes occur in the Bank’s financial condition as a result of interest rate fluctuations with a negative impact on net financial income and its economic value.

Within the framework of the interest rate risk management the Bank features a series of policies, procedures and internal controls included in the Structural Risk Management Manual for this kind of risk.

The Bank calculates the risk of interest rate mismatches by making a sensitivity analysis of changes in the net value of assets upon an interest rate increase through the economic value approach with a VaR model.

For this purpose, the maximum potential loss in the net economic value of the assets and liabilities portfolio is determined considering a period of three months with a 99% confidence interval.

The Economic Value Model (EVM) is determined as the net sum of cash flows (losses) that the Bank can generate, discounted at market interest rate curve for each accounting item. If the market interest rate curve (used for the discount) is affected, the effect of such variation impacts directly on the Economic Value of the Bank. Generally speaking, reports related to EVM seek to analyze the Bank’s long-term solvency.

It is noteworthy that the use of that approach does not avoid losses beyond those limits in the event of the most significant market changes.

As of December 31, 2018 and 2017, the Bank’s VaR by type of risk is as follows:

VaR of the trading and investment portfolio	12/31/2018	12/31/2017
Interest rate risk	6,262	3,754
Currency Exchange rate risk	182	37
Price risk	82	35

### 50.5. Foreign Currency Exchange Rate Risk

The Bank is exposed to fluctuations in foreign currency exchange rates in its financial position and cash flows. The larger proportion of assets and liabilities kept are related to US dollars.

The foreign currency position includes assets and liabilities reflected in pesos at the exchange rate as of the closing dates mentioned below. An institution’s open position comprises assets, liabilities and memorandum accounts stated in foreign currency, where an institution assumes the risk. Any devaluation / revaluation of those currencies would affect the Bank’s statement of income.

Foreign currency transactions are performed at the supply and demand exchange rates. The Bank’s open position, stated in Argentine pesos by currency, is disclosed in note 25 to these consolidated financial statements.

### 50.6. Operational Risk

Operational risk is defined as the risk of loss arising from the inadequacy or failure of internal processes, human errors and/or internal system failures, or those originated by external events. This definition includes the Legal Risk but excludes the Strategic Risk and Reputational Risk.

Within such framework, the legal risk –which may occur from within the Bank or externally- comprises, among other aspects, the exposure to penalties, sanctions or other economic consequences or results for failure to comply with any rule or regulation or contractual obligation.



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On the other hand, the Bank implemented an operational risk management system that meets the guidelines and provisions established by the BCRA in its Communiqué “A” 5398, as amended, and under Communiqué “A” 5272 the BCRA provided for a minimum capital requirement under this description, effective as of February 1, 2012.

The operating risk management system is formed by:

- a) Organizational structure: the Bank has an Operational Risk Management that is in charge of managing operational risk and a Risk Management Committee.
- b) Policies: the Bank has a “Policy for the Operational Risk Management” approved by the Board of Directors, which define the main concepts, roles and responsibilities of the Board of Directors, the Operational Risk Committee, the Operational Risk and Technology Management and all the areas involved in this risk management.
- c) Procedures: the Bank features a procedure for the “Gathering of events and losses from Operational Risk” that includes a process to gather the Operational Events and Losses to register on a systematic basis the frequency, severity, category and other relevant aspects related to the events and losses from Operational Risk.
- d) The objective is to assess the Bank’s situation upon occurrence of events, in order to better understand the Operational Risk profile and, if applicable, take the necessary corrective actions.

In addition, the Bank has a procedure that establishes the guidelines to prepare risk self-assessments and, in the event of risks exceeding allowed tolerance levels, guidelines to establish risk indicators and action plans.

- e) Systems: the Bank has a comprehensive system that allows managing all Operational and Technology Risks.
- f) Database: The Bank has an operational risk event database prepared pursuant to the guidelines established in Communiqué “A” 4904, as supplementary.
- g) Information systems to measure risks: The Comprehensive Risk Management Department generates and sends, on a quarterly basis, reports to the Board of Directors, the Risk Management Committee and the Senior Management. With such reports the Risk Management Department communicates the results of the follow-up of the management of the main risks to which the Bank is exposed. Each report contains information on risk measurement, evolution, trends, principal exposures, control of main limits and the capital level required for each type of risk.

At the meeting of the Integral Risk Management Committee, the Comprehensive Risk Management Department shall submit for consideration the results of the performance of such department and the reports issued during the period under analysis. The resolutions adopted by the Committee shall be recorded in Minutes to be considered by the Board of Directors, who shall subsequently approve, in this manner, the performance and risk level of the analyzed period.

- h) Stress tests: stress tests are a support tool to manage risks and a supplement of the results reported by the measurement models of the different risks, which in general show risk measurements that are valid for “normal situations”.

They also are an instrument to evaluate the risk profile since they are used to quantify the potential impact in a situation of significant fluctuation of the variables affecting each risk. Stress tests are as well used in the process of internal assessment of economic capital sufficiency.

Stress tests are aimed at evaluating the Bank’s financial vulnerability potential faced with the sensibility of the main variables affecting each risk. Generally, it is considered a variation of low probability of occurrence, but if materialized may cause significant excess of the tolerance limits established for each risk.

- i) Assessment of economic capital sufficiency: each year, the Bank calculates the economic capital for those risks which, for their significance, may, eventually, affect the Bank’s solvency.

At present, the Bank calculates the economic capital of the following risks: Credit, Concentration, Market, Operational, Interest Rate, Liquidity and Concentration of Funding Sources, Securitization, Reputational and Strategic.

Risk management is directly related to economic capital assessment. Thus, it is expected that with a better management and follow-up, the Bank will need to allocate less amount of capital.

## **BANCO MACRO SA AND ITS SUBSIDIARIES**

Based on the internal models developed, Banco Macro manages its risks, determines its risk profile and calculates, therefore, the necessary capital to develop its activities and businesses, adjusting each risk to its relevant exposure level.

- j) Transparency: As a supplement to this Manual and as part of the Corporate Governance policy, the Bank features an Information Policy aimed at allowing shareholders, investors and the market in general to evaluate aspects of the Bank related to capital, risk exposure, risk assessment procedures and capital adequacy.

### **51. CHANGES IN THE ARGENTINE MACROECONOMIC ENVIRONMENT OF THE FINANCIAL AND CAPITAL MARKETS**

The international and local macroeconomic context generates a certain degree of uncertainty regarding its future progress as a result of the financial assets and foreign exchange market volatility and, additionally certain political events and the level of economic growth, among other issues. At a local level, there is an increase in the prices for other relevant economic variables, such as salary costs, exchange rate, interest rates and prices of the main raw materials.

Therefore, the Bank's Management permanently monitors any changes in the abovementioned situations in international and local markets, to determine the possible actions to adopt and to identify the possible impact on its financial situation that may need to be reflected in the financial statements for future periods.

### **52. EVENTS AFTER REPORTING PERIOD**

No events occurred between the end of the fiscal year and the issuance of these consolidated financial statements that may materially affect the financial position or the profit and loss for the fiscal year, not disclosed in these consolidated financial statements.

**Subsidiaries of the Company****Exhibit 8.1**

<b><u>Subsidiary</u></b>	<b><u>Jurisdiction of Incorporation</u></b>	<b><u>Principal Activity</u></b>
Banco del Tucumán S.A.	Republic of Argentina	Financial Institution
Macro Bank Limited	The Bahamas	Banking Services
Macro Securities S.A.	Republic of Argentina	Securities Agent and Brokerage Services
Macro Fiducia S.A.	Republic of Argentina	Trust Services
Macro Fondos S.G.F.C.I. S.A.	Republic of Argentina	Mutual Fund Administration

**CERTIFICATE**

I, GUSTAVO ALEJANDRO MANRIQUEZ, CERTIFY THAT:

1. I have reviewed this annual report on Form 20-F of Banco Macro S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 10, 2019

/s/ Gustavo Alejandro Manriquez

Name: **Gustavo Alejandro Manriquez**

Title: **Chief Executive Officer**

**CERTIFICATE**

I JORGE FRANCISCO SCARINCI, CERTIFY THAT:

1. I have reviewed this annual report on Form 20-F of Banco Macro S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 10, 2019

/s/ Jorge Francisco Scarinci

Name: **Jorge Francisco Scarinci**

Title: **Chief Financial Officer**

**CERTIFICATION**

**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

**(SUBSECTIONS (A) AND (B) OF SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE)**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Banco Macro S.A. (the "Company"), does hereby certify that, to the best of such officer's knowledge:

1. The accompanying Report of the Company on Form 20-F (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2019

/s/ Gustavo Alejandro Manriquez

Name: **Gustavo Alejandro Manriquez**

Title: **Chief Executive Officer**

**CERTIFICATION**

**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

**(SUBSECTIONS (A) AND (B) OF SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE)**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Banco Macro S.A. (the "Company"), does hereby certify that, to the best of such officer's knowledge:

1. The accompanying Report of the Company on Form 20-F (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2019

/s/ Jorge Francisco Scarinci

Name: **Jorge Francisco Scarinci**

Title: **Chief Financial Officer**