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

FORM 20-F

(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, 2019
- 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

BANCO MACRO S.A.
(Exact Name of Registrant as Specified in its Charter)

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, 24th Floor
City of Buenos Aires, Argentina, C1106ACY Telephone: (+54-11-5222-6730)
Email: (jorgescarinci@macro.com.ar)
(Name, telephone, e-mail and/or facsimile number 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
American Depositary Shares	BMA	New York Stock Exchange
Class B ordinary shares, par value Ps.1.00 per share	BMA	New York Stock Exchange(*)

- (*) 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

628,177,738 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 ☒
Non-accelerated filer ☐

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, 12th Floor
C1001AFA–Buenos Aires, Argentina

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

Table of Contents

<u>PART I</u>		3
Item 1.	<u>Identity of Directors, Senior Management and Advisers</u>	3
Item 2.	<u>Offer Statistics and Expected Timetable</u>	3
Item 3.	<u>Key Information</u>	3
Item 4.	<u>Information on the Bank</u>	28
Item 4A.	<u>Unresolved Staff Comments</u>	112
Item 5.	<u>Operating and Financial Review and Prospects</u>	112
Item 6.	<u>Directors, Senior Management and Employees</u>	140
Item 7.	<u>Significant Shareholders and Related Party Transactions</u>	151
Item 8.	<u>Financial Information</u>	153
Item 9.	<u>The Offer and Listing</u>	156
Item 10.	<u>Additional Information</u>	156
Item 11.	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	180
Item 12.	<u>Description of Securities Other Than Equity Securities</u>	181
<u>PART II</u>		182
Item 13.	<u>Defaults, Dividend Arrearages and Delinquencies</u>	182
Item 14.	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	182
Item 15.	<u>Controls and Procedures</u>	183
Item 16A.	<u>Audit Committee Financial Expert</u>	185
Item 16B.	<u>Code of Ethics</u>	185
Item 16C.	<u>Principal Accountant Fees and Services</u>	185
Item 16D.	<u>Exemptions from the Listing Standards for Audit Committees</u>	186
Item 16E.	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	186
Item 16F.	<u>Change in Registrant's Certifying Accountant</u>	186
Item 16G.	<u>Corporate Governance</u>	186
<u>PART III</u>		196
Item 17.	<u>Financial Statements</u>	196
Item 18.	<u>Financial Statements</u>	196
Item 19.	<u>Exhibits</u>	197

Explanatory note

We have relied on the Securities and Exchange Commission's Order, dated March 25, 2020 (Release No. 34-88465), under Section 36 of the Securities Exchange Act of 1934, to delay the filing of this annual report due to circumstances related to the COVID-19 pandemic. Particularly, on March 12, 2020, the Argentine government declared a health emergency to manage the crisis caused by COVID-19. On March 19, the Argentine government issued a stay-at-home order, which has applied from March 20, 2020 and most recently extended through May 24, 2020. Consequently, access to the Bank's facilities has been restricted resulting in limited support from its staff and professional advisors. Additionally, management has been focused on dealing with the situation resulting from the COVID-19 pandemic and related operational issues. This has, in turn, delayed the Bank's ability to prepare this annual report.

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 Buenos Aires, the term "ANSES" refers to the *Administración Nacional de la Seguridad Social* or National Social Security Agency, and the term "UIF" refers to the *Unidad de Información Financiera* or Financial Information Unit. The term "EU" refers to the European Union. The term "PyME" refers to *Pequeñas y Medianas Empresas* or small- and medium-sized companies.

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 "UVI" means Unidad de Vivienda, it represents the cost of construction of one thousandth square meter of housing. The term "UVA", means Unidad de Valor Adquisitivo, it is an index determined by the Central Bank, reflecting the variation of one-thousandth of the average value of a square meter built for housing in Argentina (such that 1,000 UVAs are equivalent to one square meter). This value was initially set at Ps.14.05 and is updated daily based on the variation in the CER since March 31, 2016.

Presentation of certain financial and other information

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

The consolidated financial statements as of December 31, 2019 and the corresponding figures for the 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, those consolidated financial statements are stated in terms of the measuring unit current at the end of the reporting period (December 31, 2019), except otherwise indicated. The inflation rate was 53.83%, 47.64% and 24.8% for the fiscal years ended on December 31, 2019, 2018 and 2017, respectively.

Solely for the convenience of the reader, the reference exchange rate for U.S. dollars as of December 31, 2019, as reported by the Central Bank was Ps.59.8950 to U.S.\$1.00.

The accompanying consolidated financial statements include the financial statements, as of December 31, 2019, of the Bank and the following subsidiaries.

- Macro Bank Limited;
- Macro Securities S.A. (“Macro Securities”);
- Macro Fiducia S.A. (“Macro Fiducia”);
- Macro Fondos S.G.F.C.I. S.A. (“Macro Fondos”); and
- Argenpay S.A.U. (“Argenpay”).

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.

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 included in this annual report (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. 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, as well as the Argentine government’s inability to successfully restructure dollar-denominated foreign public indebtedness;

- 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;
- the impact of the 2019 coronavirus disease (“COVID-19”) on the economy, and on our customers, employees, vendors and us; 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 disclaim any obligation to update publicly or to revise any forward-looking statements after we distribute this annual report due to 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

Our consolidated financial statements as of December 31, 2019 and 2018 have been prepared in accordance with IFRS, as issued by IASB. In 2018 the Bank adopted IFRS with a transition date at January 1, 2017. Prior to January 1, 2018 the Bank prepared its consolidated financial statements in accordance with Central Bank Rules and reconciled to U.S. generally accepted accounting principles (“U.S. GAAP”).

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, 2019). 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— Continuing high inflation could have a material adverse effect on Argentina’s economic prospects*” 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, 2019 and 2018.

The consolidated statement of income for the years ended December 31, 2019, 2018 and 2017 and the consolidated statements of financial position as of December 31, 2019 and 2018, are derived from our audited consolidated financial statements and related notes included elsewhere in this annual report. The consolidated financial data for the year ended December 31, 2017, has been derived from our audited consolidated financial statements not included in this annual report and those figures were adjusted as of December 31, 2019. The following tables present summary historical consolidated financial data for each of the periods indicated. You should read this information in conjunction with our consolidated financial statements and related notes, and the information under Item 5. “Operating and Financial Review and Prospects” included elsewhere in this annual report.

Selected Consolidated Statement Of Income Data

	Year Ended December 31,		
	2017 (1)	2018 (1)	2019
	<i>(in thousands of Pesos, except for number of shares, net income per share and dividends per share)</i>		
Net Interest Income	60,321,710	73,787,943	87,409,681
Net Commissions income	21,072,902	20,570,002	17,831,486
Subtotal (Net Interests income + Net Commissions income)	81,394,612	94,357,945	105,241,167
Net gain from measurement of financial instruments at fair value	1,453,442	1,940,516	7,932,797
Profit / (Loss) from sold or derecognized assets at amortized cost	29,052	(9,429)	27,417
Differences in quoted prices of gold and foreign currency	3,465,434	(2,692,459)	3,497,301
Other operating income	4,279,228	5,411,025	7,680,839
Credit loss expense on financial assets	(4,020,812)	(4,461,143)	(4,346,885)
Net Operating Income before expenses, depreciation and amortization	86,600,956	94,546,455	120,032,636
Total Operating Expenses (4)	(50,247,840)	(53,200,092)	(59,110,624)
Net operating income after expenses, depreciation and amortization	36,353,116	41,346,363	60,922,012
Income from associates and joint arrangements	446,584	409,655	898,428
Loss on net monetary position	(14,730,578)	(28,489,943)	(28,194,756)
Income before tax on continuing operations	22,069,122	13,266,075	33,625,684
Income tax on continuing operations	(12,935,657)	(14,347,904)	(12,975,037)
Net Income/(Loss) from continuing operations	9,133,465	(1,081,829)	20,650,647
Net Income/(Loss) for the fiscal year	9,133,465	(1,081,829)	20,650,647
Net Income/(Loss) for the fiscal year attributable to controlling interest	9,132,907	(1,082,089)	20,650,410
Net Income/(Loss) for the fiscal year attributable to non-controlling interests	558	260	237
Other Comprehensive Income/(Loss)	(123,409)	(109,684)	217,599
Foreign currency translation differences in financial statements conversion	(97,145)	588,750	85,322
Profit or losses for financial instruments measured at fair value through other comprehensive income	(27,400)	(698,009)	132,277
Other Comprehensive (Loss)/Gain	1,136	(425)	—
Total Comprehensive Income/(Loss) for the fiscal year	9,010,056	(1,191,513)	20,868,246
Total Comprehensive Income/(Loss) attributable to controlling interest	9,009,500	(1,191,770)	20,868,017
Total Comprehensive Income/(Loss) attributable to non-controlling interests	556	257	229
Basic earnings / (loss) per share (2)	14.51	(1.64)	32.30
Dividends per share approved by the shareholders' meeting (3)	5.00	10	20.00
Dividends per share in US\$ approved by the shareholders' meeting	0.27	0.26	0.33
Weighted average number of outstanding common shares (in thousands)	629,531	661,141	639,402

(1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019 and considering the merger effects mentioned in note 2.4 to our audited consolidated financial statements as of December 31, 2018 and 2019. See “Presentation of certain financial and other information”.

(2) Net income/(loss) for the fiscal year attributable to controlling interest divided by weighted average number of outstanding shares.

(3) Not adjusted for inflation.

(4) Includes employee benefits, administrative expenses, depreciation and amortization of fixed assets and other operating expenses.

Selected Consolidated Statement of Financial Position Data	As of December 31,		
	2017 (1)	2018 (1)	2019
	(in thousands of Pesos)		
ASSETS			
Cash and Deposits in Banks	80,770,997	115,012,597	100,680,063
Investments in Debt Securities and Equity Instruments	81,931,361	103,483,785	72,805,151
Derivative Financial Instruments	18,688	26,602	615,902
Repo Transactions	3,224,809	—	1,087,916
Loans and other financing	301,307,646	275,611,789	220,897,814
Other Financial Assets	22,510,923	15,007,333	16,837,224
Investment in associates and joint arrangements	497,294	167,402	146,331
Property, Plant and Equipment	23,391,755	23,911,732	25,747,557
Intangible Assets	2,501,740	3,262,112	3,542,060
Deferred Income Tax Assets	—	—	43,423
Other Non-financial Assets	3,344,667	1,515,894	1,085,336
Non-current assets held for sale	566,617	2,302,462	1,751,093
TOTAL ASSETS	520,066,497	540,301,708	445,239,870
Average Assets	495,778,060	530,290,109	506,275,010
LIABILITIES			
Deposits	327,360,592	366,049,491	262,865,354
Liabilities at fair value through profit or loss	14,650	—	—
Derivative Financial Instruments	52,483	2,106	768,732
Repo Transactions	6,105,466	253,003	1,002,511
Other Financial Liabilities	23,987,660	23,559,130	22,169,608
Financing received from the Central Bank of Argentina and other financial entities	2,666,759	4,611,839	2,245,804
Issued Debt instruments	27,886,966	33,328,347	29,836,702
Current Income Tax Liabilities	9,029,144	4,532,568	8,136,185
Provisions	1,578,370	1,625,404	1,473,517
Deferred Income Tax Liabilities	2,883,455	3,601,862	560,582
Other Non-financial Liabilities	8,600,315	9,045,017	10,124,489
TOTAL LIABILITIES	410,165,860	446,608,767	339,183,484
SHAREHOLDERS' EQUITY			
Net Shareholder's Equity attributable to the controlling interest	109,898,861	93,691,455	106,054,978
Net Shareholders' Equity attributable to non-controlling interests	1,776	1,486	1,408
TOTAL SHAREHOLDERS' EQUITY	109,900,637	93,692,941	106,056,386
Average Shareholders' Equity	99,679,840	107,149,021	96,870,104

(1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019 and considering the merger effects mentioned in note 2.4 to our audit consolidated financial statements as of December 31, 2018 and 2019. See “*Presentation of certain financial and other information*”.

	As of and for the year ended December 31,		
	2017	2018	2019
	(in thousands of pesos)		
Selected consolidated ratios:			
Profitability and performance			
Net interest margin (%) (1)	16.55%	17.94%	25.36%
Fee income ratio (%) (2)	27.42%	22.97%	18.19%
Efficiency ratio (%) (3)	40.41%	38.15%	32.05%
Fee income as a percentage of administrative expense (%)	56.05%	52.65%	49.28%
Return on average equity (%)	9.16%	(1.01)%	21.32%
Return on average assets (%)	1.84%	(0.20)%	4.08%
Liquidity			
Loans and other financings as a percentage of total deposits (%)	93.89%	76.92%	85.96%
Liquid assets as a percentage of total deposits (%) (4)	50.20%	57.10%	59.00%
Capital			
Total equity as a percentage of total assets (%)	21.13%	17.34%	23.82%
Regulatory capital as a percentage of risk-weighted assets (%)	28.10%	26.47%	27.25%
Asset Quality			
Non-performing loans and other financings as a percentage of total loans and other financings (%) (5)	1.08%	1.88%	1.71%
Allowances for credit losses as a percentage of total loans and other financings	(1.97)%	(2.11)%	(2.24)%
Allowances for credit losses as a percentage of non-performing loans and other financings (%) (5)	(182.26)%	(112.51)%	(130.90)%
Operations			
Number of branches	445	471	463
Number of employees (6)	8,774	9,028	8,768

- (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 expense includes employee benefits, administrative expenses, depreciation and amortization of fixed assets and other operating expenses. Operating income includes net interest income, net commissions income, net income from measurement of financial instruments at fair value, differences 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 and 2019, non-performing loans are calculated according to our internal credit rating grades disclosed in note 51.1 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, 9,113, and 8,788 for 2017, 2018 and 2019, 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 included in this annual report (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.

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high levels of inflation and currency devaluation. Sustainable economic growth in Argentina is dependent on a variety of factors, including the international demand for Argentine exports, the stability and competitiveness of the Peso against foreign currencies, confidence among consumers and foreign and domestic investors, a stable rate of inflation, national employment levels and the circumstances of Argentina's regional trade partners.

Argentina's economy contracted during 2019 and the country's economy remains vulnerable and unstable, as reflected by the following economic conditions:

- inflation remains high and may continue at similar levels in the future; according to a report published by INDEC, cumulative consumer price inflation from December 2018 to December 2019 was 53.8%, and consumer price and inflation during January 2020, February 2020, and March 2020 was 2.3%, 2.0% and 3.3%, respectively;

- according to preliminary data published by the INDEC in March 2020, GDP for 2019 is estimated to have decreased 2.2%. Argentina's GDP performance has depended to a significant extent on high commodity prices which are volatile and beyond the control of the Argentine government and private sector;
- Argentina's public debt as a percentage of GDP remains high;
- high foreign currency exchange volatility;
- Argentina's foreign currency reserves remains low and falling;
- the discretionary increase in public expenditures has resulted, and could continue to result, in a fiscal deficit;
- investment as a percentage of GDP remains low;
- a significant number of protests or strikes could take place, which could adversely affect, as has occurred in the past, various sectors of the Argentine economy;
- energy or natural gas supply may not be sufficient to supply industrial activity (thereby limiting industrial development) and consumption;
- unemployment and informal employment remain high; according to INDEC, unemployment rate during the fourth quarter of 2019 was 8.9%; and
- in the climate created by the above mentioned conditions, demand for foreign currency could grow, generating a capital flight effect, as in recent years.

Argentina's fiscal imbalances, its dependence on foreign revenues to cover its fiscal deficit, and material rigidities that have historically limited the ability of the economy to absorb and adapt to external factors, have added to the severity of the current crisis.

In addition, the primary elections (*Elecciones Primarias, Abiertas y Simultáneas y Obligatorias*—"PASO", per its acronym in Spanish), which define which political parties and which candidates may run in the general elections, took place in August 11, 2019. In these elections, *Frente de Todos* (a political coalition composed of, among others, the Justicialist Party and the Renovating Front), obtained 47.78% of the votes, while *Juntos por el Cambio*, the political coalition of the former administration, obtained 31.79% of the votes.

After the results in the primary elections, the Peso devalued almost 30% and the share price of Argentine listed companies fell approximately by 38% on average. In turn, the emerging market bond index (EMBI) reached to one of the highest levels in Argentine history, placing itself above 2000 points on August 28, 2019. As of May 12, 2020 the EMBI reached 3009 basis points. As a consequence of the aforementioned effects, in order to control the currency outflow and restrict exchange rate fluctuations, the Central Bank re-implemented exchange controls in September 2019, in hopes of strengthening the normal functioning of the economy, fostering a prudent administration of the exchange market, reducing the volatility of financial variables and containing the impact of the variations of financial flows on the real economy.

The presidential and legislative general elections took place on October 27, 2019. Having obtained 48.1% of the votes, the formula of Alberto Fernández and Cristina Fernández de Kirchner was elected and took office on December 10, 2019. Furthermore, as from such date, the Argentine Congress is composed as follows: *Frente de Todos* commands a majority in the Senate with 41 seats, with the first minority being *Juntos por el Cambio* with 25 seats; and in the House of Representatives, *Frente de Todos* commands the majority with 118 seats while the first minority is the *Juntos por el Cambio* with 115 seats.

In the context of a highly volatile economy, the measures already taken or to be taken in the future by the Fernández Administration, generate high levels of uncertainty. 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, hence its economy remains highly vulnerable to external shocks that could be caused by adverse regional or global development. A significant decline in the economic growth of any of Argentina's major trading partners (including Brazil, the EU, China and the United States) could have a material adverse impact on Argentina's balance of trade and adversely affect Argentina's economy. In addition, the international scenario shows contradictory signals of global growth, as well as high financial uncertainty. Argentina may be affected by economic and market conditions in other markets worldwide, as was the case in 2008, when the global economic crisis led to a sudden economic decline in Argentina in 2009.

In 2018 emerging market economies were affected by the change in the U.S. monetary policy, resulting in the unwinding of investments and increased volatility in the value of their currencies. If interest rates rise significantly in developed economies, including the United States, emerging market economies, including Argentina, could find it more difficult and expensive to borrow capital and refinance existing debt, which would negatively affect their economic growth. Notwithstanding this, the United States Federal Reserve decreased the federal funds rate. On March 20, 2020, the United States Federal Reserve further decreased the federal funds rate to a range of 0% to 0.25% in response to the negative impact from COVID-19.

In July 2019, the Common Market of the South ("MERCOSUR") signed a strategic partnership agreement with the EU, which is expected to enter into force in 2021, once approved by the relevant legislatures of each member country. The objective of this agreement is to promote investments, regional integration, increase the competitiveness of the economy and achieve an increase in GDP. However, the effect that this agreement could have on the Argentine economy and the policies implemented by the Argentine government is uncertain.

In June 2016, the United Kingdom voted in favor of the exit from the EU, and formally left the EU on 31 January 2020 (the "Brexit"). Even if the United Kingdom agreed the terms of its departure from the EU, negotiations on the terms and conditions are expected to continue during the transition period, which ends on December 31, 2020. Nevertheless, the uncertainty on the terms and conditions of, among others, a new trade agreement, law enforcement and access to fishing waters; the perception of the economic impact and the possibility of a departure without a deal could adversely affect the commercial activity and the economic conditions of the United Kingdom and the EU, challenging finance and foreign exchange global markets. In addition, Brexit could produce higher levels of politic and judicial instability in the EU, which could affect the commercial exchanges between Argentina and that region.

Moreover, the challenges faced by the EU to stabilize certain of its member economies have had and may continue to have international implications affecting the stability of global financial markets, which has hindered economies worldwide. 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 2019 and may contract in the future due to international and domestic conditions which may adversely affect our operations.

Global economic and financial crises, and the general weakness of the global economy, negatively affect emerging economies like Argentina's. Global financial instability or decreasing 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 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 a greater exchange rate pressure.

Additionally, abrupt changes in monetary and fiscal policies or in the 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 international financial markets could be limited. Consequently, an increase in public spending not correlated with an increase in public revenues could affect 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, EU and China) have experienced significant slowdowns or recession periods in their economies. If such slowdowns or recessions were to recur, as it would seem likely as a result of the impact from COVID-19, this will impact the demand for products coming from Argentina and hence affect its economy.

During 2019, the Argentine economy was adversely affected by some of the 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, 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 may be limited or costly, 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, after a series of legal actions by Argentina's bondholders, the Argentine government settled U.S.\$9.3 billion of outstanding principal debt held by holdout creditors which had not participated in the 2005 and 2010 restructurings.

In October 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 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.

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.

In 2018, due to Argentina's limitation on access to international capital markets, the Argentine government and the International Monetary Fund ("IMF") entered into a "stand-by" credit facility agreement; by virtue of the last of them the agreement amount increased by approximately US\$7,100 million reaching a total of US\$57,000 million, and disbursements were rescheduled, with an advance of approximately US\$13,400 million until December 2018, thus totaling US\$28,400 million for year 2018, and approximately US\$22,650 million in 2019. However, the IMF suspended disbursements after September of 2019, overriding the program; therefore the total amount disbursed as of the closing of 2019 was of approximately US\$44,500 million. Due to the overriding of the arrangement with the IMF and the closure of the international financial markets following the PASO elections, the government had to reschedule the due date of Treasury Bills with holders, except for individuals, which consisted in paying 15% of services on the due date, 25% within three months and the remaining 60% six months following the original due date. With the change of government on December 10, 2019, consideration of the public sector debt became a pressing matter and on January 21, 2020, the "Foreign Public Debt Sustainability Management" bill was introduced in the Argentine Congress. On February 5, 2020, the Argentine Congress passed Law N° 27,544, by virtue of which the sustainability of the country's sovereign debt was declared a national priority, authorizing the Ministry of Economy to renegotiate its terms and conditions with Argentina's creditors. The executive branch was authorized to perform all necessary acts to recover and ensure the sustainability of the Argentine public debt. In addition, the national government was authorized to issue debt securities to the Central Bank for an amount of up to US\$ 4,517 million in exchange for reserves to be applied solely to meet Argentina's foreign currency-denominated debt obligations.

In March 2020, the Argentine government engaged Lazard as financial advisor, as well as HSBC and Bank of America as dealer managers to conduct a renegotiation of most of the outstanding bonds issued by Argentina. Notwithstanding the foregoing, in the midst of debt restructuring negotiations, on April 6, 2020 the Argentine government issued Decree No. 346/2020, through which the repayment of Argentine law-governed dollar-denominated notes was postponed.

In this sense, on April 21, 2020, the Argentine government launched an exchange offer (the “Exchange”) with the aim of refinancing its external indebtedness and rearranging interest and principal payments. To that end, the Argentine government proposed to effect an exchange of different series of foreign currency-denominated bonds (in US\$, Euros and Swiss Francs) and governed by English or New York law (the “Eligible Bonds”) for new series of Dollar- or Euro-denominated amortizing bonds maturing between 2030 and 2047 (the “New Bonds”) to be issued by the Argentine government. As informed by the Minister of Economy and pursuant to the exchange documents, in general terms, the Argentine government’s exchange offer involves a reduction in interest payment burden of 62% (US\$37.9 billion), a decrease in principal payments of 5.4% (US\$3.6 billion) and a grace period of approximately three years before principal payments become due.

As of the date of this annual report, there is uncertainty as to whether the Argentine government will be able to successfully carry out the Exchange and restructure its foreign public indebtedness, or negotiate a new program with the IMF. As a result, we cannot guarantee that Argentina will be able to obtain financing in the markets, nor the impact that the current administration’s inability to renegotiate the country’s external financial commitments could have, or in case renegotiation takes place, what the terms and conditions would finally be. As in the past, this may result in new legal actions against Argentina and in the enforcement of those actions. This may adversely affect the ability of the Argentine government to implement the necessary reforms to boost the country’s economic growth and restore its productive capacity. Furthermore, Argentina’s inability to obtain financing in the international financial markets may have a direct impact in our ability to access the financial markets to fund our operations and growth strategies, including the financing of capital expenditures, which in turn may have negatively affect our financial position, results of operations and cash flow.

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 of Aerolíneas Argentinas and affiliates (including Optar, Jet Paq and Austral, among others) by the Argentine government. The ICSID tribunal fined Argentina approximately U.S.\$320.8 million, awarding plaintiffs about 20% of the U.S.\$1.59 billion they had initially claimed. Argentina requested the annulment of the award. On May 29, 2019, ICSID rejected Argentina’s request and ratified the previous decision. Consequently, the illegality of the expropriation was confirmed, and the Argentine government was ordered to pay U.S.\$320.8 million for damages and representation costs. Although there is an additional instance for Argentina to present the last appeal for review, the result of that instance is uncertain as of the date of this annual report.

Additionally, in June 2019, a claim was made before the ICSID on behalf of the Dutch group ING, NN Holdinvest, NN Intertrust and NN Insurance International for the statization during the government of Cristina Fernández de Kirchner of the private retirement system, made in 2008. As reported by the ICSID on its website the demand is for US \$ 500 million. As of the date of this annual report, the outcome of these cases is uncertain.

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.

Governmental 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 the past, the Argentine government has had direct intervention in the economy and in private sector operations and companies, limiting certain aspects of private sector businesses. Below is a summary of the main government interventions:

- Replacement of the pension and retirement fund system: in 2008 all resources formerly managed by the private pension and retirement system, including meaningful holdings in public companies were transferred to the Sustainability Guarantee Fund (*Fondo de Garantía de Sustentabilidad*) and managed by ANSES. As a result, ANSES has a right to appoint representatives in the board of directors of such companies.
- Regulations related to domestic capital markets: 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 charter, expanding its powers.
- Expropriation of YPF: 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.

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. On December 13, 2019, the Fernandez administration published Decree N° 34/2019, by virtue of which labor emergency was declared for a 180-day term. In this context, during the labor emergency period, payments for unjustified severances shall be double the amount foreseen by the current applicable regulations.

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.

In the future, the level of intervention in the economy by the government may continue or increase, which may adversely affect Argentina's economy and, in turn, our business, results of operations and financial condition.

We cannot assure what the effect of the measures implemented by Law N° 27,541 of Solidarity and Productive Reactivation will be on the Argentine's economy.

On December 20, 2019, the Argentine congress enacted Law N° 27,541 of Solidarity and Productive Reactivation ("Law N° 27,541"), declaring a state of public emergency on the economic, financial, fiscal, administrative, social and energetic fronts, among others, thus delegating in the Executive Branch the ability to ensure the sustainability of public indebtedness, authorizing it to conduct an integral review of the current electricity tariff regime and to intervene supervisory entities, among others.

The tax-related measures include:

- Tax amnesty for Micro, Small- and Medium-Sized Companies.
- Increase in the personal assets tax rate and delegation of power in the Executive Branch to increase tax rates on foreign financial assets.
- Changes to the formula of inflation adjustment in income tax.
- Creation of the tax for a solidary and inclusive Argentina (*Impuesto para una Argentina Inclusiva y Solidaria* or PAIS, per its acronym in Spanish) for a 5-fiscal-period term on the purchase of foreign currency for saving purposes and on the payment of goods and services purchased abroad through credit cards. The tax rate ranges between 8% and 30% depending on the transaction.
- Suspension of the pension and retirement adjustment mechanism for a 180-day period.

We cannot anticipate the impact that Law N° 27,541 may have, nor the measures that could be adopted by the current administration in order to meet its financial obligations, which might negatively affect Argentine's economy and, in turn, our business, financial condition and results of operations.

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 Fernández de Kirchner 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 Fernández de Kirchner 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.

In this sense, the former administration 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 exchange market ("MULC", as per its acronym in Spanish). 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 players to the system, the exchange market (*mercado libre de cambios*) was reformed by virtue of Decree No. 27/2018 published on January 11, 2018 (the "FX Market").

However, on September 1, 2019, with the purpose of strengthening the normal functioning of the economy, fostering a prudent administration of the exchange market, reducing the volatility of financial variables and containing the impact of the variations of financial flows on the real economy, the former government reinstated exchange restrictions. The new controls apply with respect to access to the foreign exchange market by residents for savings and investment purposes abroad, the payment of external financial debts abroad, the payment of dividends in foreign currency abroad, payments of imports of goods and services, and the obligation to repatriate and settle the proceeds from exports of goods and services for Pesos, among others. For more information, see Item 10.D "*Exchange Controls*." As a consequence of the reimposition of exchange controls, the spread between the official exchange rate and other exchange rates resulting implicitly from certain common capital market operations (dollar "MEP" or "*contado con liquidación*") has broadened significantly, reaching a value of approximately 70% above the official exchange rate.

It is not possible to anticipate for how long these measures will be in force or even if additional restrictions will be imposed. The Argentine government could maintain or impose new exchange control regulations, restrictions and take other measures in response to capital flight or a significant depreciation of the peso, which could limit access to the international capital markets. Such measures could undermine the Argentine government's public finances, which could adversely affect Argentina's economy, which, in turn, could adversely affect our business, results of operations and financial condition.

Additionally, the level of international reserves held by 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 held by the Central Bank increased to U.S.\$65.8 billion as of December 31, 2018, and plummeted in recent months, amounting to U.S.\$44.7 billion as of December 31, 2019. Notwithstanding the measures that may be adopted by the Fernández administration in the future, the level of international reserves held by the Central Bank could further decrease, 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 declined. 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.

In addition, adverse weather conditions can affect the production of commodities in the agricultural sector, which accounts 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.

Continuing high 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 discontinuation 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). The CPI was 24.8% during 2017, 47.6% for 2018 and 53.8% for 2019, the highest rate since 1991. 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. Continuing 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. In 2016, 2017, 2018 and 2019, the Peso depreciated 18%, 16%, 58% and 52%, respectively, with respect to the U.S. dollar. Additionally, the stock of international reserves held by the Central Bank decreased significantly 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. During 2019 the international reserves reached a maximum of U.S. \$77.5 billion but decreased to U.S. \$44.7 billion as of December 30, 2019.

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 years, the Argentine government has substantially increased public expenditure and has resorted regularly to the Central Bank's monetary issuance and transfers and to ANSES to source part of its funding requirements.

In 2017 and 2018, public sector expenditure increased approximately 21.8%, and 22.4% respectively (measured in nominal Pesos) and the government informed a primary fiscal deficit of approximately 3.8% and 2.4% of GDP, respectively, according to the Ministry of Treasury. In 2019, Argentine government public expenditure increased by 37.2% and the government informed a primary fiscal deficit of Ps. 819.4 billion, compared to a deficit of Ps.727.9 billion in 2018. By means of Decree 315/2020 and Resolution 443/2020, the Argentine government authorized an increase of the public sector expenditures by Ps.55.8 billion in 2020.

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 the financial system.

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.

Failure to adequately address actual and perceived risks of institutional deterioration and corruption may adversely affect Argentina's economy and financial condition.

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 2019 report, Argentina ranked 126 out of 190 countries, down from 117 in 2018.

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 former administration 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 (a "whistleblower" mechanism), increased access to public information, the seizing of assets from corrupt officials, increasing the powers of the Anticorruption Office (*Oficina Anticorrupción*) and the project of a new public ethics law, among others. The extent to which these initiatives may be implemented 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 environment 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 2019 and may be accentuated in 2020. For more information, see "Item 3.D - Risk Factors – Risks related to Argentina – Argentina's economy contracted in 2018 and 2019 and may contract in the future due to international and domestic conditions which may adversely affect our operations."

In addition, various ongoing investigations into allegations of money laundering and corruption being conducted by the Office of the Argentine Federal Prosecutor 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. 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 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.

COVID-19 is affecting the Argentine economy and could have an adverse effect on the Bank's business, financial condition and results of operations.

In December 2019, COVID-19 was reported in Wuhan, China, and the World Health Organization declared COVID-19 a pandemic on March 11, 2020. COVID-19 has disrupted business activities in Argentina and worldwide. The Argentine government has issued a stay-at-home order from March 20, 2020, restricting the free circulation in public areas and ordering most businesses to close, with certain exemptions. In Argentina, around 6,000 confirmed cases had been reported by late April and the stay-at-home order has been extended several times, most recently through May 24, 2020.

The COVID-19 pandemic is adversely impacting the Argentine economy and our business. For example, the pandemic has already had several adverse consequences, including a negative impact on the population's health and safety, disruption of supply chains, falls in production and demand, deterioration in the valuation of financial assets and investments, exchange rate volatility, increased volatility in the financial markets, closure of facilities, interruption of operations and a likely increase of impaired loans in the future.

In order to assuage the adverse effect of the COVID-19 pandemic on the Argentine economy, the Argentine government has taken certain monetary and fiscal measures, in addition to other measures adopted by the Central Bank. Such measures include: layoff limitations, price controls, lower reserve requirements on bank lending to households and micro-, small- and medium-sized enterprises, temporary easing of bank loan classification rules, a temporary prohibition on charging fees related to ATM services, the suspension of account closures, the reduction of maximum credit card interest rates, freezing and/or postponement of certain loan payments, healthcare benefit extensions, tax reductions and certain other financial assistance programs in connection with COVID-19. Moreover, banks may not distribute dividends until at least June 30, 2020 or carry out wrongful dismissals until at least May 30, 2020. Although such measures could help attenuate the impact of the pandemic on the Argentine economy overall, they may have a negative impact on our business, financial condition and results of operations.

The long-term effects of epidemics and other public health crises, such as COVID-19, on the economy and our business, financial condition and results of operations are difficult to assess or predict. For example, risks that we face arising from the pandemic include: a possible significant increase in loan defaults and credit losses, higher risk of impairment of our assets, a decrease in our business activity, such as new retail lending, an increase in cybersecurity risks given greater use of computer networks outside the corporate environment, and negative impacts on the business and operations of third-party service providers who perform critical services for us. Furthermore, certain industries that have been particularly affected by the pandemic, such as hospitality, tourism and travel, could remain distressed for an extended period, which would in turn increase their defaults and reduce the related banking activity.

As a result of the above, the COVID-19 pandemic could adversely affect us. The extent of the impact of the pandemic on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the measures taken or to be taken by the Argentine government and Central Bank, and the related impact on our customers, employees, vendors and us, all of which remain uncertain.

Sustained declines in the international prices for oil could have an adverse material effect on the Argentine and the global economy.

Between March 5 and March 30, 2020, the price of Brent crude oil dropped by half, falling to the lowest price since the beginning of the century. Similarly, the price of U.S. West Texas Intermediate crude fell below 20 U.S. dollars a barrel, almost a two decade low. Mainly, it was explained by the failure to agree to cut production between the members of the Organization of the Petroleum Exporting Countries and Russia, and the drop in oil demand caused by the spread of COVID-19.

These circumstances could harm government revenues, availability of foreign currency and the government's ability to service its sovereign debt. Thus, affecting Argentina's growth prospects and, therefore, our business, financial condition and results of operations.

The extent of the impact of the significant drop in the oil price to the Argentine and the global economy would depend on certain developments, including changes in oil prices and the duration and consequences of the COVID-19 outbreak, such as the governmental restrictions imposed to mitigate it. Nevertheless, the recent crude crash could affect particularly the economic and financial sustainability of companies exploring and drilling oil and gas at the Vaca Muerta Formation, the fourth biggest resource of non-conventional oil in the world.

As a result of price volatility, we cannot assure or anticipate how long the price drop could continue to negatively affect the market, nor all consequences it might cause to the Argentine and the global 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.

Until recent years, the loan portfolio of the Argentine financial system had been growing significantly. Loans to the private sector (in nominal value without adjusting for inflation) grew by approximately 52% in 2017, 36% in 2018 and 21% in 2019, 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 during 2017 and 2018 there has been a significant increase in mortgage loans. In 2019, the increase in mortgage loans abruptly stopped due to higher inflation expectations and its impact on the cost of credits adjusted by UVAs.

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 24% in 2017, 67% in 2018 and 18% in 2019 but the ratio of total financial system deposits to GDP is still low when compared to international levels.

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. During the last years, 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. Furthermore, while banks' liquidity in foreign currency is high, a significant share of it is deposited at the Central Bank, and as a result banks have to rely on the Central Bank in order to access those funds. If we continue to experience significant withdrawals by depositors, it could have a material adverse effect on our business, results of operations and financial condition.

Notwithstanding the above, because most deposits are short-term deposits, a substantial part of loans must also have short-term maturities to match the terms of the deposits. The proportion of long-term credit lines, such as mortgages, is small, and long term loan origination fell sharply during 2019 as a consequence of high interest rates and the difficult financial environment.

In spite of the positive trend in previous years, the deposit base of the Argentine financial system, including ours, may be further 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.

During 2017, the ratio of non-performing private sector lending reached 1.8%. As of December 31, 2018 and 2019, the ratio of non-performing private sector lending reached 3.1% and 5.7%, calculated pursuant to Central Bank Rules, explained by the economy's deterioration and its impact on individual's payment capability.

We experienced a similar trend than the financial system, our non-performing lending rate reached 1.1%, 1.9% and 2.1%, as of December 31, 2017, 2018 and 2019, respectively, calculated pursuant to Central Bank Rules.

As a result of the macroeconomic environment since 2018, the capacity of many Argentine private sector debtors to repay their loans has deteriorated significantly, materially affecting the asset quality of financial institutions, including us. In addition, due to the spreading of COVID-19 and its economic impact in early 2020, with the aim of easing the economic situation in the midst of the pandemic, the Argentine government established measures such as the refinancing of unpaid balances, access to soft credits, subsidies to vulnerable sectors, the freezing of monthly mortgage payments and certain UVA loans, etc. However, these measures may not fully offset the deterioration caused by the crisis in the quality of our assets.

The pandemic and the nation-wide lockdown established by the Argentine government since March 20, 2020 have had a significant negative impact on the Argentine economy and resulted in increased morosity levels in the financial system. Despite the measures taken by the Argentine government in order to mitigate the negative impact, production and consumption have decreased significantly, impacting employment levels and financial flows, among others and the extent of such impact and its effects are still uncertain, and therefore difficult to measure. Additionally, it is worth noting that, despite the measures adopted by the Central Bank in order to temporarily reduce non-performing levels, the Bank's financial statements for the period which will end on December 31, 2020 will recognize the expected losses with a forward-looking perspective, incorporating the impact of new macroeconomic scenarios in the variables which affect credit risk, in accordance with IFRS 9 provisions.

We cannot assure the economic crisis will subside and the private sector debtors will improve its payment capacity. Additionally, despite the current quality of our portfolio, we may not succeed in recovering substantial portions of outstanding loans. If Argentina's economic growth continues to slow down or the financial condition of the private sector further 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.

Nowadays, to protect debtors affected by the COVID-19 crisis, the Argentine government adopted a series of rules regarding the enforcement of creditors' rights. By means of Decrees 319/2020 and 320/2020, the Argentine government, among other measures, (i) suspended foreclosures and evictions nationwide, including those that have already been ordered; (ii) froze mortgage and UVA credits installments as of March's value for six months; (iii) froze the price of rentals as of March's value for a period of six months; and (iv) prohibited the application of punitive interests or other penalties provided for in the contract.

We cannot assure you that in a further 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.

Reduced spreads between interest rates received on loans and those paid on deposits, without corresponding increases in lending volumes, could adversely affect the financial system.

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 the 2018 devaluation of the peso and the acceleration of the inflation rate, the Central Bank raised interest rates, ending the margin contraction trend that had been taking place in the past years. Since late December 2019, the Central Bank has resumed a process of rate reduction, and inflation expectations have been reduced slightly, although they remain high. If the Central Bank is successful in keeping the pace of inflation reduction, it could result in a renewed pressure on banking spreads. Moreover, a change in the composition of the source of funding, which is currently heavily weighted by non-interest-bearing deposits, could also put downward pressure on margins. A change in the composition of the source of funding could result from lower interest rates, higher demand of credit and therefore a need to increase the amount of time deposits or other types of bearing interest liabilities. Further reduction in spreads could have a material adverse effect on our business, results of operation and financial condition.

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 the financial system.

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 born 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’ over-indebtedness 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.

In recent years, a series of 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, in accordance with article 3.4 of Communication “A” 6844, access to the local exchange market is subject to Central Bank’s prior approval. However, access is only granted to the FX Market to pay dividends to non-resident shareholders, subject to the following conditions:

- **Maximum amounts:** The total amount of transfers executed through the FX Market as of January 17, 2020, for payment of dividends to non-resident shareholders may not exceed 30% of the total value of the new capital contributions made in the local company that had been entered and settled through the FX Market as of the abovementioned date. The total amount paid to non-resident shareholders shall not exceed the corresponding amount denominated in Argentine Pesos that was determined by the shareholders’ meeting.
- **Minimum Period:** Access to the FX Market will only be granted after a period of not less than thirty (30) calendar days has elapsed as from the date of the settlement of the last capital contribution that is taken into account for determining the 30% maximum aforementioned.
- **Documentation requirements:** Dividends must be the result of closed and audited balance sheets. When requesting access to the FX Market for this purpose, evidence of the definitive capitalization of the capital contribution must be provided or, in lack thereof, evidence of the initiation of the process of registration of the capital contribution before the Public Registry of Commerce (*Registro Público de Comercio*) shall be provided. In this case, evidence of the definitive capitalization shall be provided within 365 calendar days from the date of the initial filing with the Public Registry of Commerce. If applicable, the external assets and liabilities reporting regime set forth by Communication “A” 6401 of the Central Bank (the “External Assets and Liabilities Reporting Regime”) shall have been complied with.

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. As of the date of this annual report, the positive net global position in foreign currency cannot exceed 5% of the RPC 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.

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 our 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.—Business Overview—Argentine Banking Regulation— Central Bank’s preventive measures in response to the pandemic of COVID-19.”

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/ 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 2011, Argentina made a high-level political commitment to work with the FATF to address its strategic AML/CFT deficiencies. To comply with recommendations made by the FATF on AML/ CFT, Law No. 25,246 (the "Anti-Money Laundering Law") was amended, inter alia, by Laws No. 26,683 and 26,734. These new regulations defined money laundering, as well as self-laundering, as autonomous crimes.

The amendments also established criminal sanctions to legal persons involved in money laundering or terrorism financing offenses, and the authorities' ability to freeze and seize assets in the event of commission of these crimes.

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 KYC and suspicious transaction reporting duties and the UIF'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. Moreover, on October 24, 2014 the FATF removed Argentina from its "Grey List".

In June 2017, Argentina was unanimously elected to preside the FATF. Since that year, the UIF issued several resolutions adopting a Risk Based Approach (RBA) to AML/ CFT, following international standards promoted by the FATF. The Obligated Subjects that fell under the new standard were financial institutions (Res. UIF No. 30-E/2017), companies acting in the securities market (Res. UIF No. 21/2018), insurance companies (Res. UIF No. 28/2018) and traveler's check issuers, credit and pre-paid card operators (Res. UIF No. 76/2019).

Moreover, in July 2019, the Federal Executive Branch issued Decree No. 489/2019 by means of which it created the Public Registry of Persons or Entities Linked to Acts of Terrorism and its Financing ("RePET"). The creation of such registry attempted to centralize in a single public registry, all information related to administrative freezing of assets related to terrorism and its financing. The Decree entitles the mentioned Registry to provide public access and facilitate the exchange of information with relevant agencies and with third countries, which shall strengthen domestic and international cooperation mechanisms. The RePET aims to facilitate the work of Obligated Subjects, who must report to the UIF the operations carried out or attempted by natural or legal persons or other entities incorporated in it.

In January 2020, new authorities have been appointed to conduct the UIF, but no policies or guidelines have been issued yet.

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, 2018 and 2019 was of 2.0%, 1.85% and 1.65%, respectively, and for 2020 and 2021 and after, will be 1.50% and 1.30%, respectively. The maximum debit card sales commissions for 2017, 2018 and 2019 was of 1.0%, 0.90% and 0.80%, respectively, and for 2020 and 2021 and after, will be 0.70% and 0.60%, respectively. Moreover, pursuant to Communication “A” 6964, as of April 13, 2020, nominal interest rates in credit operations shall not exceed 43%. 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. Furthermore, by means of said Communication, the Central Bank determined that the unpaid balances of credit cards financings that take place between April 13, 2020 and April 30, 2020, will be automatically refinanced in nine equal consecutive monthly installments beginning after a three-month grace period.

Changes in the laws and regulations may negatively affect Argentine financial institutions.

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 the Argentine financial institutions results of operations.

Argentine financial institutions 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 the Argentine financial institutions and, in turn, 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, 2019, our significant shareholders, Jorge Horacio Brito and Delfin Jorge Ezequiel Carballo, directly or beneficially own 5,367,840 Class A shares and 105,727,603 Class B shares and 4,897,897 Class A shares and 106,824,523 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.

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.

The pandemic and the nation-wide lockdown established by the Argentine government since March 20, 2020 have had a significant negative impact on the Argentine economy and resulted in increased morosity levels in the financial system. Despite the measures taken by the Argentine government in order to mitigate the negative impact, production and consumption have decreased significantly, impacting employment levels and financial flows, among others and the extent of such impact and its effects are still uncertain, and therefore difficult to measure. Additionally, it is worth noting that, despite the measures adopted by the Central Bank in order to temporarily reduce non-performing levels, the Bank's financial statements for the period which will end on December 31, 2020 will recognize the expected losses with a forward-looking perspective, incorporating the impact of new macroeconomic scenarios in the variables which affect credit risk, in accordance with IFRS 9 provisions.

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. Additionally, the COVID-19 pandemic can worsen this situation. For more information, see “*Item 3.D – Risk Factors – Risks Related to Argentina – COVID-19 is affecting the Argentine economy and could have an adverse effect on the Bank’s business, financial condition and results of operations*”.

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.

Application of IAS 29 affects the presentation of our financial information.

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.

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, 2019 and 2018.

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 2019 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 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.

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 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.

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. Pursuant to Central Bank Communication "A" 6464 and because we meet the requirements, as we exceed the capital needed to cover the legal requirements and, as we comply with the additional capital margins required by the aforementioned regulation, the payment of dividends did not require prior Central Bank authorization for the years 2017 and 2018.

On January 31, 2020, the Central Bank issued Communication "A" 6886, pursuant to which financial entities must obtain prior approval of the Central Bank in order to distribute dividends. The Superintendency shall take into account the effects of the enforcement of section 5.5 of the International Financial Reporting Standards 9 by Communication "A" 6430 and the restatement of the financial statements as provided by Communication "A" 6651, among others.

On March 19, 2020, in the midst of the Coronavirus crisis, the Central Bank issued Communication "A" 6939, by virtue of which the distribution of dividends by financial entities was temporarily suspended until June 30, 2020. We cannot assure this measure will not be extended after this period nor the extent to which the measure may affect holders of our Class B shares or ADSs.

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. 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 depositary. 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 depositary 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 depositary. 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, as amended, 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, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining "foreign passthru payments" are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. 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 IGI 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 1994, 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 Suquía 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 S.A., which was merged with the Bank in October 2019. Additionally, on May 21, 2019, the Banco Macro acquired 100% of Argenpay SAU.

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 Macro Bank Limited, Macro Securities S.A., Macro Fiducia S.A., Macro Fondos S.G.F.C.I. S.A. and Argenpay S.A.U.

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 built our new corporate headquarters on this site, which was completed in 2019.

The building has an area of 52,700 square meters and, the total aggregate amount invested in the project was approximately U.S.\$186 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

Measures implemented to address the COVID-19 outbreak

The Argentine government has adopted several measures in response to the COVID-19 outbreak in the country aimed at preventing mass contagion and the overcrowding of the Argentine health service, which include (in chronological order):

- February 26—March 12, 2020: screening of passengers at airports; mandatory isolation for 14 days of persons with suspected or confirmed cases of COVID-19, persons in close contact with suspected or confirmed cases of COVID-19 and persons arriving or recently arrived from affected zones; closure of activities with high concentration of persons; prohibition of attendance of audience to sporting events;
- March 13—March 15, 2020: stronger surveillance of Argentine borders; suspension of flights by various airlines and adoption of regulations for the coordination of repatriation flights for Argentine residents; closure of national parks and protected areas; school closures (except for food assistance and administrative purposes);
- March 16—March 18, 2020: closure of Argentine borders; suspension of domestic flights and long-distance trains and buses operations; suspension of the national soccer league; temporary work leaves for pregnant women, people older than 60 years and other persons considered at special risk upon infection; authorization for federal public employees to work remotely (except for employees providing essential services); promotion of home office policies in the private sector and beginning of construction of eight modular hospitals;
- March 19, 2020: imposition of a nation-wide mandatory lockdown, whereby only exceptional and essential activities and internal travel are allowed; deployment of security forces for the enforcement of lockdown;
- March 20 April 2, 2020: assistance to Argentine residents abroad; tightening of rules relating to closure of Argentine borders, extension of nation-wide lockdown until April 12, 2020;
- April 11, 2020: extension of nation-wide lockdown until April 26, 2020; and
- April 25, 2020: extension of lock-down until May 10, 2020, setting parameters for each province to monitor the progress of the contagion and the implementation of measures towards the relaxation of the lockdown.
- May 11, 2020: extension of lock-down until May 24, 2020, marking a continuance of the easing of lock-measures.

At the same time, in order to mitigate the economic impact of the COVID-19 pandemic and mandatory lockdown and shutdown of non-essential businesses, the Argentine government has adopted social aid, monetary and fiscal measures, including the following:

- *Closure of bank branches.* On March 20, 2020, the Central Bank determined that bank branches in Argentina should remain closed. From April 3 until April 10, 2020, branches were allowed to open with limited hours, only for the attention of beneficiaries of pension schemes and certain retirement benefits and beneficiaries of aid programs funded by the ANSES. During this period, the rest of the banking activities were performed only through digital means. Beginning on April 13, 2020, financial entities have been allowed to reopen only for a limited number of services, and only by prior appointment, with teller services initially restricted to pensioners and social plan beneficiaries, provided that certain health and security requirements are complied with. Additionally, beginning on April 20, 2020, the Central Bank has allowed the provision of teller services exclusively for deposits in, and withdrawals from, foreign currency accounts.

- *Postponement of loan payments.* The Central Bank postponed payments on loans maturing during the national lockdown period, and suspended the accrual of punitive interests on loans with maturity between April 1 and June 30, 2020.
- *ATM fees.* The Central Bank determined that, until June 30, 2020, any operation effected through ATMs will not be subject to any charges or fees.
- *Mortgage loan installments and mortgage foreclosures.* The government froze the monthly installments of mortgage loans over properties designated as the borrower's only and permanent residence and prohibited mortgage foreclosures, until September 30, 2020. The debit balance resulting from the freezing of the installment increases may be refinanced in up to nine consecutive monthly installments, upon request by the borrower.
- *Credit card payments.* The Central Bank determined that the unpaid balances of credit card financings due between April 13 and April 30, 2020 will be automatically refinanced in nine equal consecutive monthly installments beginning after a three-month grace period. Interest rates on such unpaid balances may not exceed an annual nominal rate of 43%.
- *Prohibition of bank account closures.* The government prohibited the closure and disabling of bank accounts and the imposition of penalties until April 30, 2020.
- *Time deposits minimum rate.* The Central Bank ruled that all non-adjustable time deposits under Ps.1 million made by individuals as of April 20, 2020 will have a minimum interest rate equivalent to the 70% of the average LELIQ's tendering during the week prior to the date in which the deposit was made.
- *Family emergency income and extraordinary subsidies.* The government established (i) a stipend of Ps.10,000, for the month of April 2020, for people who are unemployed or working informally, and self-employed workers who are not currently generating or receiving other income; and (ii) an extraordinary subsidy of Ps.3,000, for the month of April 2020, for beneficiaries of pension schemes and certain retirement benefits.
- *Prohibition of dismissals and suspensions.* The government prohibited dismissals of employees until May 30, 2020.
- *Labor market emergency assistance program.* The government created a fund of specific application within the FOGAR (acronym in Spanish for *Fondo de Garantías Argentino*), with the aim of backing financings provided to PyMEs by financial entities in order to pay salaries.

Additionally, some of the government measures are aimed at encouraging bank lending, such as:

- *Easing of limitations on holding Central Bank notes.* Simultaneously with the creation of the fund within the FOGAR, the Central Bank eased the limitations on banks' holdings of notes from the Central Bank (LELIQ), in order to make liquidity available and encourage the provision of credit lines to PyMEs.
- *Reserve requirements.* The Central Bank established that the facilities granted at a preferential rate (not more than 24% per year) within the framework of Communication "A" 6937 to PyMEs and households may be deducted from reserve requirements, considering 130% of the amount when the proceeds are for the payment of salaries and the granting entity is the agent of payment of those salaries.
- *Classification of Debtors:* The Central Bank established for regulatory purposes new rules regarding the criteria for debtor classification and provisioning until September 30, 2020. These rules provide an additional 60 days period of non-payment before a debtor is required to be reclassified, and include all financings to commercial portfolio clients and loans granted for consumption or housing purposes.

In addition, by means of Communication "A" 6939, the Central Bank suspended, until June 30, 2020, the distribution of dividends by financial entities, including the Bank.

For more information, see "*Item 4.B.—Business Overview—Argentine Banking Regulation— Central Bank's preventive measures in response to the pandemic of COVID-19*".

Annual income tax return for fiscal year 2019

As decided by the Board of Directors in the meeting dated May 11, 2020, considering certain case-law on the subject assessed by its legal and tax advisors, the bank will file with the AFIP during May (May 26, 2020 is the regulatory due date) its annual income tax return considering the total effect of the inflation adjustment on income tax (see Note 28 "Income tax" section a) iv) to our audited consolidated financial statements as of December 31, 2019 and 2018). As a result, the current income tax determined by the Bank for fiscal year 2019 amounted to Ps.7,002.1 million.

Launch of Argentina's exchange offer

On April 21, 2020, the Argentine government launched the Exchange with the aim of refinancing its external indebtedness and rearranging the interest and principal. To that end, the Argentine government proposed to effect an exchange of different series of foreign currency-denominated bonds (in US\$, Euros and Swiss Francs) and governed by English or New York law (the "Eligible Bonds") for new series of Dollar- or Euro-denominated amortizing bonds maturing between 2030 and 2047 (the "New Bonds") to be issued by the Argentine government. As informed by the Minister of Economy and pursuant to the exchange documents, in general terms, the Argentine government's exchange offer involves a reduction in interest payment burden of 62% (US\$37.9 billion), a decrease in principal payments of 5.4% (US\$3.6 billion) and a grace period of approximately three years before principal payments become due.

General Ordinary and Extraordinary Shareholders' Meeting

Our General Ordinary and Extraordinary Shareholders' Meeting took place on April 30, 2020 (the "Shareholders Meeting") but will resume on May 27, 2020 in order to discuss the issues stated in paragraphs (ii) and (iv) of item #9 of the Agenda, according to which the Shareholders' Meeting shall evaluate the appointment of: "(ii) one regular director to hold office for one fiscal year, in order to fill the vacancy resulting from the resignation of Mr. Juan Martín Monge Varela and complete his term of office"; and "(iv) one alternate director to hold office for two fiscal years in order to fill the vacancy resulting from the resignation of Mr. Alejandro Guillermo Chiti and complete his term of office". The motion was approved by majority vote of the shareholders present and the Shareholders Meeting shall resume at 11 AM on May 27, 2020.

The Shareholders Meeting approved among others:

Payment of dividends: the Shareholders resolved to approve (i) the separation of Ps.12,788,268,160 from the optional reserve fund, representing Ps.20 per share, for the payment of a cash dividend subject to prior authorization of the Central. The shareholders' were advised that the Central Bank has not yet informed its decision regarding the requested authorization for the distribution of dividends and that, pursuant to the provisions of the Central Bank's Communication "A" 6939, the distribution of profits by financial entities is suspended until June 30, 2020; and (ii) delegate to the Board the powers to determine the date of the effective availability to the shareholders of the approved cash dividend in proportion to their respective shareholdings, once the above mentioned authorization is obtained from the Central Bank.

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, 2019, 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, 2019, on a consolidated basis, we had:

- Ps. 445,239.9 million (U.S.\$ 7,433.7 million) in total assets;
- Ps. 220,897.8 million (U.S.\$ 3,688.1 million) total loans and other financings;
- Ps. 262,865.4 million (U.S.\$ 4,388.8 million) in total deposits;
- approximately, 3.7 million retail customers and 0.1 million corporate customers; and
- approximately, 1.3 million employee payroll accounts for private sector customers and provincial governments and 0.9 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, 2019, we had excess of regulatory capital of Ps. 69,009 million. (27.3% 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, 2018 and 2019 under IFRS was Ps. 109,900.6 million, Ps. 93,692.9 million, and Ps. 106,056.4 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 463 branches and 1,542 ATMs as of December 31, 2019, 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 broken down by category as of December 31, 2017, 2018 and 2019:

Retail Customers by category	2017	2018	2019
Open Market	1,398,709	1,506,733	1,844,412
Plan Sueldo (private and public sector)	859,330	870,678	867,322
Retirees	684,642	716,081	698,133
Professionals and business and others	530,416	552,274	292,937
Total Retail Customers	3,473,097	3,645,766	3,702,804

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, 2019, only 19% of our retail customers currently have a personal loan from us and only 33% 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, by 11% in 2018, and by 9% in 2019.

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 15%, 6%, and 8% in 2017, 2018, and 2019, respectively. In 2018 we highlight the migration of our debit cards to EMV technology (Europay, MasterCard, Visa), cards with integrated chip and in 2019 we incorporate contactless technology in the generation of 100% of the issuances, renewals and reprints of debit cards. We also increased the limits of extraction, purchase and transference 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, 2018 and 2019:

Product	2017	2018	2019
Savings			
Total savings accounts*	3,588,555	4,083,512	4,469,531
Retirees	769,660	849,265	902,580
Open Market	1,207,848	1,441,155	1,950,655
Other Special Segments	298,376	321,344	34,838
Plan Sueldo (private sector)	612,906	685,678	744,850
Plan Sueldo (public sector)	484,312	512,496	542,731
Professionals and business and others	215,453	273,574	293,877
Checking			
Checking accounts	888,700	881,736	822,227
Electronic Account Access			
Debit Cards	3,169,422	3,348,204	3,601,847

(*) 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.

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, one of our initiatives to expand lending is to encourage low- and middle-income customers to use credit cards for larger amount purchases.

In 2019, owing to the complex economic situation in Argentina, the financial market was adversely affected. Faced with this situation, we focused our efforts on increasing deposits and developing commercial actions aimed at retaining customers, increasing the quantity of products per client and attracting salary plans. Additionally, we strengthened our business model by maintaining a well-diversified loan portfolio. In 2019, we retained our market share in consumer products and maintained leadership in personal loans with respect to the competition (other private banks). Furthermore, credit card’s product offering continued operating in a very competitive scenario, continually demanding an acceleration in the processes of digital transformation. In relation to the mortgage loan portfolio, the granting of these loans decreased significantly in relation to the previous year.

During 2019, under the context of rising inflation, the Argentine government froze the value of installments of certain loans and partially subsidized UVA mortgage loan clients until December 31, 2019. The difference between the value of the frozen installment paid by clients and the one that would have corresponded due to the application of the UVA was compensated by the Argentine government. Therefore, we avoided any related losses in 2019.

In January 2020, the Fernández administration reversed the freezing of installments and withdrew the subsidy, while inviting financial institutions to set progressive increases in the monthly value of the frozen installments so that they converge to the adjusted value provided by UVA in December 2020. We adhered to such a program.

As of December 31, 2017, 2018 and 2019, our consumer loan portfolio (without considering other financings) 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 (1)		2019	
Overdraft	1,093.7	0.6%	1,027.3	0.7%	622.3	0.5%
Documents	2,659.7	1.5%	2,602.2	1.7%	1,538.5	1.3%
Mortgage and pledge	11,609.0	6.4%	18,451.9	11.9%	16,254.0	13.9%
Credit Card	53,774.0	29.8%	43,238.0	27.9%	40,666.7	34.8%
Personal loans	109,503.2	60.6%	88,041.7	56.8%	56,838.0	48.6%
Others	2,037.0	1.1%	1,595.9	1.0%	1,000.9	0.9%
Total	180,676.6	100.0%	154,957.1	100.0%	116,920.3	100.0%

Note:

(1) Figures stated in millions of Pesos in terms of purchasing power of Argentine Pesos as of December 31, 2019.

As of December 31, 2019, personal loans, which comprise the largest share of our consumer loan portfolio, carried an annual average nominal interest rate of 66.50 % and an average maturity of 41.4 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 2.2 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.500 million in sales per year; (2) medium-sized and large companies, which register more than Ps.500 million and less than Ps.3,000 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.3,000 million in sales per year.

The following table reflects our portfolio breakdown, broken down by category as of December 31, 2017, 2018 and 2019:

Portfolio conformation	2017	2018	2019
Corporate companies	29%	46%	56%
Medium sized companies	25%	18%	16%
PyMEs	20%	11%	7%
Microenterprises	5%	3%	2%
Agricultural companies	21%	22%	18%

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 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 (Medium and Large Sized Companies) customers.

Within our Corporate Banking division (“Corporate Banking”), 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.

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.

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 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 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; U.S. 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 supported 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.

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 were 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 (“*Pague con Granos*” Program), 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.

Throughout 2019, we have maintained a constant growth in our Corporate customers portfolio. Our management has been focused on working to offer products and services tailored to each company profile, primarily based on size and the location of operations.

We continue to grow in our client portfolio and strengthen the value chain concept between PyMEs, Megra and Corporate Companies.

Regarding our PyMEs and Microenterprises customers, we have developed close and specialized customer relationships while focusing on maintaining long-term relationships. We offer transaction services (such as cash management) to our customers, as well as collection services, both in automatic and direct debits from checking or savings accounts.

In 2019, we developed the “*Encuesta de Experiencia del Cliente Pyme*” (PyME’s Experience Survey) to provide support and advice regarding our transactional and foreign trade financing. Moreover, we granted “*Sociedades por Acciones Simplificadas*” (simplified joint-stock companies, “SAS”, for its Spanish acronym) a tailored value proposition and a special credit limit from the moment of its creation.

We contributed to the growth and development of PyMEs through the development of the “*Naves*” program throughout the country. Such program provides with management tools for building business plans and innovative projects.

Furthermore, we provided specialized assistance via two programs: “*Alumbra tus ganas de emprender*” Program, which offers support and assistance through training, guidance, and financial and business advice, and “*Cuentas Sanas*” Program, which grants financial education to PyMEs’ employees.

As regards Megra (Medium and Large Sized Companies), we have developed actions aimed at incorporating suppliers and small producers to achieve integration of the value chain and boost their business.

Additionally, we focused on increasing the “*Plan Sueldo*” (Payroll Program) customer base, acting jointly with Personal Banking and our branch network. We continually encourage the strengthening of relationships with our companies and service improvement, as well as focusing on credit portfolio review and regulatory compliance.

During 2019, owing to our proactive segmented marketing strategy, we were able to maintain our Corporate Banking market position. We have been focused on growth in deposits, especially sight balances. In addition, we provide our working teams with a solid foundation in cash management so that they can properly advise on transactional products.

Regarding our agricultural clients, we were able to provide financing to small-scale regional producers located in the province of Salta and Jujuy for the purchase of energy from distributors through the rural credit card. Furthermore, we continued improving our *Pague con Granos* Program, achieving the landmark of exceeding 1.3 million tons per year.

The macroeconomic environment suffered great alterations due to the new exchange regulations. The financial problems along with the expectations of increased tax withholdings affected the decisions of the productive plans. Thus, we decided to focus on consolidating our relationships with existing clients through the financing of working capital and investment projects, the simplification of the operation processes directly with grains, the development of alliances with manufacturers in order to provide predictability, and promotional agreements on the rural credit card.

As highlighted, we implemented the “*Programa de desarrollo para el Agro*” (Development Program for Agro), which gives customers information to decide, contacts to strengthen and financing to invest.

In terms of the financing of the productive sector, we continued offering what we believe is the best services for the different areas of the agricultural, industrial and commercial sectors. Some of the solutions we provide are: bonus lines to aid companies in financing their semiannual installments, credit programs to boost and sustain regional activities, commercial agreements with the “*Consejo Federal de Inversiones*” (Federal Investment Council) to act as a financial agent in the granting of loans at special rates in Pesos and U.S. dollars.

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 2019, loans to corporate companies stood out above the rest with an increase in nominal value of 60% and the best performing line was overdrafts.

As of December 31, 2017, 2018 and 2019, our commercial loan portfolio (without considering other financings) was as follows:

	Commercial loan portfolio (1) (as of December 31, of each year) <i>(in millions of Pesos and as percentage of consumer loan portfolio)</i>					
	2017 (2)		2018 (2)		2019	
Overdraft	20,335.5	16.4%	26,350.9	21.1%	43,033.0	39.9%
Documents	36,048.3	29.0%	34,402.1	27.6%	18,393.3	17.1%
Mortgage and pledge	16,660.5	13.4%	12,603.0	10.1%	8,425.0	7.8%
Consumer loans (3)	2,942.5	2.4%	2,247.9	1.8%	1,489.2	1.4%
Other loans	48,231.7	38.8%	49,128.9	39.4%	36,451.6	33.8%
Total Commercial Loans	124,218.6	100.0%	124,732.73	100.0%	107,792.17	100.0%

(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 millions of Pesos in terms of purchasing power of Argentine Pesos as of December 31, 2019.

(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 463 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, 2019, we had the largest private sector branch network in the country, with 463 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, 2019, we had 1,542 ATMs, 955 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, 2019:

Province	As of December 31, 2019	
	Branches	% of total
City of Buenos Aires	29	6%
Buenos Aires (Province)	67	14%
Catamarca	1	0%
Chaco	2	0%
Chubut	6	1%
Cordoba	70	15%
Corrientes	4	1%
Entre Rios	10	2%
Formosa	—	0%
Jujuy	16	3%
La Pampa	2	0%
La Rioja	2	0%
Mendoza	15	3%
Misiones	35	8%
Neuquén	5	1%
Rio Negro	6	1%
Salta	37	8%
San Juan	1	0%
San Luis	2	10%
Santa Cruz	2	0%
Santa Fe	105	23%
Santiago del Estero	2	0%
Tierra del Fuego	2	0%
Tucuman	42	9%
TOTAL	463	100 %

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 2019 the amount transacted through automatic channels increased by 47% compared to 2018, 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, 99% 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 1,542 operating ATMs, representing one of the widest reaching networks in Argentina. In 2019, the amount transacted through ATMs increased by 36% compared to 2018.

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 2019, we had 209 intelligent self-service terminal units installed in 146 branches all over the country, in which there have been 162,378 transactions. In 2019, the amount transacted through SSTs increased 5% compared to 2018. As of December 2019, we had 955 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 launched the new Business Home Banking, through which we generated 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. Since 2017, we worked on new functionalities that generate value for clients: U.S. 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 amount transacted through *Home Banking* and *Macro Banca Móvil* increased by 48% in 2019.

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 21 to our consolidated financial statements as of December 31, 2019 and 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 Risk Management 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 Risk Management Committee, among other responsibilities, assures the establishment of an independent management of risk, lays out policies, procedures, measurement methodologies and feedback systems in charge of the identification, measurement and monitoring of risks, as well as the responsibilities of every level of the organization involved 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.

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).

The Risk Management Committee is in charge of Financing Risk, Credit Risk and Technology and Operational Risk. The primary procedures developed by the Risk Management Committee are:

- Stress tests: stress testing is a support tool for risk management and a complement to the results of risk measurement models. The objective of the tests is to assess the financial vulnerability potential of the Bank in light of the sensitivity of the main variables affecting each risk. In general, a variable with low probability of occurrence, but which if it materializes could lead to a significant overshoot in tolerance limits established for each risk. In addition, they are a tool for assessing the risk profile and are also used in the internal economic capital adequacy assessment process.
- Economic Capital Calculation: the economic capital calculation is developed for those risks that, due to their importance, could eventually affect our solvency. Risk management is directly related to the calculation of economic capital. Based on the internal models developed, we manage the risks, determine the risk profile, and therefore estimate the capital required for the development of the activities and business, adjusted to the degree of exposure to each risk

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.

Liquidity risk

Liquidity risk is defined as the possibility that we may not be able to comply efficiently with expected and unexpected current and future cash flows, and guarantees without affecting our daily operations or financial condition.

Also, market liquidity risk is understood as the risk that a position cannot be offset or unwound at the market price due to:

- That the assets do not have a sufficient secondary market; or
- Market alterations.

We have policies on liquidity, which aim to manage it in an efficient way, optimizing the cost and diversification of funding sources, and maximize the utility of the colocations through a prudential management that assures the necessary funding for the continuity of the operations and the fulfilment of the current regulation.

We have implemented a series of measurement and risk control tools, including the regular monitoring of liquidity gaps, differentiated by currency, as well as various liquidity ratios, including “bimonetary liquidity ratio”, liquidity ratio coverage (LRC), net stable funding ratio (NSFR), among others.

Market risk

It is defined as the possibility of suffering losses in the Bank’s on and off-balance sheet positions as a result of adverse fluctuations in the market price of various assets.

Market risks include interest rate, foreign exchange and price risks. They are exposed to general and specific market movement and changes in the level of price volatility such as interest rates, credit spreads, foreign exchange rates, shares prices and securities, among others.

We have policies for the management of Market Risk in which the processes of monitoring and control of the risks of variations in the quotations of financial instruments with the objective of optimizing the risk/return relationship, using the structure of limits, models and adequate management tools. In addition, we have adequate procedures and tools that allow the Risk Management Committee and the Assets and Liabilities Committee to measure and manage this risk.

The risks to which the investment portfolios are exposed are monitored through Montecarlo “Value at Risk” (VaR) simulation techniques. We apply the VaR methodology to calculate the market risk of the main positions taken and the maximum expected loss based on a series of assumptions for a variety of changes in market conditions.

Interest rate risk

Interest rate risk is the potential for changes in our financial condition resulting from adverse fluctuations in interest rates, which could have an adverse effect on capital or earnings.

Within the framework of interest rate risk management, we have a series of policies, procedures and internal controls that allow us to monitor the variation of the net present value of assets, liabilities and off-balance sheet items under certain scenarios of disturbance and stress in interest rates risk through Montecarlo simulations. For this purpose, the maximum potential loss is calculated considering a three month time horizon and a 99% level of confidence.

Foreign currency exchange risk

We are exposed to fluctuations in foreign currency exchange rates prevailing in our financial position and cash flows. The largest portion of our foreign currency assets and liabilities are denominated in U.S. dollars.

The position in foreign currency is composed by assets and liabilities denominated in Pesos, to the exchange rate at the closure of the indicated dates. The open position of an institution is composed by assets, liabilities, off-balance-sheet accounts denominated in the foreign currency in which the institution assumes the risk; any devaluation or revaluation of those currencies affects the income statement.

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.155 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.

Operational and technological risk

Operational risk 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.

We have a procedure to collect of events and losses for operational risk, which is composed of a collection process of operational events and losses to systematically register the frequency, severity, category and other relevant aspects related to the events and losses for operational risk. The objective is to evaluate the situation upon the event occurrence, to better understand the profile of operational risk and, if applicable, adopt the pertinent corrective measures.

In addition, the Entity has a procedure which establishes the rules for the confection of self-made risk evaluations and, in the cases of risks exceeding the tolerance limits admitted, guidelines to establish risk indicators and action plans.

The Risk Integral Management produces and sends periodic reports to the Board of Directors, the Risk Management Committee and the Senior Management. Based on these reports, the results of the monitoring of the management of the main risks to which we are exposed are made known. Each report contains information on risk measurement, its evolution, trends, main exposures, control of main limits and the level of capital required by type of risk.

For more information on risk management processes see note 51 “Capital management, Corporate Governance Transparency Policy and Risk management” to our audited consolidated financial statements as of December 31, 2019 and 2018.

Competition

We believe that we have an important advantage over our competitors in providing banking products and services to small communities in some 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.U., Banco BBVA Argentina 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, 2019. In terms of equity we are ranked as the first private bank and the second bank overall in Argentina as of September 30, 2019.

Below are the rankings of banks across these metrics, figures were prepared based on Central Bank methodology. See “*Market and Central Bank Data*”:

Total Loans (September 30, 2019)

		Ps. Million	Market Share
1	Banco de la Nación Argentina (1)	430,209	17%
2	Banco de Galicia y Buenos Aires S.A.U.	289,633	11%
3	Santander Río S.A.	257,139	10%
4	Banco de la Provincia de Buenos Aires (1)	232,732	9%
5	BBVA Frances S.A.	197,834	8%
6	Banco Macro S.A.	193,089	7%
7	HSBC Bank Argentina S.A.	104,886	4%
8	Banco de la Ciudad de Buenos Aires	108,803	4%
9	Industrial and Commercial Bank of China (Argentina) S.A.	94,331	4%
10	Banco Patagonia S.A.	83,062	3%
	Remainder of the Financial System	609,377	23%
	Total Financial System	2,604,094	100%

Source: Central Bank. Figures were prepared based on Central Bank methodology. See "Market and Central Bank Data".

(1) Public sector banks.

Total Deposits (September 30, 2019)

		Ps. Million	Market Share
1	Banco de la Nación Argentina (1)	1,030,884	23%
2	Santander Río S.A.	429,235	9%
3	Banco de la Provincia de Buenos Aires (1)	429,297	9%
4	Banco de Galicia y Buenos Aires S.A.U.	382,810	8%
5	BBVA Frances S.A.	275,296	6%
6	Banco Macro S.A.	257,751	6%
7	HSBC Bank Argentina S.A.	190,672	4%
8	Banco Credicoop Limitado	172,007	4%
9	Banco de la Ciudad de Buenos Aires	171,698	4%
10	Industrial and Commercial Bank of China (Argentina) S.A.	129,609	3%
	Remainder of the Financial System	1,085,407	24%
	Total Financial System	4,554,660	100%

Source: Central Bank. Figures were prepared based on Central Bank methodology. See "Market and Central Bank Data".

(1) Public sector banks.

Equity (September 30, 2019)

		Ps. Million	Market Share
1	Banco de la Nación Argentina (1)	120,989	15%
2	Banco Macro S.A.	76,584	10%
3	Banco de Galicia y Buenos Aires S.A.U.	69,844	9%
4	Santander Río S.A.	57,111	7%
5	BBVA Frances S.A.	56,095	7%
6	Banco de la Provincia de Buenos Aires (1)	51,111	7%
7	Industrial and Commercial Bank of China (Argentina) S.A.C	29,252	4%
8	Banco Patagonia S.A.	26,284	3%
9	Citibank, N.A. (Argentine Branch)	25,513	3%
10	Banco Credicoop Limitado	24,781	3%
	Remainder of the Financial System	249,175	32%
	Total Financial System	787,281	100%

Source: Central Bank. Figures were prepared based on Central Bank methodology. See "Market and Central Bank Data".

(1) Public sector banks.

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 66% of our total branches in six provinces including Santa Fe, Córdoba, Misiones, Salta, Tucumán and Jujuy.

As of September 30, 2019					
Province	Banking system		Banco Macro (1)		Market Share (% share of total of branches in each province)
	Branches	% of total	Branches	% of total	
City of Buenos Aires	1,020	21.0%	29	6.3%	2.8%
Buenos Aires (Province)	1,514	32.2%	67	14.5%	4.4%
Catamarca	21	0.4%	1	0.2%	4.8%
Chaco	70	1.4%	2	0.4%	2.9%
Chubut	71	1.5%	6	1.3%	8.5%
Cordoba	469	9.7%	70	15.1%	14.9%
Corrientes	84	1.7%	4	0.9%	4.8%
Entre Rios	134	2.8%	10	2.2%	7.5%
Formosa	39	0.8%	—	0.0%	0.0%
Jujuy	34	0.7%	16	3.5%	47.1%
La Pampa	72	1.5%	2	0.4%	2.8%
La Rioja	27	0.6%	2	0.4%	7.4%
Mendoza	174	3.6%	15	3.2%	8.6%
Misiones	66	1.4%	35	7.6%	53.0%
Neuquén	85	1.8%	5	1.1%	5.9%
Rio Negro	81	1.7%	6	1.3%	7.4%
Salta	80	1.6%	37	8.0%	46.3%
San Juan	41	0.8%	1	0.2%	2.4%
San Luis	48	1.0%	2	0.4%	4.2%
Santa Cruz	51	1.1%	2	0.4%	3.9%
Santa Fe	491	10.1%	105	22.7%	21.4%
Santiago del Estero	60	1.2%	2	0.4%	3.3%
Tierra del Fuego	26	0.5%	2	0.4%	7.7%
Tucuman	95	2.0%	42	9.1%	44.2%
TOTAL	4,853	100%	463	100%	9.5%

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

Since 1994, the Central Bank supervision of financial institutions has been 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 parent company 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) intangible assets; (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, (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, and (iii) credit, debit and similar cards emissions; (m) the excess to the limits set forth for secured assets on Section 3 of the rules on “Affectation of Secured Assets” (n) 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; (o) income from sales relating to securitization transactions, as applicable, pursuant to the provisions of Sections 3.1.4., 3.1.5.1. and 3.1.5.2., 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; (p) 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; (q) 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.

The items mentioned in the previous points will be reduced, if applicable, by the deductible concepts provided in point 8.4.2 of the rules regarding “Financial Entities Minimum Capital”, as amended and supplemented, which are described below.

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 (application of IAS 29 and section 5.5. of IFRS 9). 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 public order labor 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 Superintendency, 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 Superintendency 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 points 1 to 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 Superintendency);
- 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.

Financial institutions shall have prior authorization of the Central Bank for the distribution of their results.

Moreover, on March 19, 2020, in the midst of the Coronavirus crisis, the Central Bank issued Communication “A” 6939, by virtue of which the distribution of dividends by financial entities was temporarily suspended until June 30, 2020.

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 (application of IAS 29 and section 5.5. of IFRS 9).

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.

In order to determine the RPC Group “A” financial institutions shall compute as CON1 the positive difference between the accounting provision set forth by point 5.5 of IFRS 9, and the higher of the regulatory provision as calculated by the “Minimum Provision Requirement for Uncollectability Risk Rules” and the accounting provision corresponding to the balance as of November 30, 2019.

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”) shall be calculated with the items included, which must be computed on the basis of the balances as of the last day of each month (capital, interests, premiums, restatements – by the CER – and price differences, as appropriate, net of the non-recoverability and devaluation risks provisions and of accumulated depreciation and amortization attributable to them and other regularizing accounts, without deducting 100% of the minimum amount required for the non-recoverability risk provision in the portfolio corresponding to debtors classified as in a “Normal Situation” – points 6.5.1 and 7.2.1 of the rules on “Classification of Debtors”- and financings secured by preferential guarantees “A”)

The minimum capital requirement in respect of counterparty risk must be calculated applying the following equation:

$$\text{CRC} = (k * 0.08 * \text{RWA}_c) + \text{INC}$$

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:

$$A * p + PFB * CCF * p + \text{non-DVP} + (\text{DVP} + \text{RCD} + \text{INC significant investments in companies}) * 12.5$$

Variable “A” refers to eligible assets/exposures;

“PFB” are eligible 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 other sovereign states or their central banks	
- AAA to AA-	0
- A+ to A-	20
- BBB+ to BBB-	50
- BB+ to B-	100
- Below B-	150
- Unrated	100
Entities of the non-financial public sector from other sovereigns, pursuant to the credit rating assigned to the respective sovereign	0

Type of Asset	Weighting (%)
- AAA to AA-	20
- A+ to A-	50
- BBB+ to BBB-	100
- BB+ to B-	100
- Below B-	150
- Unrated	100
To the Bank for International Settlements, the IMF, the European Central Bank and the European Community	0
To the non-financial public sector of the provinces, municipalities and/or the Autonomous City of Buenos Aires arising from the acquisition of sovereign bonds issued in Pesos by the central administration, when they do not have any one of the guarantees described in the regulations on "Financing to Non-Financial Public Sector", pursuant to the credit rating assigned to the respective jurisdiction	
- AAA to AA-	20
- A+ to A-	50
- BBB+ to BBB-	100
- BB+ to B-	150
- Below B-	200
- Unrated	200
<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 Asian Development Bank (ADB), the European Investment Bank (EIB), among others	0
Other	
- AAA to AA-	20
- A+ to A-	50
- BBB+ to BBB-	50
- BB+ to B-	100
- Below B-	150
- Unrated	50
<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. The weighting percentage to be applied will be the one for one category less favorable than the one assigned to the exposures with the Argentine government in foreign currency, as provided for the <i>Exposure to the public non-financial sector and the Central Bank</i> , with a maximum of 100%, except that the grade was less than B-, in which case the weighting percentage will be 150%	
<i>Exposure to foreign financial institutions, pursuant to the credit rating assigned to the sovereign of their jurisdiction of incorporation</i>	
- AAA to AA-	20
- A+ to A-	50
- BBB+ to BBB-	100
- BB+ to B-	100
- Below B-	150
- Unrated	100
<i>Exposure to companies and other legal entities in the country and abroad, including exchange institutions, insurance companies and stock exchange entities</i>	100
<i>Exposures included in the retail portfolio</i>	

Type of Asset	Weighting (%)
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
<i>Other</i>	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>First mortgage loans on residential property or mortgage loans with any order of preference provided that the institution remains the creditor, irrespective of the order of preference, to the extent that the debt balance under no circumstances exceeds the valuation price of the mortgaged property</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>First mortgage loans on other than residential property or mortgage loans with any order of preference provided that the institution is also the creditor of senior loans</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
Past due loans over 90 days	
Weighting varies according to the loan and specific provisions Created	50-150
Equity holdings	150
<i>Securitization exposures, failed DvP transactions, non-DvP transactions, exposures to central counterparty institutions (CCP) and derivative transactions not included in said exposures</i>	*
<i>Exposures to individuals or companies originated in credit card purchases made in installments of travel tickets to foreign destinations and other touristic services abroad (lodging, car rental), either made directly to the service provider or through a travel agency or web platform</i>	1250
<i>Other assets and off-balance categories</i>	100

* They receive a special treatment.

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

On one side, Communication “A” 6620 sets at 15% the limit of exposure with a counterpart of the non-financial private sector. Nevertheless, the limit will be increased by 10 percentage points for the part of the exposures that are covered by preferred collaterals. Additionally, it sets special limits for operating with financial institutions in the country and abroad (the general rule sets it at 25%). In the case of foreign financial institutions that do not have an international risk rating included in the “investment grade” category, the maximum limit is 5%.

On the other side, 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 Superintendent’s supervision. By virtue of Communication “A” 6534, dated July 3, 2018, the Investment Portfolio Interest Rate (RTCI) risk 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, commodities 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 and commodities 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” 6690, 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 commodities risk. The capital requirement for commodities risk establishes the minimum capital required to hedge the risk involved in maintaining positions in commodities – but gold. The calculation of the capital requirement shall express every commodity position in terms of the standard measure unity, and following the rules set forth in Communication “A” 6690.

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” 6690 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:

- 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.
- 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.
- 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:

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

The variables in the OR formula are defined as follows:

- "C_{ro}": 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_t": 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:

- 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, (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 and (iii) demand obligations with business for the sales made by credit card and / or for the purchase.

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, 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 average of the daily balances of the liabilities:

- registered at the end of each day during the period (monthly or bimonthly) prior to the one of its integration, in the case the liabilities are denominated in Pesos. In the case of the July/August and December/January periods, it will be of usage the June and November averages, respectively. In the case of September and February it shall be used the average of the previous two-month period.
- registered at the end of each day during the calendar month, in the liabilities are denominated in foreign currency, or government and corporate securities.

The averages shall be obtained by dividing the aggregate of the daily balances into the total amount of the days of each period.

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, as amended, 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		Rate % Group B	
	Pesos	Foreign Currency	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	32	23	11	23
(ii) From 30 days to 59 days	22	17	7	17
(iii) From 60 days to 89 days	4	11	2	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				
(i) Up to 29 days	29	15	10	15

Item	Group A and G-SIB		Rate% Group B	
	Pesos	Foreign Currency	Pesos	Foreign Currency
(ii) From 30 days to 59 days	22	15	7	15
(iii) From 60 days to 89 days	4	15	2	15
(iv) More than 90 days		15		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	32		11	
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. In both cases, it does not include the impositions in securities. The deferred impositions in Pesos arranged remotely (i.e. through *home banking*, web time deposits, etc.) will receive the same treatment as those captured in the categories II to VI.

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 points 5 (in Pesos) and 7.

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 16 percentage points of the rate provided in section (i) of point 5 (in Pesos) and 9; in up to 13 percentage points of the rates provided by section (ii) of point 5 (in Pesos); in up to 3 percentage points of the rates provided by section (i) and (ii) of point 10 and 11; and in up to 2 percentage points of the rates provided by section (iii) of point 5.

Financial entities not included in the last paragraph up to 3 percentage points of the rates provided by sections (i) and (ii) of point 5, point 9, sections (i) and (iii) of point 10 and point 11; and in up to 2 percentage points of the rates provided in section (iii) of point 5.

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:

- 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;

Participation, in the total of financing operations to MiPyMES with respect of total of financing operations to the non-financial private sector, in the institution.	Reductions (over the total of the concepts included in Pesos).
%	%
Less than	0.00
From 4 to less than 6	0.75
From 6 to less than 8	1.00
From 8 to less than 10	1.25
From 10 to less than 12	1.50
From 12 to less than 14	1.75
From 14 to less than 16	2.00
From 16 to less than 18	2.20
From 18 to less than 20	2.40
From 20 to less than 22	2.60
From 22 to less than 24	2.80
From 24 to less than 26	3.00
From 26 to less than 28	3.20
From 28 to less than 30	3.40
30 or more than 30	3.60

It will be considered the mobile average balance at the end of the last 12 months prior to the low report of the financings in Pesos (Loans and Credits for Financial Leases) granted to MiPyMES in respect of the total of such financings to the non-financial private sector of the institution.

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 20% 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.

Effective from March 1st, 2020, Communication “A” 6916 increases the 20% decrease of the requirement for the “Ahora 12” to 35% on the aggregate of the financings. Amended by Communication “A” 6937 the limit for the calculation of this decrease is raised to 6% over the items subject to the Central Bank Rules of Minimum Cash.

3. Depending on the cash withdrawals made through institution ATMs. The requirement will be reduced by the amount calculated on the basis of the monthly average of total daily cash withdrawals from ATMs, corresponding to the prior month, located in the institution’s operational houses, according to the jurisdiction in which is located, in accordance with the provisions of the “Locations for Financial Institutions Categorization Rules”.

For this purpose, the included ATMs are those that – at least – allow users to make cash withdrawals regardless of the institution in which they are customers and the network managing such equipment and that –on a monthly average, computing business and non-business days – have remained accessible to the public for at least ten hours a day.

4. In the case of financial entities included in Group “A”, the requirement will be reduced by an amount equivalent to the 30% of the aggregate of all financing in pesos to MiPyMES – in accordance with the definition contained in the “Determination of the Status of Micro, Small or Medium-Sized Enterprises Rules”- agreed at a maximum interest of:
 - a. 40% fixed nominal per annum until and including February 16, 2020 (which may continue to be counted until its termination).
 - b. 35% fixed nominal per annum from February 17, 2020.

For this purpose, the average monthly balance of the financings granted the period before the requirement was calculated that meets the above conditions shall be included. This deduction may not exceed 2% of the items in Pesos subject to the requirement, on average, of the month prior to the calculation.

The financings calculated for the point 1.5.4 deduction cannot be included for the determination of the point 1.5.1 deduction.

5. In accordance with the special treatment provided for financing under Resolution No. 1/19 of the Ministry of Territorial Development and Habitat.

For the period from February 2020 until January 2021 inclusive, the minimum cash requirement in Pesos will be reduced by 0.8% over the contractual balance – at the end of November 2019- from the financings that the institution decides to subject to the special treatment provided by point 6.4 of the “Credit Policy Rules”.

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 period 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 period, 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 period.

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.

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 Superintendency. The Superintendency 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.

The Financial Institutions shall observe the NSFR all times and report it on a quarterly basis to the Superintendency.

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.

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 13, 2020 the value of UVI and UVA are 49.22% and 53.70%, respectively.

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

Foreign Exchange System

On September 1, 2019, with the purpose of strengthening the normal functioning of the economy, fostering a prudent administration of the exchange market, reducing the volatility of financial variables and containing the impact of the variations of financial flows on the real economy, the Argentine government reinstated exchange controls. The new controls apply with respect to access to the foreign exchange market by residents for savings and investment purposes abroad, the payment of external financial debts abroad, the payment of dividends in foreign currency abroad, payments of imports of goods and services, and the obligation to repatriate and settle for Pesos the proceeds from exports of goods and services, among others.

For further information on this topic, please refer to “*Item D – Exchange Controls*”.

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 cancelation.
- 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 U.S. 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, resulting from the aggregate of deposits and inter-financial loans received, which have been reported by the granting financial institution as coming from its foreign currency deposit lending capacity net of the minimum cash requirement on deposits, and 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.

Further changes to the GEP regulation have been introduced by Communications “A” 6770 and 6780. Prior acceptance by the Central Bank is required to increase the ownership of foreign currency from the higher of the average foreign currency owned in August 2019 and at the close of August 31, 2019. Moreover, the institutions are not permitted to buy securities on the secondary market with liquidation on foreign currency.

Foreign Currency Net Global Position

The foreign currency net global position shall consider all assets, liabilities, commitments and other instruments and transactions through financial intermediation in foreign currency or linked to exchange rate movements, including cash, forward transactions and other derivative contracts, deposits in foreign currency in accounts opened with the Central Bank, gold position, the Central Bank monetary regulation instruments in foreign currency, subordinated debt in foreign currency and debt instruments 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 U.S. dollars shall be expressed in that currency, at the respective exchange rate published by the Central Bank.

Decreases in foreign currency assets due to the pre-cancellation of local financing to private sector customers, can only offset the foreign currency net global position up to the original term of maturity with the net increase in holdings of National Treasury securities in foreign currency. At the original maturity of local financing in foreign currency, it may be offset with the purchase of any foreign currency assets computable at the foreign currency net global position.

Deductible assets when determining a bank's RPC, Argentine government bonds linked to the growth of the GDP, the included concepts that the financial entity registers in its branches abroad and the loan agreements in Pesos with variable remuneration based on the variation in the price of the U.S. dollars that are not covered by the term investments with variable remuneration based on the U.S. dollar are excluded from the ratio.

Limits

Negative Foreign Currency Net Global Position (liabilities exceeding assets): the limit is 30% of the RPC of the immediately preceding month (Communication "A" 6781).

Positive Foreign Currency Net Global Position (assets exceeding liabilities): This daily position (daily balance converted to Pesos at the reference exchange rate of the immediately preceding month) cannot exceed 5% of the RPC of the immediately preceding month.

Positive Foreign Currency Net Global Position in Cash: this daily position (daily balance converted to Pesos at the reference exchange rate of the immediately preceding month) cannot exceed the higher of U.S.\$ 2,500,000 or the 4% of the RPC 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, while the total excess over the general limit originates only as a result of:

- a) increase in the position in U.S. Treasury bills in U.S. dollars with respect to those held as of June 15, 2018, and/or
- b) position in U.S. Treasury bills in U.S. dollars as of June 15, 2018, maintained as excess admitted to the current limit as of that date.
- c) increase in the position in National Treasury bills linked to U.S. dollars with respect to those held as of May 13, 2019.

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).

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. 29,740,000 to micro-credit institutions, and commercial loans of up to Ps. 29,740,000 with or without preferred guarantees when the institution elected. All other loans are considered commercial loans. Consumer or housing loans in excess of Ps. 29,740,000, 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:

Classification	Criteria
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.
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. 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:

Classification	Criteria
Normal Situation	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, 2019, 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. 29,740,000 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, 2019 and 2018.

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.50,000 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. 50,000 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.1,500,000.

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, with the exception of those arranged in Pesos at the minimum nominal rate for human beings up to the sum of Ps. 1,000,000 per depositor, and demand deposit account balances and available amounts from overdue deposits or closed accounts, and (vi) immobilized balances from deposits and excluded transactions.

Pursuant to Communication "A" 5943, every financial institution is required to contribute to the FGD a monthly amount of 0.015% 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.

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.

Central Bank's preventive measures in response to the pandemic of COVID-19

The Argentine government and the Central Bank issued a series of preventive measures in order to mitigate the COVID-19 pandemic's economic impact. In this regard, on March 19, 2020, the Executive Branch issued Decree No. 297/2020 by means of which a mandatory quarantine was established from March 20, 2020 through March 31, 2020, which was then subsequently extended through May 24, 2020 (the "Quarantine Period"). However, since April 13, 2020, the government supervised a gradual relaxation of the quarantine and social distancing measures.

In this context, the Central Bank issued Communications “A” 6939 and “A” 6942, by means of which it was determined that during the Quarantine Period: (i) financial institutions shall not be open to the public; and (ii) the maturity of financings granted by local financial institutions scheduled for the Quarantine Period were postponed. Communication “A” 6949 also waived any punitive interest on unpaid balances in credits granted by financial entities.

On a different note, by means of Communication “A” 6939, the Central Bank suspended, until June 30, 2020, the distribution of dividends by financial entities. For more information, please see “*Argentine Banking Regulations— Requirements applicable to dividend distribution.*”

Through Communication “A” 6945, the Central Bank decided that until June 30, 2020, any operation effected through ATMs shall not be subject to any charges or fees.

By virtue of Communication “A” 6964, the Central Bank determined that the unpaid balances of credit cards financings due between April 13, 2020 and April 30, 2020, will be automatically refinanced in nine equal consecutive monthly installments beginning after a three-month grace period. Moreover, by means of Communication “A” 6993, dated April 24, 2020, the Central Bank established a zero interest-rate financings policy, applicable only to the eligible clients to be determined in the future by the AFIP, in accordance with Communication “B” 12001. For more information, see “*Item 4.B—Argentine Banking Regulation— Credit Card Interest Rate.*”

Additionally, on March 25, 2020, the Executive Branch issued Decree No. 312/2020, by means of which both the obligation to close and inhibit checking accounts, as well the imposition of penalties, were originally suspended until April 30, 2020, which was subsequently extended until June 30, 2020 by virtue of Decree 429/2020. Furthermore, Decree No. 319/2020 established the freezing of mortgage payments if the mortgaged property is the only and permanent residence of the debtor, until September 30, 2020. The Decree also resolved the freezing of UVA pledge loans (*créditos prendarios*) and the suspension of mortgage foreclosures until September 30, 2020. For more information, please see “*Item 3.D—Risk Factors—Risks related to the Argentine financial system—Our asset quality and that of other financial institutions may deteriorate if the Argentine private sector does not fully recover*”.

Other measures

- *Classification of Debtors:* On March 19, 2020, the Central Bank issued Communication “A” 6938, by virtue of which new rules regarding the criteria for debtor classification and provisioning are to be adopted. Among these rules, commercial portfolio clients of credits for consumption or housing –will be granted a default 60-day rule – applicable until September 30, 2020.
- *Facilities and Government Guarantees to Finance Payment Of Salaries:* Decree 326/2020 created a fund of specific application within the FOGAR (acronym in Spanish for *Fondo de Garantías Argentino*, or Argentine Guarantee Fund), with the aim of backing financings provided to SMEs by financial entities in order to pay salaries. Simultaneously, the Central Bank also reduced the positions restrictions on the maximum position in liquidity notes from the Central Bank (LELIQ), in order to make available liquidity and encourage the provision of credit lines to SMEs. In this line, on March 26, 2020, the Central Bank also issued Communication “A” 6946, by means of which the facilities granted at a preferential rate (not more than 24% per year) within the framework of Communication “A” 6937 may be deducted from the requirement of minimum cash in pesos, considering 130% of its amount when its destination is the payment of assets and the granting entity is the agent of payment of those assets. These assistances will be foreseen -up to their cancellation- based on the classification of the Small and Medium-Sized company at the time of granting. The amounts of: a) the reduction of the provisions by application of this measure; b) the reduction of the provisions due to the suspension of the application of the expected credit losses criterion for Group B entities; and c) the increase in the RPC due to the positive difference between the provisions according to IFRS and according to the Central Bank’s regulatory framework for Group A entities, must be subtracted from the calculation to determine the distributable profit.
- *Remote shareholders and board of directors meetings:* By means of CNV’s General Resolution No. 830/2020, dated March 3, 2020, publicly listed entities are allowed to celebrate remote shareholders and board of directors meetings, via electronic means, even if their respective bylaws do not foresee this method, respecting the minimum requirements to ensure the integrity of the vote of each participant and the presence of all shareholders and members,. At the first face-to-face meeting after the Quarantine Period, the shareholders’ meeting shall, with the quorum and the majority for the reform of the bylaws, approve any meetings held remotely.

- *Automatic credit card refinancing.* By means of Communication “A” 6964, the Central Bank determined that the unpaid balances of credit cards financings that take place between April 13, 2020 and April 30, 2020, will be automatically refinanced in nine equal consecutive monthly installments beginning after a three-month grace period. From April 13, 2020, such unpaid balances shall only accrue compensatory interests, which cannot exceed an annual nominal rate of 43%.
- *Time deposits minimum rate.* By virtue of Communication “A” 6980, the Central Bank ruled that all non-adjustable time deposits under Ps. 1 million integrated by natural people as of April 20, 2020, shall have a minimum rate equivalent to the 70% of the average LELIQ’s tendering.
- *Securities-guaranteed transactions prohibition.* By means of Communication “A” 6978, the Central Bank forbid financial institutions to guarantee transactions via securities (*caución bursátil*).
- *Deposit Insurance System.* Pursuant to Communication “A” 6973, the Central Bank raised the amount covered by the Deposit Insurance System to Ps. 1,500,000.

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. On May 9, 2018, the Argentine Congress approved the Argentine Productive Financing Law No. 27,440, which modernized and completed the legal framework of the Argentine capital markets. Law No. 27,440 amended the legal framework of the capital markets (Law No. 26,831), mutual funds (Law No. 24,083), negotiable obligations (Law No. 23,576), the Argentine Civil and Commercial Code (Law No. 26,994), financing of housing and construction (Law No. 24,441), the subjects obliged to report on concealing and asset laundering of criminal origin in the capital market framework (Law No. 25,246), and the tax relief regime for the purchase of private securities (Law No. 20,643).

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 U.S. 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, (i) with its solvency or liquidity affected, in the opinion of the Central Bank; (ii) recording deficiencies on the minimum cash reserve requirement during the periods established by the Central Bank; (iii) recording repeated failures to comply with the various limits or technical relations established; or (iv) that could not maintain the minimum asset liability required for its particular class, location or characteristics, 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, without prejudice to the application of the penalties provided for in the aforementioned law.

The Central Bank may appoint overseers with veto power, require the provision of guarantees and limit or forbid the distribution or remittance of profits, temporarily admit exceptions to the relevant limits and technical relations; exempt or defer the payment of charges and/or fines as provided by the Financial Institutions Law.

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.

Institution restructuring to safeguard credit and bank deposits

If a financial institution meets the Central Bank's criteria and is found to be in any of the situations foreseen by Section 44 of the Financial Institutions Law, the Central Bank may authorize the restructuring of the financial institution in defense of depositors, prior to revocation of the authorization to operate. 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;
- exclusion or transfer assets and liabilities;
- judicial intervention of the institution, displacing the statutory administrative authorities, and determine the capabilities needed to comply with the assigned function.

Revocation of the license to operate as a financial institution

The Central Bank may revoke the license to operate as a financial institution (a) as a request of the legal or statutory authorities of the institution; (b) in the cases contemplated by the Argentine Civil and Commerce Code or in the laws governing its existence as a legal entity; (c) when, as opinion of the Central Bank, the affections to the solvency and/or liquidity of the institution cannot be solved through a regularization and sanitation program; (d) in the rest cases provided by the Financial Institutions Law.

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, prior authorization of the Central Bank and in the cases provided by subsections a) and b) of section 44 of the aforementioned law.

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 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 and transfer of goodwill

Merger 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 or the buyer must submit a financial-economic structure profile supporting the project in order to obtain authorization from the Central Bank.

Holding Companies

On June 28, 2019, the Central Bank ruled, through Communication “A” 6723, with effect from January 1, 2020, that Group “A” financial institutions (in accordance with the “Financial Institutions Authorities” rules) which are controlled by non-financial institutions (as in our case in relation with the Bank) shall comply with the Minimum Capital requirements (please see “*Argentine Banking Regulation—Liquidity and Solvency Requirements—Minimum Capital Requirements*”), the Major Exposure to Credit Risk regulations (please see “*Argentine Banking Regulation—Credit Risk Regulation—Large Exposures*”), the Liquidity Coverage Ratio (please see “*Argentine Banking Regulation—Internal Liquidity Policies of Financial Institutions*”) and the Net Stable Funding Ratio (please see “*Argentine Banking Regulation—Liquidity Parameters—Net Stable Funding Ratio*”) on a consolidated basis comprising the non-financial holding and all its subsidiaries (excluding insurance companies and non-financial subsidiaries).

Additionally, Group “A” financial institutions may not grant direct or indirect financial assistance of any kind to its holding company whenever it is a non-financial institution.

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.

Credit card interest rate

Recently, by virtue of Communication “A” 6964, the Central Bank determined that the unpaid balances of credit cards financings that take place between April 13, 2020 and April 30, 2020, shall be automatically refinanced for at least one year with 3 grace months in 9 equal and consecutive monthly installments. From April 13, 2020, such unpaid balances shall only accrue compensatory interests, which cannot exceed an annual nominal rate of 43% nor shall they exceed 25% of the resulting from the average interest rates that the entity has applied, during the previous month, taking only into consideration the corresponding amount of personal loans without security guarantees granted in the same period.

Furthermore, by means of Communication “A” 6993, dated April 24, 2020, the Central Bank established a zero interest-rate financing policy (applicable only to the eligible clients to be later determined by AFIP in accordance with Communication “B” 12001), to whom the financial institutions may grant credit card financings to be paid in at least 12 equal and consecutive installments after a 6-month grace period. In regards to these loans, the minimum cash requirement will be reduced in accordance with the provisions of Decree No. 332/2020 (as amended and restated). Additionally, companies which are granted a zero interest-rate loan may not, until full repayment: (i) access the foreign exchange market to carry out operations corresponding to the formation of external assets, remittance of family aid and derivatives; and, (ii) sell securities with settlement in foreign currency or transfer them to other depositary entities (*contado con liquidación*).

Fintech regulations

The Central Bank has recently issued Communications “A” 6885 (repealing Communication “A” 6859), by means of which it began to regulate certain aspects of *Fintech* operations. Through these communications, it defined Payment Service Provider (“PSP”) as those non-financial entities in retail payments, performing under the global framework of the payment system, such as offering payment accounts to order and/or receive payments.

On January 30, 2020, the Central Bank issued Communication “A” 6885, by means of which consolidated the rules for the operation of PSPs and established a specific registry for them. Particularly, Communication “A” 6885 forbids entities to operate as PSP if (i) they are not properly incorporated in Argentina; (ii) they are incorporated as a stock exchange, clearing chamber or agent under the CNV Rules; or (iii) if its capital, right votes, administrative or inspection body are integrated by people disqualified for performing financial activities in Argentina by the Financial Institutions Law, condemned by crimes against property, the public administration, the economic and financial order or public faith, privacy violations, illicit association or by section 1.b of the Foreign Exchange Criminal Regime.

Regarding the registry, Communication “A” 6885 commands that all PSPs that offer payment account must register with the “Registry of Payment Service Providers that Offer Payment Accounts”. Additionally, all PSPs shall comply with a reporting regime to be furthered ruled by the Central Bank.

In what respects to the management of the funds, it provided that all funds credited to payment accounts offered by PSPs shall be (i) available at all times, for an amount at least equivalent to the one credited in the payment account; (ii) deposited in Pesos, in on-sight accounts in Argentine financial entities; and (iii) on an independent on-sight account from the one used for trading for own account (e.g.: creditor or salary payments).

Any breach of the rules as set on the abovementioned communication is submitted to the sanctions of the Financial Institutions Law.

Anti-Money Laundering and Terrorism Financing Regime

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 National Congress passed Law No. 25,246, subsequently amended by Laws No. 26,087, 26,119, 26,268, 26,683 and 26.734 (jointly, the “AML/ CFT Law”), which created at the national level the Anti- Money Laundering and Terrorism Financing Regime (“AML/CFT Regime”), criminalizing money laundering, creating and designating the UIF as the enforcement authority of the regime, and establishing the legal obligation for various public and private sector entities and professionals to provide information and cooperate with the UIF.

The UIF is a decentralized agency that operates with autonomy and financial independency under the Ministry of Economy, and its mission is to prevent and deter the crimes of money laundering and terrorist financing.

The following are certain provisions relating to the AML/CFT Regime established by the AML/ CFT Law and its amending and complementary provisions, including regulations issued by the UIF and the CNV and the Central Bank. It is recommended that investors consult their own legal advisors and read the AML/ CFT Law and its complementary regulations.

Money laundering and terrorist financing in the Argentine Criminal Code

a) Money laundering

Section 303 of the Argentine Criminal Code (the “ACC”) defines money laundering as a crime committed whenever a person converts, transfers, manages, sells, encumbers, conceals or in any other way puts into circulation in the market, property derived from an unlawful act, with the possible consequence that the origin of the original property or the subordinate property acquires the appearance of a lawful origin, either in a single act or by the repetition of various acts linked to each other. Section 303 of the ACC establishes the following penalties:

- (i) If the amount of the operation exceeds Ps.300,000, imprisonment of three (3) to ten (10) years and fines of two to ten times the amount of the operation shall be imposed. This penalty will be increased by one third of the maximum and half of the minimum, when:
 - (a) the person performs the act on a habitual basis or as a member of an illicit association constituted for the continuous commission of acts of this nature;
 - (b) the person is a public official who committed the act in the exercise or on the occasion of his/her functions. In this case, he/she shall also be subject to a penalty of special disqualification of three to ten years. The same penalty shall be imposed to anyone who has acted in the exercise of a profession or occupation requiring special qualification.
- (ii) anyone who receives money or other property from a criminal offence for the purpose of applying them in an operation as described above, which gives them the possible appearance of a lawful origin, shall be punished with imprisonment from six (6) months to three (3) years;
- (iii) if the value of the goods does not exceed Ps. 300,000, the penalty shall be imprisonment for a term of six months to three years.

b) Penalties for legal persons.

Furthermore, Section 304 of the ACC provides that when the criminal acts have been committed in the name of, or with the intervention of, or for the benefit of a legal person, the following sanctions shall be imposed to the entity jointly or alternatively:

- (i) fine of two (2) to ten (10) times the value of the property subject to the offence;
- (ii) total or partial suspension of activities, which in no case shall exceed ten (10) years;

- (iii) debarment for public tenders or bidding processes or any other State-related activities, which in no case shall exceed ten (10) years;
- (iv) dissolution and liquidation of the legal person when it was created for the sole purpose of committing the offense, or such acts constitute the main activity of the entity;
- (v) loss or suspension of any State benefit that it may have;
- (vi) publication of an extract of the condemnatory sentence at the expense of the legal entity.

In order to calibrate these sanctions, the Court will take into account the failure to comply with internal rules and procedures, the omission of vigilance over the activity of the authors and participants; the extent of the damage caused, the amount of money involved in the commission of the offense, the size, nature and economic capacity of the legal entity. In the cases in which it is essential to maintain the operational continuity of the entity, or of a public work, or particular service, the sanctions of suspension of activities or dissolution and liquidation of the legal person shall not be applicable.

c) Terrorism financing

Section 306 of the ACC criminalizes the financing of terrorism. This offence is committed by any person who directly or indirectly collects or provides property or money, with the intention of it being used, or in the knowledge that it will be used, in full or in part:

- (i) To finance the commission of acts which have the aim of terrorizing the population or compelling national public authorities or foreign governments or agents of an international organization to perform or refrain from performing an act (according to section 41.5 of the ACC);
- (ii) By an organization committing or attempting to commit crimes for the purpose set out in (i);
- (iii) By an individual who commits, attempts to commit or participates in any way in the commission of offences for the purpose set out in (i).

The penalty is imprisonment of five (5) to fifteen (15) years and a fine of two (2) to ten (10) times the amount of the operation. Likewise, the same penalties shall apply to legal persons as described for the crime of money laundering.

Reporting Subjects obliged to inform and collaborate with the UIF

The AML/CFT Law, in line with international AML/CFT standards, not only designates the UIF as the agency in charge of preventing money laundering and terrorism financing, but also establishes certain obligations to various public and private sector entities and individuals, which are designated as Reporting Subjects (“*Sujetos obligados*”), which are legally bound to inform and collaborate with the UIF.

In accordance with the AML/ CFT Law and the regulations complementing it, the following persons, among others, are Reporting Subjects before the UIF:

- (i) banks, financial entities and insurance companies;
- (ii) exchange agencies and natural and legal persons authorized by the Central Bank to intervene in the purchase and sale of foreign currency with funds in cash or checks issued in foreign currency or through the use of debit or credit cards or in the transfer of funds within or outside the national territory;
- (iii) Settlement and Clearing Agents, Trading Agents; natural and/or legal persons registered with the CNV acting in the placement of investment funds or other collective investment products authorized by such agency; Crowdfunding companies, Global Investment Advisors and the legal persons acting as financial trustees whose trust securities are authorized for public offering by the CNV, and the agents registered by the above mentioned controlling agency that intervene in the placement of negotiable securities issued within the framework of the above mentioned financial trusts;
- (iv) government organizations such as the Central Bank, Federal Public Revenue Administration (AFIP), the Superintendence of Insurance of the Nation (SSN), the CNV and the Public Registry (IGJ); and
- (v) professionals in the area of economic sciences and notaries public.

The Reporting Subjects have the following duties:

- (i) obtaining from clients’ documents that indisputably prove their identity, legal status, domicile and other information, concerning their operations needed to accomplish the intended activity (know your customer policy);

(ii) conduct due diligence procedure on its clients and report any suspicious operation or fact (which, in accordance with the usual practices of the area involved, as well as the experience and competence of the Reporting Subjects, are operations that are attempted or completed which were previously identified as unusual operations by the regulated entity, as well as any operation without economic or legal justification or of unusual or unjustified complexity, whether performed in isolated or repeated manner, regardless of the amount); and

(iii) refraining from disclosing to the client or third parties the actions being conducted in compliance with the AML/ CFT Law. Within the framework of suspicious operation report analysis, Reporting Subjects shall not refrain from disclosing to UIF any information required from them, alleging that such information is subject to banking, stock market or professional secrecy or confidentiality agreements of a legal or contractual nature.

Pursuant to Annex I of Resolution No. 154/2018 of the UIF (which establishes the supervision and inspection mechanism of the UIF), both the Central Bank and the CNV are considered “Specific Control Agencies” (“*Órganos de Contralor Específico*”). In such capacity, they must collaborate with UIF in the evaluation of compliance with AML/CFT procedures by the Reporting Subjects subject to their control. For these purposes, they are entitled to supervise, monitor and inspect these entities. Denial or obstruction of inspections by the Reporting Subjects may result in administrative penalties by the UIF and criminal penalties.

The Central Bank and the CNV must also comply with the AML/CFT regulations established by the UIF, including the reporting of suspicious transactions. In turn, Reporting Subjects regulated by these agencies are subject to UIF Resolutions No. 30/2017 and 21/2018, respectively. Such regulations provide guidelines that such entities shall adopt and apply to manage, in accordance with their policies, procedures and controls, the risk of being used by third parties for criminal purposes of money laundering and financing of terrorism.

Essentially, the aforementioned regulations (the Consolidated Texts of which were subsequently approved by UIF Resolution No. 156/18), change the formalistic regulatory compliance approach to a Risk Based Approach (“RBA”), based on the revised recommendations issued by the Financial Action Task Force (the “FATF”) in 2012, in order to ensure that the implemented measures are proportional to the identified risks. Therefore, the Reporting Subjects shall identify and evaluate their risks and, based on this, adopt measures for the management and mitigation of such risks, in order to more effectively prevent money laundering and terrorist financing. Likewise, the provisions of UIF Resolution No. 4/17 are adopted, establishing the possibility of conducting special due diligence procedures with respect to clients supervised abroad (formerly called “international investors”) and local clients who are Reporting Subjects to the UIF.

Asset Freezing Regime

Decree No. 918/2012 establishes the procedures for the freezing of assets linked to terrorism financing, 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 the implementation of Decree No. 918/2012 and establishes: (i) the procedure to report suspicious transactions of terrorism financing and the persons obligated to do so, and (ii) the administrative freezing of assets procedure 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.

In order to help the Reporting Subjects to fulfil this duties, Executive Decree No. 489/2019 created the Public Registry of Persons and Entities linked to acts of Terrorism and its Financing (RePET, for its acronym in Spanish), which is an official database that includes the consolidated list of the United Nations Security Council.

Politically Exposed Persons

Resolution No. 134/2018 of the UIF (amended by Resolutions No. 15/2019 and 128/2019), establishes the rules that Reporting Parties must follow regarding clients that are Politically Exposed Persons (PEPs).

Following the aforementioned RBA, Resolution 134/2018 establishes that Reporting Parties must determine the level of risk at the time of beginning or continuing the contractual relationship with a PEP, and must take due diligence measures, adequate and proportional to the associated risk and the operation or operations involved.

In addition, the UIF has issued the Guide for the management of risks of money laundering and financing of terrorism in relation to customers (and ultimate beneficiaries) that are PEPs, which sets up guidelines for Reporting Parties in order to comply with the Resolution No. 134/2018.

CNV Regulations

The CNV Rules stipulate, among other provisions, that the regulated entities under its control shall only perform the operations provided for under the public offering system when these operations are performed or ordered by persons constituted, domiciled or resident in countries, domains, jurisdictions, territories or associated states not considered to be non-cooperative or high risk by the FATF.

Similarly, they establish the payment modalities and control procedures for the reception and delivery of funds from and to clients.

Central Bank Regulations

Pursuant to Communication “A” 6399 of the Central Bank, as amended and supplemented, including without limitation, by Communication “A” 6709, Reporting Subjects must keep—for a period of 10 years—written records of the procedure applied in each case for the discontinuation of a client’s operations. Among these records, they shall keep a copy of any notification sent to the customer requesting further information and/or documentation, the corresponding notices of receipt and the documents identifying the officials who took part in the decision, in accordance with the respective procedural manuals.

Tax Amnesty System

The voluntary system of declaration under the Argentine Tax Amnesty Law No. 27,260 and its Regulatory Decree No. 895/16 (jointly the “Tax Amnesty System”) established that the information voluntarily submitted under the Tax Amnesty System may be used for the investigation and punishment of the crimes of money laundering and financing of terrorism. For such purpose, the UIF has the power to communicate information to other public intelligence or investigation agencies, based on a previous resolution of the UIF’s President and provided that there are serious, precise and concordant indications of the commission of money laundering and/or terrorism financing crimes. Furthermore, the AFIP remains obliged to report to the UIF suspicious operations detected within the framework of the Tax Amnesty System and to provide it with all information required by it, not being able to oppose fiscal secrecy.

Anti-Money Laundering and Prevention of Terrorist Financing Program of the Bank

One of the most significant operational risks that is monitored by Banco Macro 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.

Roles and responsibilities of the program

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 Enhanced Due Diligence process).

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 read Title XIII, Second Book of the ACC 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, www.economia.gob.ar, the UIF, www.argentina.gob.ar/uif, the CNV, www.cnv.gob.ar or the Central Bank, www.bcra.gov.ar none of which websites are incorporated by reference herein.

Corporate Criminal Liability Law

The Corporate Criminal Liability Law No. 27,401 sets forth a criminal liability regime applicable to legal entities involved in certain corruption offenses directly or indirectly committed in their name, on their behalf or in their interest and from which a benefit may arise. The individual offenders may be employees or third parties — even unauthorized third parties, provided that the company ratified the act, even tacitly.

In accordance with such law, the Board of Directors has approved 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 all employees, contractors, suppliers and agents, with the prohibitions, restrictions and conditions imposed upon them under the Integrity Program approved by the Bank, which was previously discussed by the Appointment and Corporate Government Committee.

In addition, Ernesto Medina, our Human Resources Manager, has been appointed as our Anti-Bribery Policy Officer and our Compliance Department is responsible for the implementation of the Monitoring Program.

C. Organizational Structure

Subsidiaries

We have five subsidiaries: (i) Argenpay S.A.U., through which we provide electronic payment services ; (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.

<u>Subsidiary</u>	<u>Banco Macro's direct and indirect interest</u>	
	<u>Percentage of Capital Stock</u>	<u>Percentage of possible votes</u>
Argenpay S.A.U. (1)	100.000%	100.000%
Macro Bank Limited (2)	99.999%	100.000%
Macro Securities S.A. (1)	99.925%	99.932%
Macro Fiducia S.A. (1)	99.046%	99.046%
Macro Fondos S.G.F.C.I. S.A. (1)	99.939%	100.000%

(1) Country of residence: Argentina

(2) Country of residence: The Bahamas

D. Property, plants and equipment

Property

Our headquarters consist of 54,740 square meters of office area that is used by our management, accounting and administrative personnel. As of December 31, 2019, our headquarters consisted of 53,713 square meters that we own and 1,027 square meters that are leased. Our headquarters are split between offices located in Avenida Eduardo Madero 1172, Sarmiento 442 and Leandro N. Alem 1110, all in the City of Buenos Aires. As of December 31, 2019, we have a branch network that consists of 463 branches in Argentina, of which 175 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, 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 in 2019.

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”. The total aggregate amount invested in the project was approximately U.S.\$186 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, 2018 and 2019 based on results adjusted for inflation as of December 31, 2019, 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 restated. 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 U.S. dollar for the period; and

I = inflation rate in Argentina for the period based on the variation of the Consumer Price Index.

	2017				2018				2019			
	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate	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	2,979,430	451,823	3.30%	28.91%	3,881,909	1,639,576	(7.94%)	35.93%	1,803,447	806,054	(5.94%)	44.70%
Foreign currency	—	—	0.00%	0.00%	3	—	0.00%	0.00%	50	—	0.00%	0.00%
Total	2,979,430	451,823	3.30%	28.91%	3,881,912	1,639,576	(7.94%)	35.93%	1,803,497	806,054	(5.94%)	44.69%

	2017				2018				2019			
	Average Balance	Interest Earned / (Paid)	Average Real Rate	Average Nominal Rate	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)												
Other Financial Entities												
Pesos	6,032,268	1,234,112	(3.25%)	20.73%	6,947,910	2,162,510	(14.13%)	26.78%	4,176,971	2,042,904	(3.20%)	48.91%
Foreign currency	412,850	17,795	(0.95%)	4.35%	676,995	34,784	42.38%	4.39%	506,526	30,408	9.16%	6.00%
Total	6,445,118	1,251,907	(3.10%)	19.68%	7,624,905	2,197,294	(9.11%)	24.79%	4,683,497	2,073,312	(1.86%)	44.27%
Non-financial Private Sector and Foreign Residents												
Pesos	233,616,254	67,329,187	3.23%	28.82%	233,526,772	81,242,921	(8.71%)	34.79%	162,892,409	74,655,858	(5.20%)	45.83%
Foreign currency	40,649,611	1,527,670	(1.47%)	3.80%	58,314,906	2,791,167	41.97%	4.09%	62,997,591	4,655,193	10.59%	7.39%
Total	274,265,865	68,856,857	2.53%	25.11%	291,841,678	84,034,088	1.42%	28.79%	225,890,000	79,311,051	(0.80%)	35.11%
Other Debt Securities												
Pesos	64,811,791	13,989,522	(2.22%)	22.02%	79,481,404	31,512,711	(9.16%)	34.13%	105,035,451	66,015,859	5.86%	62.85%
Foreign currency	4,208,950	191,989	(0.60%)	4.72%	3,142,876	95,864	39.87%	2.55%	1,939,650	75,369	6.99%	3.89%
Total	69,020,741	14,181,511	(2.12%)	20.97%	82,624,280	31,608,575	(7.29%)	32.93%	106,975,101	66,091,228	5.88%	61.78%
Repo Transactions												
Pesos	8,523,370	1,721,692	(4.33%)	19.39%	1,442,321	692,037	(2.18%)	44.43%	5,287,707	3,284,995	5.40%	62.13%
Foreign currency	—	—	0.00%	0.00%	—	—	0.00%	0.00%	—	—	0.00%	0.00%
Total	8,523,370	1,721,692	(4.33%)	19.39%	1,442,321	692,037	(2.18%)	44.43%	5,287,707	3,284,995	5.40%	62.13%
Total interest-earning assets												
Pesos	315,963,113	84,726,336	1.63%	26.82%	325,280,316	117,249,755	(7.86%)	36.05%	279,195,985	146,805,670	(0.81%)	52.58%
Foreign currency	45,271,411	1,737,454	(1.38%)	3.89%	62,134,780	2,921,815	41.87%	4.02%	65,443,817	4,760,970	10.47%	7.27%
Total	361,234,524	86,463,790	1.25%	23.94%	387,415,096	120,171,570	0.12%	31.02%	344,639,802	151,566,640	1.33%	43.98%
Total non interest-earning assets												
Pesos	79,528,033	—	—	—	91,385,993	—	—	—	86,730,996	—	—	—
Foreign currency	55,015,503	—	—	—	51,489,020	—	—	—	74,904,212	—	—	—
Total	134,543,536	—	—	—	142,875,013	—	—	—	161,635,208	—	—	—
TOTAL ASSETS												
Pesos	395,491,146	—	—	—	416,666,309	—	—	—	365,926,981	—	—	—
Foreign currency	100,286,914	—	—	—	113,623,800	—	—	—	140,348,029	—	—	—
Total	495,778,060	—	—	—	530,290,109	—	—	—	506,275,010	—	—	—
LIABILITIES												
Interest-bearing liabilities												
Deposits												
Non financial Public Sector												
Pesos	17,562,736	2,076,236	(10.35%)	11.88%	19,227,476	4,135,858	(19.44%)	18.95%	15,419,711	5,823,944	(10.44%)	37.77%
Foreign currency	513,972	1,224	(4.85%)	0.24%	690,120	4,489	37.18%	0.58%	1,498,032	33,167	5.26%	2.21%
Total	18,076,708	2,077,460	(10.19%)	11.55%	19,917,596	4,140,347	(17.48%)	18.32%	16,917,743	5,857,111	(9.05%)	34.62%
Non financial Private Sector and Foreign Residents												
Pesos	184,427,296	21,060,533	(10.71%)	11.42%	183,851,021	36,442,536	(18.85%)	19.82%	159,381,166	51,826,903	(13.85%)	32.52%
Foreign currency	54,428,991	208,557	(4.71%)	0.39%	73,482,993	835,238	37.77%	1.01%	79,762,795	1,594,101	5.04%	2.00%
Total	238,856,287	21,269,090	(9.34%)	8.90%	257,334,014	37,277,774	(2.68%)	14.49%	239,143,961	53,421,004	(7.55%)	22.34%
Financing received from the Central Bank of Argentina and other financial entities												
Pesos	292,614	66,282	(1.19%)	23.30%	1,353,044	224,498	(22.65%)	14.21%	706,271	297,737	(7.59%)	42.16%
Foreign currency	2,038,641	92,600	(0.81%)	4.50%	2,193,983	85,869	41.22%	3.54%	3,021,964	153,650	8.22%	5.08%
Total	2,331,255	158,882	(0.86%)	6.86%	3,547,027	310,367	16.86%	7.61%	3,728,235	451,387	5.22%	12.11%
Issued Corporate Bonds												
Pesos	8,852,018	1,203,432	(8.53%)	14.15%	12,608,079	2,788,218	(19.82%)	18.38%	7,419,417	2,387,574	(14.07%)	32.18%
Foreign currency	—	—	0.00%	0.00%	—	—	0.00%	0.00%	—	—	0.00%	0.00%
Total	8,852,018	1,203,432	(8.53%)	14.15%	12,608,079	2,788,218	(19.82%)	18.38%	7,419,417	2,387,574	(14.07%)	32.18%
Subordinated Corporate Bonds												
Pesos	—	—	0.00%	0.00%	—	—	0.00%	0.00%	—	—	0.00%	0.00%
Foreign currency	17,304,412	1,153,730	1.27%	6.69%	21,672,620	1,530,595	44.45%	5.91%	24,383,874	1,703,391	10.18%	6.99%
Total	17,304,412	1,153,730	1.27%	6.69%	21,672,620	1,530,595	44.45%	5.91%	24,383,874	1,703,391	10.18%	6.99%
Repo Transactions												
Pesos	1,780,721	279,486	(7.08%)	15.96%	896,730	336,326	(10.82%)	31.68%	868,128	336,492	(9.80%)	38.76%
Foreign currency	—	—	0.00%	0.00%	—	—	0.00%	0.00%	—	—	0.00%	0.00%
Total	1,780,721	279,486	(7.08%)	15.96%	896,730	336,326	(10.82%)	31.68%	868,128	336,492	(9.80%)	38.76%
Total interest-earning liabilities												
Pesos	212,915,385	24,685,969	(10.58%)	11.59%	217,936,350	49,927,436	(18.62%)	20.16%	183,794,693	60,672,650	(13.53%)	33.01%
Foreign currency	74,286,016	1,456,111	(3.21%)	1.97%	98,039,716	2,456,191	39.32%	2.15%	108,666,665	3,484,309	6.29%	3.21%
Total	287,201,401	26,142,080	(8.67%)	9.10%	315,976,066	46,383,627	(0.64%)	14.68%	292,461,358	64,156,959	(6.17%)	21.94%
Total non-interest bearing liabilities and shareholders' equity												
Pesos	193,776,259	—	—	—	194,909,626	—	—	—	185,542,436	—	—	—
Foreign currency	14,800,400	—	—	—	19,404,417	—	—	—	28,271,216	—	—	—

Total	208,576,659	—	—	—	214,314,043	—	—	—	213,813,652	—	—	—
TOTAL LIABILITIES												
AND												
SHAREHOLDERS'												
EQUITY												
Pesos	406,691,644	—	—	—	412,845,976	—	—	—	369,337,129	—	—	—
Foreign currency	89,086,416	—	—	—	117,444,133	—	—	—	136,937,881	—	—	—
Total	495,778,060	—	—	—	530,290,109	—	—	—	506,275,010	—	—	—

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, 2019 compared to the fiscal year ended December 31, 2018 and to the fiscal year ended December 31, 2017, all based on information adjusted for inflation as of December 31, 2019.

				December 2018 / December 2017 Increase (Decrease) Due to Changes in			December 2019 / December 2018 Increase (Decrease) Due to Changes in		
	2017 Interest Earned / (Paid)	2018 Interest Earned / (Paid)	2019 Interest Earned / (Paid)			Net Change			Net Change
				(in thousands of Pesos)					
ASSETS									
Interest-earning assets Loans and other financing									
Non-financial Public Sector									
Pesos	451,823	1,639,576	806,054	670,437	517,316	1,187,753	(991,597)	158,075	(833,522)
Foreign currency	—	—	—	—	—	—	—	—	—
Total	451,823	1,639,576	806,054	670,437	517,316	1,187,753	(991,597)	158,075	(833,522)
Other Financial Entities									
Pesos	1,234,112	2,162,510	2,042,904	206,190	722,208	928,398	(1,043,917)	924,311	(119,606)
Foreign currency	17,795	34,784	30,408	11,654	5,335	16,989	(12,548)	8,172	(4,376)
Total	1,251,907	2,197,294	2,073,312	217,844	727,543	945,387	(1,056,465)	932,483	(123,982)
Non-financial Private Sector and Foreign Residents									
Pesos	67,329,187	81,242,921	74,655,858	(26,771)	13,940,505	13,913,734	(24,572,652)	17,985,589	(6,587,063)
Foreign currency	1,527,670	2,791,167	4,655,193	688,296	575,201	1,263,497	(214,566)	2,078,592	1,864,026
Total	68,856,857	84,034,088	79,311,051	661,525	14,515,706	15,177,231	(24,787,217)	20,064,180	(4,723,037)
Other Debt Securities									
Pesos	13,989,522	31,512,711	66,015,859	3,512,283	14,010,906	17,523,189	4,335,888	30,167,260	34,503,148
Foreign currency	191,989	95,864	75,369	(43,645)	(52,480)	(96,125)	(46,403)	25,908	(20,495)
Total	14,181,511	31,608,575	66,091,228	3,468,638	13,958,426	17,427,064	4,289,486	30,193,167	34,482,653
Repo Transactions									
Pesos	1,721,692	692,037	3,284,995	(1,442,026)	412,371	(1,029,655)	1,657,291	935,667	2,592,958
Foreign currency	—	—	—	—	—	—	—	—	—
Total	1,721,692	692,037	3,284,995	(1,442,026)	412,371	(1,029,655)	1,657,291	935,667	2,592,958
Total interest-earning assets									
Pesos	84,726,336	117,249,755	146,805,670	2,920,113	29,603,306	32,523,419	(20,614,987)	50,170,902	29,555,915
Foreign currency	1,737,454	2,921,815	4,760,970	656,305	528,056	1,184,361	(273,516)	2,112,671	1,839,155
Total	86,463,790	120,171,570	151,566,640	3,576,418	30,131,362	33,707,780	(20,888,503)	52,283,573	31,395,070
LIABILITIES									
Interest-bearing liabilities									
Deposits									
Non financial Public Sector									
Pesos	2,076,236	4,135,858	5,823,944	207,988	1,851,634	2,059,622	(1,213,823)	2,901,909	1,688,086
Foreign currency	1,224	4,489	33,167	432	2,833	3,265	4,200	24,478	28,678
Total	2,077,460	4,140,347	5,857,111	208,420	1,854,467	2,062,887	(1,209,623)	2,926,387	1,716,764
Non financial Private Sector and Foreign Residents									
Pesos	21,060,553	36,442,536	51,826,903	(64,746)	15,446,749	15,382,003	(4,853,189)	20,237,556	15,384,367
Foreign currency	208,557	835,238	1,594,101	78,027	548,654	626,681	(29,634)	788,497	758,863
Total	21,269,090	37,277,774	53,421,004	13,280	15,995,404	16,008,684	(4,888,823)	21,026,053	16,143,230
Financing received from the Central Bank of Argentina and other financial entities									
Pesos	66,282	224,498	297,737	248,977	(90,761)	158,216	(124,137)	197,376	73,239
Foreign currency	92,600	85,869	153,650	6,129	(12,860)	(6,731)	21,109	46,672	67,781
Total	158,882	310,367	451,387	255,106	(103,621)	151,485	(103,028)	244,048	141,020
Issued Corporate Bonds									
Pesos	1,203,432	2,788,218	2,387,574	580,611	1,004,175	1,584,786	(1,424,529)	1,023,885	(400,644)
Foreign currency	—	—	—	—	—	—	—	—	—
Total	1,203,432	2,788,218	2,387,574	580,611	1,004,175	1,584,786	(1,424,529)	1,023,885	(400,644)
Subordinated Corporate Bonds									
Pesos	—	—	—	—	—	—	—	—	—
Foreign currency	1,153,730	1,530,595	1,703,391	296,168	80,697	376,865	(89,508)	262,304	172,796
Total	1,153,730	1,530,595	1,703,391	296,168	80,697	376,865	(89,508)	262,304	172,796
Repo Transactions									
Pesos	279,486	336,326	336,492	(136,368)	193,208	56,840	(61,303)	61,469	166
Foreign currency	—	—	—	—	—	—	—	—	—
Total	279,486	336,326	336,492	(136,368)	193,208	56,840	(61,303)	61,469	166
Total interest-earning liabilities									
Pesos	24,685,969	43,927,436	60,672,650	836,462	18,405,005	19,241,467	(7,676,981)	24,442,195	16,745,214
Foreign currency	1,456,111	2,456,191	3,484,309	380,756	619,324	1,000,080	(93,834)	1,121,952	1,028,118
Total	26,142,080	46,383,627	64,156,959	1,217,219	19,024,328	20,241,547	(7,770,814)	25,544,146	17,773,332

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, 2019.

	Year Ended December 31,		
	2017 (1)	2018 (1)	2019
	(in thousands of Pesos, except percentages)		
Average interest-earning assets			
Pesos	315,963,113	325,280,316	279,195,985
Foreign currency	45,271,411	62,134,780	65,443,817
Total	361,234,524	387,415,096	344,639,802
Net interest income (2)			
Pesos	60,040,367	73,322,319	86,133,020
Foreign currency	281,343	465,624	1,276,661
Total	60,321,710	73,787,943	87,409,681
Net interest margin (3)			
Pesos	(4.64%)	(17.01%)	(14.94%)
Foreign currency	(4.49%)	37.41%	4.99%
Weighted average rate	(4.62%)	(8.28%)	(11.16%)
Yield spread real basis (4)			
Pesos	12.21%	10.76%	12.72%
Foreign currency	1.83%	2.55%	4.18%
Weighted average rate	9.93%	0.76%	7.50%

- (1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019 and considering the merger effects mentioned in note 2.4 to our audited consolidated financial statements as of December 31, 2019 and 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, 2018 and 2019 all based on information adjusted for inflation as of December 31, 2019.

	Year Ended December 31,		
	2017 (1)	2018 (1)	2019
	(in thousands of Pesos)		
DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS			
Government securities			
In Pesos:			
Federal government treasury bonds adjustment by CER - Maturity:			
07-22-2021	—	118,818	3,923,304
Bonds Par denominated in pesos – Maturity: 12-31-2038	87,845	56,388	170,419
National treasury bills coupon capitalized in pesos - Maturity:			
02-26-2020	—	—	165,621
Discount bonds at 5.83% – Maturity: 2033	203,709	3,498	131,760
National treasury bills coupon capitalized in pesos - Maturity:			
03-11-2020	—	—	114,452

	Year Ended December 31,		
	2017 (1)	2018 (1)	2019
	(in thousands of Pesos)		
Consolidation bonds 6° Series at 2% - Maturity: 03-15-2024	9	74,448	71,286
National treasury bills capitalized in pesos - Maturity: 04-08-2020	—	—	66,979
National treasury bills capitalized in pesos - Maturity: 05-13-2020	—	—	58,512
Debt Securities of Province of Buenos Aires - Badlar Private + 375 basis point - Maturity: 04-12-2025	—	126,801	30,674
Consolidation bonds 8° Serie - Maturity: 10-04-2022	240,482	260,994	27,612
Others	1,067,146	1,008,305	32,278
In Foreign Currency:			
Federal government bonds at 8.75% - Maturity: 05-07-2024	20,292	95,118	9,451
Par bonds Argentine Law - Maturity: 12-31-2038	—	—	4,147
Federal government bonds at 8% - Maturity: 10-08-2020	—	53,601	3,300
National treasury bills 4,25% - Maturity: 09-04-2019	—	—	25
International bonds of the Argentina Republic at 7.5% - Maturity: 04-22-2026	—	85,157	—
Discount Bonds at 8.28% – Maturity: 2033 (governed by New York State legislation)	9	23,694	—
Federal government treasury at 5.75% - Maturity: 07-26-2019	—	3,023	—
Federal government bonds at 5.75% - Maturity: 04-18-2025	—	1,983	—
Federal government bonds at fixed rate – Maturity: 12-31-2033	743	48	—
Federal government bonds in US dollars – Maturity: 01-26-2022	11,537	—	—
Others	3,596	—	—
Subtotal Government securities	1,635,368	1,911,876	4,809,820
Private securities			
In Pesos:			
Debt Securities in Financial Trust provisional Consubond	—	581,054	354,317
Debt Securities in Financial Trusts Secubono Series 191 Class A - Maturity: 06-29-2020	—	—	84,339
Debt Securities in Financial Trust provisional Secubond	—	121,838	68,271
Corporate Bonds Province of Buenos Aires Class 9 - Maturity: 04-18-2021	—	45,360	50,129
Debt Securities in Financial Trusts Secubono Series 189A - Maturity: 03-30-2020	—	—	22,198
Debt Securities in Financial Trusts Secubono Series 191 CL.B - Maturity: 07-28-2020	—	—	12,062
Debt Securities in Financial Trusts Secubono Series 190 CL.A - Maturity: 04-28-2020	—	—	11,169
Debt Securities in Financial Trusts Secubono Series 190 CL.B - Maturity: 06-29-2020	—	—	7,401
Debt Securities in Financial Trusts Secubono Series 189B - Maturity: 04-28-2020	—	—	6,960
Debt Securities in Financial Trusts Megabono Series 180 Class A - Maturity: 12-24-2019	—	255,327	5,948
Others	751,987	803,685	12,071
In Foreign Currency:			
Debt Securities in Financial Trust provisional Red Surcos	—	—	105,308
Debt Securities in Financial Trusts provisional Agrocap	—	201,111	94,822
Debt Securities in Financial Trusts Chubut Regalías Hidrocarburíferas - Maturity: 07-01-2020	79,341	74,402	30,193
Corporate Bonds John Deere Credit financial company Series A Class 016 - Maturity: 04-06-2019	—	59,149	—
Subtotal Private securities	831,328	2,141,926	865,188

	2017 (1)	Year Ended December 31, 2018 (1) (in thousands of Pesos)	2019
TOTAL DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	2,466,696	4,053,802	5,675,008
OTHER DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME			
Government securities			
In Pesos:			
Discount bonds at 5.83% – Maturity: 2033	3,300	225,278	83,855
Consolidation bonds 8° Serie - Maturity: 10-04-2022	112,944	—	—
Secured bonds under Presidential Decree 1579/02 at 2% – Maturity: 02-04-2018	25,860	—	—
In Foreign Currency:			
Federal government bonds at 8.75% - Maturity: 05-07-2024	757,507	816,580	386,445
International bonds of the Argentina Republic at 7.125 - Maturity: 06-28-2117	—	125,571	—
US Treasury Bill – Maturity: 01-07-2020	—	—	479,070
US Treasury Bill – Maturity: 01-03-2019	—	348,942	—
US Treasury Bill – Maturity: 01-02-2019	—	290,803	—
US Treasury Bill – Maturity: 01-15-2019	—	290,567	—
US Treasury Bill – Maturity: 01-18-2018	1,022,901	—	—
US Treasury Bill – Maturity: 01-11-2018	554,169	—	—
Subtotal Government securities	2,476,681	2,097,741	949,370
Instruments Issued by Central Bank			
In Pesos:			
Liquidity letters of Central Bank of Argentina - Maturity: 01-03-2020	—	—	14,782,386
Liquidity letters of Central Bank of Argentina - Maturity: 01-07-2020	—	—	11,308,111
Liquidity letters of Central Bank of Argentina - Maturity: 01-08-2020	—	—	9,893,453
Liquidity letters of Central Bank of Argentina - Maturity: 01-06-2020	—	—	7,955,921
Liquidity letters of Central Bank of Argentina - Maturity: 01-02-2020	—	—	1,992,248
Liquidity letters of Central Bank of Argentina - Maturity: 01-04-2019	—	23,915,050	—
Liquidity letters of Central Bank of Argentina - Maturity: 01-08-2019	—	21,209,382	—
Liquidity letters of Central Bank of Argentina - Maturity: 01-04-2019	—	19,082,381	—
Liquidity letters of Central Bank of Argentina - Maturity: 01-04-2019	—	12,193,156	—
Liquidity letters of Central Bank of Argentina - Maturity: 01-04-2019	—	8,314,070	—
Others	74,171,359	—	—
Subtotal Instruments Issued by Central Bank	74,171,359	84,714,039	45,932,119
Private securities			
In Foreign Currency:			
Corporate Bonds Chevron Corp - Maturity: 03-03-2019	42,210	—	—
TOTAL OTHER DEBT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	76,690,250	86,811,780	46,881,489

	Year Ended December 31,		
	2017 (1)	2018 (1)	2019
	(in thousands of Pesos)		
MEASURED AT AMORTIZED COST			
Government securities			
In Pesos:			
Federal government bonds - Fixed rate 26% - Maturity: 11-21-2020	—	12,293,144	7,973,994
National treasury bills coupon capitalized in pesos - Maturity: 02-26-2020	—	—	1,502,176
National treasury bills capitalized in pesos - Maturity: 05-13-2020	—	—	1,437,896
National treasury bills capitalized in pesos - Maturity: 08-29-2020	—	—	1,222,188
National treasury bills coupon capitalized in pesos - Maturity: 03-11-2020	—	—	883,292
National treasury bills capitalized in pesos - Maturity: 04-28-2020	—	—	753,407
National treasury bills capitalized in pesos - Maturity: 04-08-2020	—	—	385,400
Discount bonds at 5.83% – Maturity: 2033	266,764	241,581	321,426
National treasury bills capitalized in pesos - Maturity: 07-31-2020	—	—	230,388
Federal government treasury bonds adjustment by CER - Maturity: 02-26-2020	—	—	159,430
Others	9,705	—	48,787
Subtotal Government securities	276,469	12,534,725	14,918,384
Private Securities			
In Pesos:			
Debt Securities in Financial Trusts Megabono Series 214 Class A - Maturity: 09-28-2020	—	—	294,978
Debt Securities in Financial Trusts Garbarino Series 153 Class A - Maturity: 06-10-2020	—	—	121,009
Corporate Bonds Banco Galicia S.A. Class 005 Series 001 -Maturity: 04-26-2020	—	—	119,827
Debt Securities in Financial Trusts Secubono Series 192 Class A - Maturity: 07-28-2020	—	—	96,583
Corporate Bonds YPF Class 017 -Maturity: 04-30-2020	—	—	94,884
Debt Securities in Financial Trusts Secubono Series 194 Class A - Maturity: 08-28-2020	—	—	91,774
Corporate Bonds Volkswagen Financial Services Class 004 -Maturity: 02-27-2020	—	—	89,868
Debt Securities in Financial Trusts Secubono Series 193 Class A - Maturity: 07-28-2020	—	—	88,588
Debt Securities in Financial Trusts Secubono Series 195 Class A - Maturity: 10-28-2020	—	—	80,463
Corporate Bonds Province of Buenos Aires Bank Class 012 -Maturity: 02-15-2020	—	—	74,817
Others	1,750,368	4,229	1,560,751
In Foreign Currency:			
Debt Securities in Financial Trusts provisional Agrocap	105,575	—	—
Subtotal Private securities	1,855,943	4,229	2,713,542
TOTAL OTHER DEBT SECURITIES MEASURED AT AMORTIZED COST			
	2,132,412	12,538,954	17,631,926
TOTAL OTHER DEBT SECURITIES	78,822,662	99,350,734	64,513,415

	Year Ended December 31,		
	2017 (1)	2018 (1)	2019
	(in thousands of Pesos)		
EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS			
In Pesos:			
Prisma Medios de Pago SA	—	—	2,501,196
Mercado Abierto Electrónico SA	47,121	38,578	51,954
Matba Rofex SA	—	—	11,549
Argentina Clearing SA	7,307	7,028	10,443
C.O.E.L.S.A	6,922	7,424	9,605
Mercado a Término Rosario SA	5,835	5,635	9,189
Sedesa	8,878	6,115	6,972
Provincanje SA	1,231	1,166	2,435
Proin SA	1,164	789	1,478
Sanatorio Las Lomas SA	917	923	694
Others	553,536	2,752	592
In Foreign Currency:			
Banco Latinoamericano de Comercio Exterior SA	8,377	7,348	9,352
Sociedad de Telecomunicaciones Financieras Interbancarias Mundiales	715	1,491	1,269
TOTAL EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS			
	642,003	79,249	2,616,728
TOTAL	81,931,361	103,483,785	72,805,151

(1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. 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, 2019 in accordance with issuance terms (before allowances). Certain securities listed below have been reprofiled by the Argentine government by virtue of Decree 346/2020. For further information, see “Item 3 – Risk Factors – Argentina’s ability to obtain financing from international markets may be limited or costly, which may impair its ability to implement reforms and public policies and foster economic growth”. The table below presents the reprofiled maturities.

	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 AT FAIR VALUE THROUGH PROFIT OR LOSS						
Government securities						
In Pesos:						
Federal government treasury bonds adjustment by CER - Maturity: 07-22-2021	—	3,923,304	—	—	—	3,923,304
Bonds Par denominated in pesos – Maturity: 12-31-2038	—	—	8,521	161,898	—	170,419
National treasury bills coupon capitalized in pesos - Maturity: 02-26-2020	165,621	—	—	—	—	165,621
Discount bonds at 5.83% – Maturity: 2033	—	13,176	65,880	52,704	—	131,760
National treasury bills coupon capitalized in pesos – Maturity: 03-11-2020	114,452	—	—	—	—	114,452
Consolidation bonds 6° Series at 2% - Maturity: 03-15-2024	16,617	54,669	—	—	—	71,286
National treasury bills capitalized in pesos - Maturity: 04-08-2020	66,979	—	—	—	—	66,979
National treasury bills capitalized in pesos - Maturity: 05-13-2020	58,512	—	—	—	—	58,512
Debt Securities of Province of Buenos Aires - Badlar Private + 375 basis point - Maturity: 04-12-2025	—	—	30,674	—	—	30,674
Consolidation bonds 8° Serie - Maturity: 10-04-2022	8,590	19,022	—	—	—	27,612
Others	25,983	5,733	562	—	—	32,278
In Foreign Currency:						
Federal government bonds at 8.75% - Maturity: 05-07-2024	1,889	7,562	—	—	—	9,451
Par bonds Argentine Law - Maturity: 12-31-2038	—	—	207	3,940	—	4,147
Federal government bonds at 8% - Maturity: 10-08-2020	3,300	—	—	—	—	3,300
National treasury bills 4,25% - Maturity: 03-02-2020	25	—	—	—	—	25
Subtotal Government securities	461,968	4,023,466	105,844	218,542	—	4,809,820
Private securities						
In Pesos:						
Debt Securities in Financial Trust provisional Consubond	354,317	—	—	—	—	354,317

	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 Secubono Series 191 Class A - Maturity: 06-29-2020	84,339	—	—	—	—	84,339
Debt Securities in Financial Trust provisional Secubond	68,271	—	—	—	—	68,271
Corporate Bonds Province of Buenos Aires Class 9 - Maturity: 04-18-2021	—	50,129	—	—	—	50,129
Debt Securities in Financial Trusts Secubono Series 189A - Maturity: 03-30-2020	22,198	—	—	—	—	22,198
Debt Securities in Financial Trusts Secubono Series 191 CL.B - Maturity: 07-28-2020	12,062	—	—	—	—	12,062
Debt Securities in Financial Trusts Secubono Series 190 CL.A - Maturity: 04-28-2020	11,169	—	—	—	—	11,169
Debt Securities in Financial Trusts Secubono Series 190 CL.B - Maturity: 06-29-2020	7,401	—	—	—	—	7,401
Debt Securities in Financial Trusts Secubono Series 189B - Maturity: 04-28-2020	6,960	—	—	—	—	6,960
Debt Securities in Financial Trusts Megabono Series 180 Class A - Maturity: 12-24-2019	5,948	—	—	—	—	5,948
Others	12,071	—	—	—	—	12,071
In Foreign Currency:						
Debt Securities in Financial Trust provisional Red Surcos	105,308	—	—	—	—	105,308
Debt Securities in Financial Trusts provisional Agrocap	94,822	—	—	—	—	94,822
Debt Securities in Financial Trusts Chubut Regalías Hidrocarburíferas - Maturity: 07-01-2020	30,193	—	—	—	—	30,193
Subtotal Private securities	815,059	50,129	—	—	—	865,188
TOTAL DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	1,277,027	4,073,595	105,844	218,542	—	5,675,008
OTHER DEBT SECURITIES						
MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
Government securities						
In Pesos:						
Discount bonds at 5,83% – Maturity: 2033	—	8,386	41,928	33,541	—	83,855
In Foreign Currency:						
Federal government bonds at 8.75% - Maturity: 05-07-2024	77,252	309,193	—	—	—	386,445
US Treasury Bill – Maturity: 01-07-2020	479,070	—	—	—	—	479,070
Subtotal Government securities	556,322	317,579	41,928	33,541	—	949,370

	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)						
Instruments Issued by Central Bank						
In Pesos:						
Liquidity letters of Central Bank of Argentina - Maturity: 01-03-2020	14,782,386	—	—	—	—	14,782,386
Liquidity letters of Central Bank of Argentina - Maturity: 01-07-2020	11,308,111	—	—	—	—	11,308,111
Liquidity letters of Central Bank of Argentina - Maturity: 01-08-2020	9,893,453	—	—	—	—	9,893,453
Liquidity letters of Central Bank of Argentina - Maturity: 01-06-2020	7,955,921	—	—	—	—	7,955,921
Liquidity letters of Central Bank of Argentina - Maturity: 01-02-2020	1,992,248	—	—	—	—	1,992,248
Subtotal Instruments Issued by Central Bank	45,932,119	—	—	—	—	45,932,119
Total Other debt securities measured at fair value through other comprehensive income	46,488,441	317,579	41,928	33,541	—	46,881,489
MEASURED AT AMORTIZED COST						
Government securities						
In Pesos:						
Federal government bonds - Fixed rate 26% - Maturity: 11-21-2020	7,973,994	—	—	—	—	7,973,994
National treasury bills coupon capitalized in pesos - Maturity: 02-26-2020	1,502,176	—	—	—	—	1,502,176
National treasury bills capitalized in pesos - Maturity: 05-13-2020	1,437,896	—	—	—	—	1,437,896
National treasury bills capitalized in pesos - Maturity: 08-29-2020	1,222,188	—	—	—	—	1,222,188
National treasury bills coupon capitalized in pesos - Maturity: 03-11-2020	883,292	—	—	—	—	883,292
National treasury bills capitalized in pesos - Maturity: 04-28-2020	753,407	—	—	—	—	753,407
National treasury bills capitalized in pesos - Maturity: 04-08-2020	385,400	—	—	—	—	385,400
Discount bonds at 5.83% – Maturity: 2033	—	32,143	160,713	128,570	—	321,426
National treasury bills capitalized in pesos - Maturity: 07-31-2020	230,388	—	—	—	—	230,388
Federal government treasury bonds adjustment by CER - Maturity: 02-26-2020	159,430	—	—	—	—	159,430
Others	25,660	—	1,156	21,971	—	48,787
Subtotal Government securities	14,573,831	32,143	161,869	150,541	—	14,918,384
Private securities						
In Pesos:						
Debt Securities in Financial Trusts Megabono Series 214 Class A - Maturity: 09-28-2020	294,978	—	—	—	—	294,978

	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 Garbarino Series 153 Class A - Maturity: 06-10-2020	121,009	—	—	—	—	121,009
Corporate Bonds Banco Galicia S.A. Class 005 Series 001 -Maturity: 04-26-2020	119,827	—	—	—	—	119,827
Debt Securities in Financial Trusts Secubono Series 192 Class A - Maturity: 07-28-2020	96,583	—	—	—	—	96,583
Corporate Bonds YPF Class 017 -Maturity: 04-30-2020	94,884	—	—	—	—	94,884
Debt Securities in Financial Trusts Secubono Series 194 Class A - Maturity: 08-28-2020	91,774	—	—	—	—	91,774
Corporate Bonds Volkswagen Financial Services Class 004 -Maturity: 02-27-2020	89,868	—	—	—	—	89,868
Debt Securities in Financial Trusts Secubono Series 193 Class A - Maturity: 07-28-2020	88,588	—	—	—	—	88,588
Debt Securities in Financial Trusts Secubono Series 195 Class A - Maturity: 10-28-2020	80,463	—	—	—	—	80,463
Corporate Bonds Province of Buenos Aires Bank Class 012 -Maturity: 02-15-2020	74,817	—	—	—	—	74,817
Others	1,325,330	235,421	—	—	—	1,560,751
Subtotal Private securities	2,478,121	235,421	—	—	—	2,713,542
Total Other debt securities measurement at amortized cost	17,051,952	267,564	161,869	150,541	—	17,631,926
TOTAL OTHER DEBT SECURITIES	63,540,393	585,143	203,797	184,082	—	64,513,415

	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)					
EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS						
Measured at fair value through profit or loss						
In Pesos:						
Prisma Medios de Pago SA	—	—	—	—	2,501,196	2,501,196
Mercado Abierto Electrónico SA	—	—	—	—	51,954	51,954
Matba Rofex SA	—	—	—	—	11,549	11,549
Argentina Clearing SA	—	—	—	—	10,443	10,443
C.O.E.L.S.A	—	—	—	—	9,605	9,605
Mercado a Término Rosario SA	—	—	—	—	9,189	9,189
Sedesa	—	—	—	—	6,972	6,972
Provincanje SA	—	—	—	—	2,435	2,435
Proin SA	—	—	—	—	1,478	1,478
Sanatorio Las Lomas SA	—	—	—	—	694	694
Others	—	—	—	—	592	592
In Foreign Currency:						
Banco Latinoamericano de Comercio Exterior SA	—	—	—	—	9,352	9,352
Sociedad de Telecomunicaciones Financieras Interbancarias Mundiales	—	—	—	—	1,269	1,269
TOTAL EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	—	—	—	—	2,616,728	2,616,728
TOTAL	64,817,420	4,658,738	309,641	402,624	2,616,728	72,805,151

Loan and other financing portfolio

The following table analyzes our loan and other financing portfolio by type as of December 31, 2017, 2018 and 2019. Due to IFRS 9, as of December 31, 2018, and 2019, 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 (1)	2019
	(in thousands of Pesos)		
To the non-financial government sector	4,278,175	2,731,262	6,450,647
To the financial sector (2)	7,428,890	8,654,365	3,979,803
To the non-financial private sector and foreign residents			
Overdrafts (3)	20,047,914	25,987,913	37,138,490
Documents (4)	39,224,414	37,244,035	19,656,651
Mortgages loans	18,202,900	19,431,314	12,739,230
Pledged loans (5)	9,290,958	6,607,369	4,006,661
Consumer loans (6)	164,104,187	132,076,330	97,744,986
Other loans	38,158,902	38,454,055	28,435,889
Accrued Interest, adjustments, foreign exchange and quoted price differences receivables	5,813,138	10,614,497	15,418,012
Other financing	1,987,528	1,275,925	1,114,129
Less: Unposted payments	—	—	—
Less: Unearned discounts	(1,172,398)	(1,513,541)	(716,958)
Less: Allowances	(6,056,962)	(5,951,735)	(5,069,726)
Total Loans	301,307,646	275,611,789	220,897,814

- (1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. 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 and other financing portfolio

The following table analyzes our loan and other financing portfolio as of December 31, 2019 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.

	Maturing			
	Amount as of December 31, 2019	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	6,450,647	3,583,342	2,867,305	—
To the financial sector (1)	3,979,803	3,469,355	510,448	—
To the non-financial private sector and foreign residents				
Overdrafts (2)	41,339,197	41,339,187	10	—
Documents (3)	20,581,845	15,446,144	5,135,629	72
Mortgages loans	20,609,791	3,420,215	4,627,291	12,562,285
Pledged loans (4)	4,068,928	2,386,318	1,682,610	—
Consumer loans (5)	98,995,042	58,738,767	39,105,743	1,150,532
Other loans	28,648,971	22,364,425	5,888,767	395,779
Other financings	1,293,316	825,148	468,168	—
Total Loans and other financing	225,967,540	151,572,901	60,285,971	14,108,668
Percentage of total loan and other financings portfolio	100%	67%	27%	6%

- (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 and other financings

The following table presents the interest rate sensitivity of our outstanding loans and other financings with maturities over one year as of December 31, 2019:

	As of December 31, 2019
Loans with maturities over one year:	
Variable Rate	
To the non-financial government sector	2,867,305
To the financial sector	
To the non-financial private sector and foreign residents	16,692,366
Total	19,559,671
Fixed rate	
To the non-financial government sector	
To the financial sector	510,448
To the non-financial private sector and foreign residents	54,324,520
Total	54,834,968
Total Loans and with maturities over one year	74,394,639
Loans with terms of less than 1 year:	
To the non-financial government sector	3,583,342
To the financial sector	3,469,355
To the non-financial private sector and foreign residents	144,520,204
Total	151,572,901
Total Loans	225,967,540

Loans and other financings — portfolio classification

The following table presents our loan portfolio, 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, 2019, 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 and other financings Portfolio	As of December 31,					
	2017 (1)		2018 (1)		2019	
	(in thousands of Pesos, except percentages)					
Classification						
1 - Normal situation/Performing	300,976,480	97.92%	272,611,720	96.82%	219,204,256	97.01%
2 - Subject to special monitoring – in observation – in negotiation or with rollover agreement/Low risk	3,064,795	1.00%	3,517,614	1.25%	1,909,789	0.85%
3 - Troubled/Medium risk	1,554,419	0.51%	3,159,144	1.12%	1,483,488	0.66%
4 - With high risk of insolvency/High risk	1,416,567	0.46%	1,913,559	0.68%	2,914,289	1.29%
5 - Irrecoverable	351,781	0.11%	360,096	0.13%	455,456	0.20%
6 - Irrecoverable according to Central Bank’s Rules	566	0.00%	1,391	0.00%	262	0.00%
Total Loans and other financings	307,364,608	100.00%	281,563,524	100.00%	225,967,540	100.00%

For the explanation of each category please see “Item 4.B—Business Overview—Argentine Banking Regulation—Liquidity and Solvency Requirements – Debt Classification and Loan Loss Provisions.”

(1) *Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. See “Presentation of certain financial and other information”-*

Non-performing loans and other financings

The following table presents our non-performing loan and other financings portfolio, before deduction of the allowance for loan and other financings losses. As of December 31, 2017, non-performing loans are calculated using the classification system of the Central Bank. As of December 31, 2018 and 2019 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 for regulatory purposes as “Non-Performing” according to our internal credit rating grades disclosed in note 51.1 to our consolidated financial statements.

Non-performing Loans and other financings)	As of December 31,		
	2017 (1)	2018 (1)	2019
	<i>(in thousands of Pesos)</i>		
With preferred guarantees	375,553	829,339	782,440
Unsecured	2,947,780	4,604,851	4,071,055
Total non-performing loans and other financings	3,323,333	5,434,190	4,853,495

(1) *Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. See “Presentation of certain financial and other information.”*

For additional information of credit risk and credit quality please see note 51.1 to our audited consolidated financial statements as of December 31, 2018 and 2019.

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 and 2019 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, 2018 and 2019:

	Commercial portfolio	Consumer portfolio	Total
	<i>(in thousands of Pesos)</i>		
As of January 1, 2017	1,235,823	3,977,830	5,213,653
Increases	424,623	3,956,014	4,380,637
Reversals	(51,890)	(5,467)	(57,357)
Charge off	(23,076)	(2,173,633)	(2,196,709)
Monetary effect	(278,611)	(1,004,651)	(1,283,262)
As of December 31, 2017 (1)	1,306,869	4,750,093	6,056,962

(1) The allowances for the year 2017 were calculated based on Central Bank Rules and the allowances for the year 2018 and 2019 were calculated based on the expected credit loss according to IFRS.

	Commercial portfolio	Consumer portfolio	Total
	(in thousands of Pesos)		
ECL as at January 1, 2018	940,738	5,155,240	6,095,978
Net new assets originated or purchased	1,023,454	3,766,572	4,790,026
Assets derecognized or repaid	(272,150)	(1,881,406)	(2,153,556)
Amounts Written Off	(90,001)	(473,413)	(563,414)
Monetary effects	(443,786)	(1,773,513)	(2,217,299)
As of December 31, 2018	1,158,255	4,793,480	5,951,735

	Commercial portfolio	Consumer portfolio	Total
	(in thousands of Pesos)		
ECL as at January 1, 2019	1,158,255	4,793,480	5,951,735
New assets originated or purchased	1,965,711	2,463,868	4,429,579
Assets derecognized or repaid	(828,219)	(1,462,861)	(2,291,080)
Amounts Written Off	(39,461)	(925,860)	(965,321)
Monetary effects	(642,978)	(1,412,209)	(2,055,187)
At December 31, 2019	1,613,308	3,456,418	5,069,726

Allocation of the allowances for loan and other financings losses

The following table allocates the allowance for loan and other financings losses 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, 2018 and 2019. The allowances for the year 2017 were calculated based on Central Bank Rules and the allowances for the year 2018 and 2019 were calculated based on the expected credit loss according to IFRS.

	As of December 31,					
	2017 (1)		2018 (1)		2019	
	(in thousands of Pesos, except percentages)					
Overdrafts	317,575	5.24%	409,372	6.88%	771,738	15.22%
Documents	459,952	7.59%	807,632	13.57%	367,294	7.24%
Mortgage loans	345,499	5.70%	381,937	6.42%	383,043	7.56%
Pledged loans	168,935	2.79%	323,118	5.43%	129,051	2.55%
Consumer Loans	4,082,687	67.40%	3,381,011	56.81%	2,630,941	51.90%
Other loans	654,714	10.81%	640,062	10.75%	774,514	15.28%
Other financings	27,600	0.46%	8,603	0.14%	13,145	0.26%
TOTAL ALLOWANCES	6,056,962	100.00%	5,951,735	100.00%	5,069,726	100.00%

(1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. See "Presentation of certain financial and other information."

Loans and other financings by economic activities

The table below analyzes our loan and other financings portfolio according to the borrowers' main economic activity as of December 31, 2017, 2018 and 2019.

	As of December 31,					
	2017 (1)		2018 (1)		2019	
			(in thousands of Pesos, except percentages)			
	Loans and other financings Portfolio	% of Loans and other financings Portfolio	Loans and other financings Portfolio	% of Loans and other financings Portfolio	Loans and other financings Portfolio	% of Loans and other financings Portfolio
Retail Loans	149,597,532	48.67%	128,594,905	45.65%	96,283,947	42.62%
Agricultural livestock- Forestry – Fishing – Mining – Hunting	31,735,887	10.33%	39,339,823	13.97%	33,147,873	14.67%
Construction	14,399,838	4.68%	5,932,943	2.11%	2,766,275	1.22%
Other services	8,115,591	2.64%	6,549,051	2.33%	5,788,642	2.56%
Retail and consumer products	23,880,366	7.77%	19,161,519	6.81%	14,739,634	6.52%
Foodstuff and beverages	16,965,271	5.52%	15,392,770	5.47%	21,749,078	9.62%
Financial services	9,627,816	3.13%	11,131,231	3.95%	7,838,953	3.47%
Governmental services	8,550,963	2.78%	6,052,744	2.15%	9,292,459	4.11%
Real estate, business and leases	5,106,979	1.66%	3,595,805	1.28%	3,726,564	1.65%
Transportation, storage and communications	6,816,891	2.22%	4,872,445	1.73%	8,592,589	3.80%
Manufacturing and wholesales	8,075,423	2.63%	13,671,335	4.86%	3,756,010	1.66%
Chemicals	5,582,165	1.82%	8,141,945	2.89%	8,918,438	3.95%
Electricity, oil, water	3,266,979	1.06%	4,084,140	1.45%	2,638,118	1.17%
Hotels and restaurants	464,313	0.15%	357,984	0.13%	251,383	0.11%
Other	15,178,594	4.94%	14,684,884	5.22%	6,477,577	2.87%
Total Loans and other financings	307,364,608	100%	281,563,524	100%	225,967,540	100.00%

(1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. 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, 2018 and 2019.

	2017 (1)	Year Ended December 31, 2018 (1) (in thousands of Pesos)	2019
Deposits in Domestic Bank Offices			
Non-interest bearing Demand Deposits (2)			
Average			
Pesos	60,726,589	52,969,707	47,388,886
Foreign currency	5,108,310	2,769,212	18,924,497
Total	65,834,899	55,738,919	66,313,383
Non-interest bearing Other Deposits			
Average			
Pesos	5,862,827	6,059,419	4,529,609
Foreign currency	6,916,541	1,833,701	1,716,234
Total	12,779,368	7,893,120	6,245,843
Savings Accounts			
Average			
Pesos	61,049,923	55,058,420	43,949,204
Foreign currency	26,825,663	42,504,575	28,423,747
Total	87,875,586	97,562,995	72,372,951
Average real rate			
Pesos	(19.63%)	(31.62%)	(33.44%)
Foreign currency	(5.07%)	36.40%	3.00%
Total	(15.19)%	(1.99%)	(19.13%)
Time Deposits			
Average			
Pesos	131,293,065	138,070,338	130,851,673
Foreign currency	23,792,008	39,267,653	52,837,080
Total	155,085,073	177,337,991	183,688,753
Average real rate			
Pesos	(5.90%)	(12.60%)	(6.87%)
Foreign currency	(4.57%)	39.10%	6.15%
Total	(5.70%)	(1.15%)	(3.12%)
Deposits in Foreign Bank Offices			
Non-interest bearing Demand Deposits			
Average			
Pesos	—	—	—
Foreign currency	3,978,595	2,571,338	2,061,249
Total	3,978,595	2,571,338	2,061,249

(1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. See "Presentation of certain financial and other information."

(2) Non-interest-bearing demand deposits consist of checking accounts.

Maturity of deposits at December 31, 2019

The following table sets forth information regarding the maturity of our deposits at December 31, 2019.

	Maturing				
	Total	Within 3 Months	After 3 but within 6 months	After 6 but within 12 months	After 12 months
	(in thousands of Pesos)				
Checking accounts	50,419,017	50,419,017	—	—	—
Savings accounts	90,727,971	90,727,971	—	—	—
Time deposits	109,763,236	105,561,251	3,212,952	937,303	51,730
Investment accounts	5,979,771	5,979,762	—	9	—
Other	5,975,359	5,975,306	—	53	—
Total Deposits	262,865,354	258,663,307(1)	3,212,952	937,365	51,730

(1) Includes a total amount of Ps. 142,745,235 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, 2019

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, 2019.

	<u>Total</u>	<u>Within 3 Months</u>	<u>Maturing After 3 but Within 6 Months</u>	<u>After 6, but Within 12 Months</u>	<u>After 12 Months</u>
	(in thousands of Pesos)				
Domestic Bank Offices					
Time deposits	20,803,472	19,089,849	1,228,639	476,795	8,189
Investment accounts	5,840,493	5,840,493	—	—	—
Total	26,643,965	24,930,342	1,228,639	476,795	8,189

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 (1)	2019
<i>(in thousands of Pesos, except percentages)</i>			
Net income/(loss) from continuing operations	9,133,465	(1,081,829)	20,650,647
Average total assets	495,778,060	530,290,109	506,275,010
Average shareholders' equity	99,679,840	107,149,021	96,870,104
Shareholders' equity at the end of the fiscal year	109,900,637	93,692,941	106,056,386
Net income/(loss) from continuing operations as a percentage of:			
Average total assets	1.84%	(0.20)%	4.08%
Average shareholders' equity	9.16%	(1.01)%	21.32%
Declared nominal cash dividends	3,348,315	6,393,978	12,788,268
Dividend payout ratio (2)	32.98%	40.53%	31.34%
Average shareholders' equity as a percentage of Average total assets	20.11%	20.21%	19.13%

- (1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019 and considering the merger effects mentioned in note 2.4 to our audited consolidated financial statements as of December 31, 2019 and 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, as of December 31, 2018 of Ps. 15,776,892 and as December 31, 2019 of Ps. 40,800,410.

Short-term borrowings

Our short-term borrowings totaled approximately Ps. 26,415.9 million, Ps. 28,408.5 million and Ps. 24,092.7 for the years ended December 31, 2017, 2018 and 2019, respectively. The table below shows the breakdown of those amounts at the end of each year:

	2017 (1)		Year Ended December 31, 2018 (1)		2019	
	Amount	Annualized Nominal Rate	Amount	Annualized Nominal Rate	Amount	Annualized Nominal Rate
<i>(in thousands of Pesos, except percentages)</i>						
Financing received from the Central Bank of Argentina and other financial entities:						
Total amount outstanding at the end of the reported period	2,375,058	5.65%	4,349,799	10.99%	2,059,767	5.80%
Average during year (2)	2,025,081	4.27%	3,169,009	9.70%	3,104,679	8.56%
Maximum month-end balance (3)	3,856,592		5,320,863		3,918,424	
Issued Corporate Bonds:						
Total amount outstanding at the end of the reported period	268,813	17.50%	470,349	47.87%	250,119	23.27%
Average during year (2)	459,742	13.18%	504,116	27.04%	489,090	23.36%
Maximum month-end balance (3)	768,913		622,545		739,639	
Subordinated Corporate Bonds:						
Total amount outstanding at the end of the reported period	181,709	6.75%	253,927	6.75%	353,663	6.75%
Average during year (2)	288,202	6.75%	347,936	6.75%	544,312	6.75%
Maximum month-end balance (3)	457,167		673,295		785,583	
Other Financial Liabilities:						
Total amount outstanding at the end of the reported period	23,590,341	0.02%	23,334,423	0.01%	21,429,153	0.02%
Average during year (2)	19,218,737	0.01%	17,714,085	0.02%	20,840,897	0.03%
Maximum month-end balance (3)	23,590,341		23,339,761		21,796,205	
Total short-term borrowings	26,415,921		28,408,498		24,092,702	

(1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. 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, 2019. Variations in interest rate sensitivity may also arise within the repricing periods presented.

	Remaining Maturity at December 31, 2019					
	0-1 Year	1-5 Years	5-10 Years (in thousands of Pesos)	Over 10 years	Without due date	Total
Interest-earning assets:						
Loans to non-financial Public Sector	3,583,342	2,867,305	—	—	—	6,450,647
Loans to non-financial Private Sector and Foreign Residents	137,956,111	55,503,050	3,255,615	10,857,774	2,922,412	210,494,962
Loans to other Financial Entities	3,446,811	505,394	—	—	—	3,952,205
Other Debt Securities	63,540,393	585,144	203,797	184,082	—	64,513,415
Repo Transactions	1,087,916	—	—	—	—	1,087,916
Total Interest-Earning Assets	209,614,573	59,460,893	3,459,412	11,041,856	2,922,412	286,499,145
Interest-bearing liabilities:						
Non financial Public Sector deposits	10,469,554	—	—	—	—	10,469,554
Non financial Private Sector and Foreign Residents deposits	193,174,738	51,699	31	—	—	193,226,468
Financing received from the Central Bank of Argentina and other financial entities	2,059,767	186,037	—	—	—	2,245,804
Issued Corporate Bonds	250,119	5,274,920	—	—	—	5,525,039
Subordinated Corporate Bonds	353,663	—	23,958,000	—	—	24,311,663
Repo Transactions	1,002,511	—	—	—	—	1,002,511
Total Interest-Bearing Liabilities	207,310,352	5,512,656	23,958,031	—	—	236,781,039
Asset (Liability) Gap	2,304,221	53,948,237	(20,498,619)	11,041,856	2,922,412	49,718,106
Cumulative Asset/Liability Gap	2,304,221	56,252,457	35,753,838	46,795,694	49,718,106	
Cumulative sensitivity gap as a percentage of total interest-earning assets	0.80%	19.63%	12.48%	16.33%	17.35%	

	Remaining Maturity at December 31, 2019					
	0-1 Year	1-5 Years	5-10 Years (in thousands of Pesos)	Over 10 years	Without due date	Total
Interest-earning assets in Pesos						
Loans to non-financial Public Sector	3,583,342	2,867,305	—	—	—	6,450,647
Loans to non-financial Private Sector and Foreign Residents	111,962,099	43,631,522	3,255,615	10,857,774	2,422,358	172,129,368
Loans to other Financial Entities	2,853,444	490,576	—	—	—	3,344,020
Other Debt Securities	62,984,070	275,951	203,797	184,082	—	63,647,900
Repo Transactions	1,087,916	—	—	—	—	1,087,916
Total Interest-Earning Assets in Pesos	182,470,872	47,265,353	3,459,412	11,041,856	2,422,358	246,659,851
Interest-bearing liabilities in Pesos						
Non financial Public Sector deposits	9,373,469	—	—	—	—	9,373,469
Non financial Private Sector and Foreign Residents deposits	130,817,136	28,967	1	—	—	130,846,104
Financing received from the Central Bank of Argentina and other financial entities	92,756	107,424	—	—	—	200,180
Issued Corporate Bonds	250,119	5,274,920	—	—	—	5,525,039
Subordinated Corporate Bonds	—	—	—	—	—	—
Repo Transactions	1,002,511	—	—	—	—	1,002,511
Total Interest-Bearing Liabilities in Pesos	141,535,991	5,411,311	1	—	—	146,947,303
Asset (Liability) Gap	40,934,881	41,854,042	3,459,411	11,041,856	2,422,358	99,712,548
Cumulative Asset/Liability Gap	40,934,881	82,788,923	86,248,334	97,290,190	99,712,548	
Cumulative sensitivity gap as a percentage of total interest-earning assets	16.60%	33.56%	34.97%	39.44%	40.43%	

	Remaining Maturity at December 31, 2019					Total
	0-1 Year	1-5 Years	5-10 Years (in thousands of Pesos)	Over 10 years	Without due date	
Interest-earning assets in foreign currency						
Loans to non-financial Public Sector	—	—	—	—	—	—
Loans to non-financial Private Sector and Foreign Residents	25,994,012	11,871,528	—	—	500,054	38,365,594
Loans to other Financial Entities	593,367	14,818	—	—	—	608,185
Other Debt Securities	556,322	309,193	—	—	—	865,515
Repo Transactions	0	0	—	—	—	—
Total Interest-Earning Assets	27,143,701	12,195,539	—	—	500,054	39,839,294
Interest-bearing liabilities in foreign currency						
Non financial Public Sector deposits	1,096,085	—	—	—	—	1,096,085
Non financial Private Sector and Foreign Residents deposits	62,357,602	22,732	30	—	—	62,380,364
Financing received from the Central Bank of Argentina and other financial entities	1,967,011	78,613	—	—	—	2,045,624
Issued Corporate Bonds	—	—	—	—	—	—
Subordinated Corporate Bonds	353,663	—	23,958,000	—	—	24,311,663
Repo Transactions	—	—	—	—	—	—
Total Interest-Bearing Liabilities	65,774,361	101,345	23,958,030	—	—	89,833,736
Asset (Liability) Gap	(38,630,660)	12,094,194	(23,958,030)	—	500,054	(49,994,442)
Cumulative Asset/Liability Gap	(38,630,660)	(26,536,466)	(50,494,496)	(50,494,496)	(49,994,442)	
Cumulative sensitivity gap as a percentage of total interest-earning assets	(96.97%)	(66.61%)	(126.75%)	(126.75%)	(125.49%)	

(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, 2019 and 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 was modified and is disclosed in accordance with the basis described in the preceding paragraph.

Additionally, our consolidated financial statements as of December 31, 2019 and 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

2017

In 2017, the global economy grew at a rate of 3.2%, equivalent to a 0.6 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 2.5% 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 had undergone 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 1.1%. 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 former 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 decrease 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.

Moreover, the supply of goods and services, the tax cuts, the deregulation of certain markets that used to be under the strong control of the Fernández de Kirchner 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 2.7% in 2017.

In turn, the fiscal target set by the Argentine government was achieved for the second consecutive year in 2017. Primary deficit of 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%.

2018

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.

For 2018 global growth pointed to 3.1%, measured on a year-on-year basis, in line with the figures posted for 2017. Advanced economies showed a slightly lower growth in comparison to 2017. The United States accounted for the largest portion of such growth. Meanwhile, there was a slowdown in the Euro zone, the United Kingdom and Japan. Concerning emerging economies, the growth in 2018 stayed at a level that is similar to that recorded in 2017 and, as was also the case with advanced economies, performance was heterogeneous.

The United States' economy grew 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 grew at a 1.9% 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 were 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 growth slowed down to 6.6% in 2018 and it should be 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 slowdown in China would be offset by a further expansion in the Indian economy. 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.

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.

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 step-by-step 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 U.S. 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 yearly.

There were various 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 U.S. 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 U.S. 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— Argentina's ability to obtain financing from international markets may be limited or costly, which may impair its ability to implement reforms and public policies and foster economic growth."*

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 Argentine 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 was approximately 44% of GDP at the end of 2018, which represented a 28.4% increase *vis-à-vis* the figure posted a year earlier.

2019

Following a slowdown in the economic activity during the last quarters of 2018, the global GDP growth rate remained weak during 2019. The levels of manufacturing production were notably affected, to the extent that its fragility resembled that of the global crisis of 2008. Moreover, an increase in trade and geopolitical tensions generated uncertainty regarding the future of the global trading system and international cooperation, undermining the confidence, business environment, level of investments and commerce. Owing to the Central Bank's more accommodative monetary policies, the blow to the economic activity could be partially mitigated. Additionally, a more resistant service sector performance helped sustain employment levels.

Three factors have contributed to the decline of the global manufacturing industry. Firstly, the decrease in vehicles' sales and production as manufacturers were forced to adapt to new emission standards and changes in demand for technological advances, thus altering the purchase of vehicles by individuals; Secondly, the decline in businessmen's confidence in trade and tariff disputes between the United States and China, which has delayed the purchase decisions for equipment and machinery; and thirdly, the decline of business activity in China due to regulatory efforts to contain the excessive increase in domestic credit.

The retraction in the manufacturing industry dragged international trade. During the first half of 2019, trade flows grew only 1% year-on-year, the lowest record since 2012. China, East Asia and some emerging countries suffered the most and their imports were shutdown. Falls in global trade are normally correlated with a retraction of investments, since they are usually intensive expenditures on intermediate and capital goods that flow across borders.

Throughout 2019, investor's sentiment remained very volatile, reflecting the fears caused by trade dispute between the United States and China in relation to the eventual interruption of the global production chains, on the one hand, and the uncertainty caused by Brexit and the geopolitical tensions in various regions of the world. The fall in investment spending and the slowdown in global activity led central banks, especially in developed countries, to promote more expansive financial conditions. The Federal Reserve cut the policy rate on three occasions and interrupted the normalization of its balance sheet by repurchasing securities at the end of the year. The European Central Bank announced in September another rate cut and the return of the liquidity provision program through the purchase of bonds ("quantitative easing"). Several central banks in emerging economies (including Brazil, Chile, India, Indonesia, Mexico, Peru, the Philippines, Russia, South Africa, Thailand and Turkey) followed the cycle of rate cuts in order to mitigate the impact of the economic slowdown already mentioned. As a result of these actions, the financial markets in the main regions of the world ended the year with a more positive performance than expected by mid-2019.

The IMF global GDP growth projection for 2019 is 2.9% year-on-year, the lowest since 2010. Advanced economies would have grown 0.5 percentage points below the 2018 performance, with all countries and regions slowing down compared to the previous year except Japan and the United Kingdom (Japan would grow 0.7 percentage points more than in 2018 and the United Kingdom would repeat its performance that year). As for emerging economies, a growth of 3.7% in 2019 is expected, which implies a deceleration of 0.8 percentage points compared to 2018. Here also the performance is uniform.

For 2020, the World Economic Outlook published by the IMF in April 2020 forecasts a sharp contraction of global GDP of 3.0% year-on-year, expected to be worse than the 2008-09 financial crisis. In comparison with the last World Economic Outlook forecast, there is a negative difference of 6.3 percentage points. The contraction is mainly explained by the costs inflicted by the COVID-19 pandemic. However, the IMF forecasts an acceleration of global GDP to 5.8% year-on-year for 2021, assuming the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound.

The United States, which represents about 25% of world GDP, had grown 2.3% in 2019. Although investments have remained delayed, employment and consumption showed extraordinary dynamism. The moderation of the activity during 2019 is largely explained by the uncertainty caused by the trade war between the United States and China.

As a counterpart and for the purpose of cushioning the slowdown, the Federal Reserve cut the federal funds rate up to 1.75%. In addition, it announced the interruption of the normalization of its balance sheet, having already expanded at least U.S.\$ 1 billion the liquidity provision through the purchase of short-term securities and pass operations with hedge funds.

Europe's share of world GDP is close to 25% of the total. In 2019, the Euro area had grown at a rate of 1.2% per year, 0.7 percentage points lower than what was recorded in 2018. The weakness of manufacturing production is a consequence of a significant fall in external demand. Under these conditions, the growth projections carried out by the IMF for the year 2020 have been revised downwards in the main economies of the area, such as Germany, France, Italy and Spain.

Despite the recent slowdown, the growth of the Eurozone in recent years has contributed to unemployment reduction, and at the same time inflation remained contained, as it would have reached 1.2% in 2019. Given the recent economic weakness and the absence of inflationary pressures, the European Central Bank announced the resumption of bond purchases as of October 2019, cut reference rates and reaffirmed its intention to keep monetary conditions accommodative.

Europe's fiscal consolidation process, fundamental for debt sustainability and monetary stability, will continue to be under pressure given the thinning of the social and political climate in important countries of the EU, such as Italy and France. In any case, and despite social protests, governments have so far been successful in managing the crisis without noticing a significant deterioration in fiscal balances.

In regards to Argentine foreign trade, China, India and Brazil represent opportunities for the Argentine economy. In 2019, the Chinese economy grew 6.0%, and a deceleration is expected in 2020, but it is expected to continue to generate high demand for raw materials and agro-industrial manufactures that Argentina produces. China is transitioning from being a net exporting country of low wages to an economy based on the internal consumption of goods and services, with higher income per capita due to the higher productivity resulting from a vigorous process of foreign and local private investment, the latter supported by local credit. Some of the new opportunities arising for Argentina are the export of pig meat to supply the Chinese market after an epidemic of swine fever, the sale of minerals and energy raw materials and the already traditional shipment of agricultural commodities and derivatives such as soybeans, wheat and corn, among others.

In China, indicators such as industrial production, retail sales, and fixed asset investment suggest that the contraction in economic activity in the first quarter could have been about 8% year-over-year. Even with a sharp rebound of 9.2% for 2021, the Chinese economy is expected to grow at a subdued 1.2% in 2020, lower than the pace forecasted for the Indian economy (1.9%). According to the IMF, India would have grown 4.2% in 2019. It's worth noting that India is an economy that complements Argentina, and its middle class is bigger than that of China.

Brazil, Argentina's main trading partner, has achieved, through a reform in pensions' regulation towards the end of 2019, great advances which will generate a fiscal saving of up to U.S.\$ 20 million over 10 years. Although structural reforms that contribute to more fiscal savings cannot be ignored or dismissed, the aforementioned reform is in and of itself a very important step. After growing 1.3% in 2018 and 1.7% in 2019, the Brazilian economy is expected to increase its annual growth rate to 2.2% in 2020 as a result of its initiatives aim at fiscal consolidation and the decreasing of the country's risk, along with its consequent broader access to the credit market. The recovery of the Brazil's economy is positive for Argentina's, especially due to the spill it produces in manufacturing with a focus on the sectors linked to the automotive industry. However, it should be noted that, in the medium term, the evolution of the exchange with Brazil and the international competitiveness of some Argentine industrial sectors will depend on the functioning of Mercosur, whose current configuration may suffer tensions derived from the parties' different approaches in this regard.

The increase in social instability in several countries of the region should be taken into account, given that it could affect the performance during 2020. Since October 2019, there have been violent riots and social protests in Chile, which ultimately triggered a political crisis that led that country to call a plebiscite in April 2020 to reform its Constitution. Meanwhile, the government has launched several initiatives to respond to social claims. Bolivia is also under a provisional government after the resignation of Evo Morales, accused of having committed fraud in the last elections. In May 2020, presidential elections will be held in that country to appoint a new president. Finally, Colombia is also going through social tensions, though these have been generally peaceful and have not had a strong impact on the economic activity.

Agricultural commodity prices increased during 2019. Soybeans rose 6.9% to \$ 347 per ton, while wheat and corn rose 11.0% and 3.4%, respectively. Meanwhile, the price of a barrel of WTI oil increased during 2019 by 35.4%. The continuity of these trends will be conditioned by the global economic scenario, marked by a more challenging environment both commercially and financially.

Although for the Argentine economy, the year 2019 started with some positive signs, with some foreign-exchange-rate stability, improvements in economic activity and in inflation indicators and improvements on the foreign front, exchange rates ended impacting on inflation. This also occurred in a context in which the Central Bank maintained a contractive monetary policy with extremely high interest rates in the framework of a compromise to keep the monetary base unchanged.

Packages of economic and social policies arrived with the first symptoms, notably those aimed at controlling the foreign exchange rate volatility and inflation. Even the IMF eventually allowed the Central Bank to intervene the MULC to mitigate the excessive volatility of the foreign exchange rate.

Nevertheless, the government of Mauricio Macri lost the primary elections and the financial situation suffered a significant impact. The opposition's victory generated a change in expectations and a large drop in Argentine asset prices, as well as an increase in the country risk indicator and a strong foreign exchange run.

At the same time just after the primary elections, and given the doubts of IMF officials regarding the program until then in force, the 2018 IMF Agreement with the fund was put on hold and the disbursement of U.S.\$ 5.4 million that was planned for the end of September was not made, leaving a balance of U.S.\$ 12 billion of total assistance subject to the redesign of a new program.

The Peso devalued more than 30% from 45 to 60 Pesos per U.S. dollar, while the country risk indicator measured by the EMBI, published by JP Morgan, increased from 650 to 2.500 points while the Central Bank lost around U.S.\$ 21 billion in international reserves.

On the other hand, economic activity continued without recovery and the inflation rate remained at very high levels, above an annual rate of 50% and hovering around 6% in September 2019.

In this context, in September 2019 the national government decided to restructure the maturities of the Letters issued in Pesos and U.S. dollars, while the Central Bank introduced foreign exchange controls.

After the 2018 balance of payments crisis, the Argentine economy performed very poorly in 2019, as economic activity fell by about 2.6%. According to IMF, the Argentine economy would have contracted by 2.2% in 2019 and forecasts a 5.7% contraction of the Argentine GDP in 2020, lower than the region average (a contraction of 5.0% if the South American GDP).

The sharp deterioration in domestic conditions and confidence was reflected in the fall in real wages, consumption and investment. Investment plummeted by about 15% with public investment retracting in a context of fiscal consolidation and private investment also collapsing.

Industrial activity suffered the consequences of the lack of financing opportunities and the growth prospects uncertainty before and after elections, which led to the delay in the projections of investment and production. These conditions were reflected in a decline of about 6.5% of activity in the sector, led mainly by the automotive industry, in line with the collapse of the sale in the sector.

However, in 2019, there was a significant improvement in the macroeconomic imbalances exhibited by the economy, particularly in terms of fiscal deficit and the balance of payments current account. On the fiscal level, the primary deficit was reduced to 0.4% of the GDP, improving 4 points compared to 2015. Particularly, this improvement took place during 2019, when the growth of expenditures was significantly lower than that of revenues.

The balance of payments current account deficit will hover around 1% of GDP in 2019 after reaching 5% in 2017. The adjustment in the external accounts was mainly a result of a fall in imports. The drop in the activity, and a level of real exchange rate that is already close to equilibrium values have generated a moderated upturn in exports. With this performance, the goods trade balance showed a positive balance of U.S.\$ 15,992 million, the highest in ten years, and the net exports became the main growth factor.

Argentina's public debt, excluding intra public sector debt, represented about 50% of GDP by the end of 2019.

Alberto Fernández was elected as the presidential candidate for the *Frente de Todos* coalition at the mandatory primary elections held in Argentina on August 11, 2019, and elected president in the runoff national presidential elections that took place in Argentina on October 27, 2019, with the *Frente de Todos* coalition receiving approximately 48.10% of the votes. Mr. Fernández took office on December 10, 2019.

On December 17, 2019, the Fernandez administration submitted a bill proposing a wide range of economic and social reforms to Congress, which passed Law N° 27,541, promulgated by President Fernández on December 23, 2019. The new legislation declared a public emergency, which will remain in force until December 31, 2020, in economic, financial, fiscal, administrative, pensions, tariff, energy, health, and social matters. Law N° 27,541 sanctioned the delegation of certain congressional powers to the Executive branch, in order to tackle social and economic distress, as well as to adjust Argentina's public debt profile. The main reforms introduced by Law N° 27,541 include the following:

1. *Public Debt and its Sustainability:* The Executive branch is authorized to perform all necessary acts to recover and ensure the sustainability of the Argentine public debt. In addition, the National Government was authorized to issue debt securities to the Central Bank for an amount of up to U.S.\$ 4.517 billion in exchange for reserves to be applied solely to meet Argentina's foreign currency-denominated debt obligations.
2. *Energy System:* The Executive branch was authorized to freeze electricity and gas tariffs that are under federal jurisdiction for 180 days, starting on December 23, 2019, and to begin an integral renegotiation of such tariffs with the relevant utilities companies. Furthermore, the Executive branch was authorized to intervene in the administration of the *Ente Nacional Regulador de la Electricidad* (ENRE) and the *Ente Nacional Regulador del Gas* (ENERGAS) for a one-year period.
3. *Tax Obligations:* The income tax, personal assets tax, credit and debit in banks tax, export and import duties and social security tax rates were modified foreseeing a gradual increase in tax rates, and a new tax refund system was approved.

Furthermore, the new legislation introduced the *Impuesto Para una Argentina Inclusiva y Solidaria* ("PAIS Tax") a special tax applicable to certain foreign exchange transactions.
4. *Wages:* Law N° 27,541 authorizes the Executive branch to determine minimum wage increases to be mandatorily implemented by employers in the private sector.
5. *Pensions:* Commencing on the date of promulgation of Law N° 27,541, the use of the existing formula for the calculation of the periodic state pension adjustments was suspended for 180 days. Following the temporary suspension, the Executive branch will establish a new formula to be used to calculate the necessary pension adjustments on a trimestral basis.

Since assuming office, the Fernandez administration has announced and implemented other economic and policy reforms, including: (i) the extension of exchange control measures previously enacted; (ii) the duplication of the legal severance payment that employers must pay in case of dismissing employees without cause; (iii) the extension of the maturity of U.S. dollar-denominated Letes and bonds denominated in Pesos; (iv) the reduction in, and subsequent price freeze on, the prices of medicaments until February 1, 2020; (v) the suspension of the 2018 Fiscal Consensus to increase the provinces' fiscal autonomy; and (vi) a price freeze on public transportation fares in the metropolitan area of Buenos Aires.

Furthermore, in response to the increasing economic uncertainty that has affected Argentina in 2019, the Central Bank has deployed a number of monetary measures aimed at containing the volatility of the Peso / U.S. dollar exchange rate and the outflow of foreign reserves. In October 2019, the Central Bank introduced new norms regulating natural and legal persons' access to the foreign exchange market, including monthly limits on purchases of foreign currency for individuals in Argentina. The October 2019 restrictions also provided that the withdrawal of foreign currency abroad using Argentine debit cards by Argentine residents would only be possible if debited to Argentine foreign-currency-denominated bank accounts. In addition, authorized financial entities executing foreign exchange trades of a value equal to or exceeding U.S.\$2 million, whether on their own account or on behalf of their customers, were required to notify the Central Bank two business days ahead of completing such trades.

The new regulations introduced in October 2019 also affect the regime regulating the import of goods into Argentina and payment thereof. Importers are required to declare the entry through customs of pre-paid imported goods purchased from unrelated suppliers within 90 days. The pre-payment of imports to suppliers related to the importer instead requires prior Central Bank approval. Importers can access the foreign exchange market in order to pay imported goods or to satisfy foreign-currency debt obligations arising in connection with import financing, only if certain requirements are satisfied: these include the requirement to declare and register the import of goods through the SEPAIMPO ("*Seguimiento de Pagos de Importaciones*") system.

On October 31, 2019, the Central Bank published a further resolution limiting financial entities' ability to access the foreign exchange market to satisfy payments originally made through an Argentine-issued debit or credit card for transactions relating to gambling and betting activities, the purchase of cryptocurrencies, the transfer of funds to investment accounts managed by administrators based abroad, the completion of foreign exchange operations abroad or the transfer of funds to payment services providers. Additionally, financial entities must comply with a U.S.\$50 per-transaction limit on cash withdrawals carried out abroad with Argentine-issued credit cards.

On November 7, 2019, the Central Bank further clarified certain aspects of the Argentine foreign exchange regime. Financial entities may allow Argentine residents to access the foreign exchange market for the purposes of repaying principal and interest on foreign-currency-denominated debt or to provide security for such obligations if (1) these debt obligations relate to import or export finance and foreign currency payments are contractually stipulated; (2) the foreign-currency-denominated funds acquired are deposited in an account opened with a local financial entity, unless contractually stipulated by an agreement entered into before August 31, 2019 that such funds should be deposited abroad; (3) the amount of deposits accumulated in foreign currency for servicing debt do not exceed the value to be paid on the next scheduled payment date for such indebtedness; (4) the daily amount of foreign currency to be obtained cannot exceed 20% of the amount set out under (3); (5) the relevant financial entity must review the underlying agreements establishing the foreign currency indebtedness, to verify that the debtor's access to the foreign exchange market, as envisioned by such agreements, is in compliance with the terms of the Central Bank's norms. Importantly, foreign currency funds that are not used towards debt servicing as agreed, will need to be liquidated in the foreign exchange market within five working days following the scheduled payment date.

On December 5, 2019, the Central Bank clarified that foreign financial indebtedness disbursed as from September 1, 2019, will be required to be repatriated and settled for Pesos through the foreign exchange market only if the debtor will require access to such market with the purpose of servicing principal and interest payments. This provision also applies in respect of issuances by Argentine residents of securities which are publicly registered in the country as from November 29, 2019, denominated and underwritten in foreign currency and whose services of principal and interest are payable locally in foreign currency. During the end of 2019 to the date of this annual report, the Central Bank continues to impose further restrictions of access to the foreign exchange market and to certain capital market operations commonly effected to acquire US dollars (MEP or "contado con liquidación").

On December 28, 2019, the Fernández Administration issued Decree No. 91/2019 extending the requirement for exporters to repatriate the proceeds of export transactions, as further regulated by the Central Bank.

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.

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 Lebac.

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 Lebac 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 Lebac 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 U.S. 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 U.S. 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 U.S. 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.

For most of 2019, a very restrictive monetary program was in force, consisting in zero growth of the monetary base with some allowed exceptions (seasonal adjustment and acquisition of foreign currency for the international reserves under exchange rate appreciation). In addition, a minimum interest rate was set to prevent the interest rate from falling too quickly. The objective was to sustain a positive real rate and guarantee the absence of monetary issuance, an inflationary factor. In September, the Central Bank decided to modify the zero growth of the monetary base to a 2.5% monthly, held until November, when more restrictive foreign exchange regulations were introduced.

On average, the monetary base grew at an annual rate of 23% during 2019, a rate significantly lower than the 33% rate registered in 2018. However, its evolution was not uniform, in the first half of the year it remained relatively stable until October when it began to accelerate.

The main expansionary factor was a financial assistance to the Treasury, contrary to all forecasts, as the initial monetary program did not foresee any transfer of funds to the Treasury. As a contractionary factor, it issued debt (LELIQs) and passive passes. Significantly, monetary liabilities paid on average a very high rate during the year at very short terms.

Monetization in Argentina is very weak. It is not a new phenomenon and it is explained by recurrent macroeconomic crisis that undermined residents' confidence in Pesos. Therefore, despite the improvement shown during 2017 and 2018, in 2019 the Argentine financial system was one of the shallowest in Latin America and further declined during that year; bank credits nominated in Pesos and in U.S. dollars represented 10.8% of the GDP, when the regional average of the last 10 years was 40%.

During 2019, public and private deposits in Pesos rose by 29.6% in average, while deposits in U.S. dollars (measured in Pesos) decreased by 0.4% in average (-37% in U.S. dollars). In relation to the GDP, Peso deposits decreased 2.1 p.p. to 13.3%, both those of a transactional nature and time deposits. U.S. dollar deposits declined dramatically: it fell from US\$ 32.8 billion by the end of 2018 to US\$ 20.7 billion by the end of 2019, a reduction equivalent to 1.7 p.p. to 4.6% of GDP.

The increase in private sector demand accounts stood out, which grew 44% in average, while time deposits increased 23%, with a decrease in retail time deposits (representing a growth of only 6.3% in average). Private deposits in foreign currency plummeted from August onwards, as they had previously increased slightly.

What refers to credits, in 2019 loans measured in Pesos and in U.S. dollars (public and private sector) rose by 15.8% in average, totaling Ps. 2.595 billion, well below inflation. Credit in Pesos (public and private sector) rose by 17.9% in average and fell 3 percentage points in relation to GDP to 7.5%, mainly affected by the collapse of consumer loans. Credit in U.S. dollars (mostly exports pre-financings to the private sector) fell by US\$ 4.800 million to the amount of US\$10.7 billion.

Secured loans in Pesos decreased 4.7% in average, affected by the stop of mortgages and pledges. The deterioration of real wages and therefore of private consumption, had a negative influence on this particular segment.

Consumer credit evolved negatively, affected by the economic context. The drop in real wages led to families contracting credit card debt, with late payments raising, while total personal loans decreased during the year. Thus, consumption credit increased only 19.7% in average. Credit card debt raised 48.2% in average, while personal loans plunged 4.5% in averaged in nominal terms.

In contrast, the growth differential between deposits and loans in Pesos during the year (19.6% in average vs. 17.9% in average), increased the liquidity of the financial system. Indeed, the broad liquidity of the system reached 59.4% of deposits by the end of 2019, showing a year-on-year increase of 4.2 p.p.

In this context, the interest rates showed a very volatile behavior as a reflection of foreign exchange instability. As of December 2018, the monetary policy rate (7 days LELIQs) closed at 59.25% per annum. As of February 2019, in a context of foreign exchange appreciation by the inflow of capital, and the Central Bank buying up reserves, the monetary policy rate reached its lowest at 43.94%.

Then, due to external pressures on the Peso and uncertainty regarding the Central Bank's ability to intervene the foreign exchange market it gradually started to grow. In May 2019, it reached 74% and began to gradually decrease until the August primary elections, when it reached levels hovering around 60%. After the primary results were known, it escalated quickly to the highest level of the year: 86%.

The establishment and intensification of the foreign exchange regulations allowed the interest rate to fall to levels of 55% per annum once the new government and the Central Bank new administration were in office. The rest of the rates performed similarly.

Available data as of November 2019, indicated that the profitability of the consolidated financial system increased during 2019. In the first 11 months of the year, banks obtained a profit of Ps. 758.239 million, 79.4% above the Ps. 422.609 million they recorded for the same period in 2018 and higher to inflation. The return on assets reached 4.8% in average, exceeding the 3.7% average for the same period in 2018. This increase in profitability was mostly explained by the good result of security operations, which averaged 13.2% of assets, against 6.3% in 2018, a result that complemented the interest margin that averaged 11.3% of assets, slightly above 11% from a year before. Thus, the financial margin increased by 2.9 p.p. to 13.5% of assets against 10.6% in 2018. Also, there was an increase in interest expenses that averaged 14.6% of assets in 2019 versus 9.3% a year before.

On the other hand, administrative expenses grew by an accumulated 55.4%, slightly above inflation. Results for services grew by an accumulated 34.2% las year. Charges for uncollectibility of private banks increased and remained at relatively low levels, while the irregular portfolio averaged 4.4% of the financings, the highest level since 2006 and above 2.2% in 2018.

Regarding capitalization, capital represented the 17.5% of the risk weighted assets in November (over the 15.6% a year ago), with an excess of integration regarding the 101% exigence. Also, private bank exposure to the public sector averaged 19.4% of assets (which includes loans to the public sector, securities and LELIQs), above the accumulated 13.1% for the same period in 2018.

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 loans and other financing portfolio to the private sector has grown by 22% in 2019 in nominal value, keeping up with the evolution of the financial system. In real terms, the private sector loan portfolio decreased by 20% compared to 2018.

During 2019, we maintained a leading position in terms of personal loans, with Ps. 56,799.2 million in nominal value, which represent a 14% of market share. As to its credit card products, in 2019 we maintained a 7% of market share, increasing 43% in nominal value year over year.

The coverage indicator reached a 130.9% ratio towards the end of the fiscal period, higher than the coverage ratio at the end of 2018. The levels of delinquency have stayed in historically low value, however, the non-performing ratio was 1.7% over total portfolio as of December 31, 2019.

Our total deposits increased by 10% in 2019 in nominal value and decreased by 28% in real terms compared to 2018. Regarding the composition of deposits, there was a larger growth in demand deposits and a lower volume of time deposits, year over year.

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, 2019 the Bank's liquidity reached Ps 154,151 million, registering an increase of 13% in nominal year over year and achieving a 59% of liquidity ratio.

The discussion about the year ended December 31, 2018 compared to the year ended December 31, 2017 has been omitted from this annual report. Such discussion has been included in the annual report on Form 20-F for the year ended December 31, 2018 filed by the Bank with the Securities and Exchange Commission on May 10, 2019.

YEAR ENDED DECEMBER 31, 2019 COMPARED TO YEAR ENDED DECEMBER 31, 2018

Net income

The following table sets forth certain components of our statement of income for the years ended December 31, 2018 and 2019:

INCOME STATEMENT	Year Ended December 31,		Change December 31,	
	2018 (1)	2019	2019 - 2018	
	(in thousands of Pesos, except for number of shares, net income per share and dividends per share)			
Interest Income	120,214,259	151,566,640	31,352,381	26%
Interest Expense	(46,426,316)	(64,156,959)	(17,730,643)	38%
Net Interest Income	73,787,943	87,409,681	13,621,738	18%
Commissions income	22,000,691	19,441,433	(2,559,258)	(12%)
Commissions expense	(1,430,689)	(1,609,947)	(179,258)	13%
Net fee income	20,570,002	17,831,486	(2,738,516)	(13%)
Subtotal (Net Interest Income + Net Fee Income)	94,357,945	105,241,167	10,883,222	12%
Net gain from measurement of financial instruments at fair value	1,940,516	7,932,797	5,992,281	309%
(Loss) / Profit from sold or derecognized assets at amortized cost	(9,429)	27,417	36,846	391%
Differences in quoted prices of gold and foreign currency	(2,692,459)	3,497,301	6,189,760	230%
Other operating income	5,411,025	7,680,839	2,269,814	42%
Credit loss expense on financial assets	(4,461,143)	(4,346,885)	114,258	(3%)
Net operating income after expenses, depreciation and amortization	94,546,455	120,032,636	25,486,181	27%
Employee benefits	(19,192,702)	(21,202,596)	(2,009,894)	10%
Administrative expenses	(12,726,636)	(12,800,757)	(74,121)	1%
Depreciation and amortization of fixed assets	(2,266,602)	(3,006,376)	(739,774)	33%
Other operating expenses	(19,014,152)	(22,100,895)	(3,086,743)	16%
Net operating income after expenses, depreciation and amortization	41,346,363	60,922,012	19,575,649	47%
Income from associates & joint ventures	409,655	898,428	488,773	119%
(Loss)/gain on net monetary position	(28,489,943)	(28,194,756)	295,187	n.m. (1)
Income before tax on continuing operations	13,266,075	33,625,684	20,359,609	153%
Income tax on continuing operations	(14,347,904)	(12,975,037)	1,372,867	(10%)
Net (loss)/income from continuing operations	(1,081,829)	20,650,647	21,732,476	n.m.
Net (loss)/income of the fiscal year	(1,081,829)	20,650,647	21,732,476	n.m.
Net (loss)/income of the fiscal year attributable to controlling interest	(1,082,089)	20,650,410	21,732,499	n.m.
Net (loss)/income of the fiscal year attributable to non-controlling interest	260	237	(23)	(9%)

(1) n.m. means not meaningful

2019 and 2018

Our consolidated net income from continuing operations for fiscal year ended as of December 31, 2019 shows an increase of Ps. 21,732.5 million as compared to fiscal year ended as of December 31, 2018. This increase was primarily attributable to a:

- An increase in net interest income of Ps. 13,621.7 million or 18%.
- An increase in net income from measurement of financial instruments at fair value of Ps. 5,992.3 million or 309%.
- An increase in differences in quoted prices of gold and foreign currency of Ps. 6,189.8 million, from a loss of Ps. 2,692.5 million in 2018 to a gain of Ps. 3,497.3 million in 2019.
- An increase in other operating income of Ps. 2,269.8 million or 42%.

The aforementioned profits increase in consolidated net income from continuing operations was partially offset by:

- A decrease in net commissions income of Ps. 2,738.5 million or 13%.
- An increase in total operating expenses of Ps. 5,910.5 million or 11%.

Interest income

The components of our interest income for the years ended December 31, 2019 and 2018 were as follows:

INTEREST INCOME	Year Ended December 31,	
	2018 (1)	2019
	(in thousands of Pesos)	
Interest on Cash and bank deposits	42,687	260,610
Interest from government securities	31,260,571	64,664,166
Interest from debt securities	348,004	1,427,062
Interest on loans and other financing		
To the financial sector	2,197,293	2,072,660
To the non financial private sector		
Interest on overdrafts	10,106,400	16,100,277
Interest on documents	6,166,140	5,578,114
Interest on mortgages loans	7,679,158	8,103,107
Interest on pledged loans	1,104,655	628,394
Interest on personal loans	38,887,756	29,990,766
Interest on credit cards	13,057,582	13,206,022
Interest on financial leases	303,456	181,747
Interest on other	8,368,521	6,068,720
Interest on Repos		
From the Central Bank	49,333	406,144
Other financial institutions	642,703	2,878,851
Total Interest income	120,214,259	151,566,640

(1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. See “*Presentation of certain financial and other information*”.

2019 and 2018

Our interest income increased 26% or Ps. 31,352.4 million as compared to fiscal year ended December 31, 2018, mainly due to higher interest from government securities, from debt securities, interest on repos and interest on overdrafts.

Interest from government securities and debt securities increased 109% or Ps. 34,482.7 million. Interest derived from government securities increased by 107%, or Ps. 33,403.6 million, given the Central Bank’s policy and incentives for banks to invest in Leliqs. The average placements in instruments issued by the Central Bank increased approximately 32% in 2019. The nominal interest rates of these instruments increased on average more than 28.9 percentage points in such year.

Interest on repos increased 375% or Ps. 2,593 million as compared to fiscal year ended December 31, 2018, due to an increase of 267% in average volume and a 17.7 percentage points in nominal average interest rate.

Interest on loans decreased 7%, or Ps. 5,941.2 million, mainly as a result of a 23% or Ps. 8,897 million decrease in interest on personal loans, and a 27% or Ps. 2,299.8 million decrease in interest on other loans. This decrease was partially offset by a 59% or Ps. 5,993.9 million increase in interest on overdraft.

The total decrease in interest on loans was a result of a decrease in average volume partially offset by an increase in average rates for total portfolio. Moreover, private sector loans as a whole decreased in average volume by 22.6% while the nominal average interest rate increased 11.2 percentages points.

Interest expenses

The components of our interest expenses for the years ended December 31, 2018 and 2019 were as follows:

<u>INTEREST EXPENSE</u>	<u>Year Ended December 31,</u>	
	<u>2018 (1)</u>	<u>2019</u>
	(in thousands of Pesos)	
From deposits		
Interest on checking accounts	1,024,805	394,448
Interest on saving accounts	633,960	658,507
Interest on time deposits and investments accounts	39,794,118	58,225,160
Interest on financing received from Central Bank of Argentina and other financial institutions	229,263	264,292
For repo transactions		
Other financial institutions	336,326	336,492
Interest on corporate bonds	2,788,216	2,387,574
Interest on subordinated corporate bonds	1,530,595	1,703,391
Interest on other financial liabilities	89,033	187,095
Total interest expense	46,426,316	64,156,959

- (1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. See “*Presentation of certain financial and other information*”.

2019 and 2018

Interest expense increased 38% or Ps. 17,730.6 million as compared to 2018, mainly due to interest paid on time deposits portfolio.

Interest on deposits represented 92% of total interest expense and increased by 43% or Ps. 17,825.2 million, as compared to fiscal year ended December 31, 2018. The increase in interest on deposits was mainly due to an increase in nominal interest rates during fiscal year 2019, from 12.5% on average in fiscal year ended December 31, 2018 to 22.3% on average in fiscal year ended December 31, 2019 for private sector deposits (approximately an increase of 10 percentage points). Additionally, during 2019 average volume of interest bearing deposits decreased 7%, the peso deposits decreased 13% and foreign currency deposits increased 9%.

Net gain from measurement of financial instruments at fair value

2019 and 2018

Net gain from measurement of financial instruments at fair value increased 309% or Ps. 5,992.3 million compared to 2018, primarily due to: i) A gain from investments instruments of Ps. 3,307 million (remaining equity interest of Prisma S.A. and its inflation adjustment of 2019); ii) A gain from instruments of derivatives (forwards transactions) of Ps. 1,123 million and iii) a gain from government securities (TC21 – BONCER 2021) of Ps. 1,046 million.

Net Commissions income

The following table provides a breakdown of our commissions income by category for the years ended December 31, 2018 and 2019:

NET COMMISSIONS INCOME	Year Ended December 31,	
	2018 (1)	2019
	(in thousands of pesos)	
AFIP & Collection services	126,693	138,920
Fees charged on deposit accounts	9,704,802	7,727,146
Mutual funds & securities fees	160,305	273,147
ATM transactions fees	897,444	1,091,207
ANSES fees	53,289	44,015
Insurance fees	1,297,810	1,169,363
Corporate services fees	1,880,653	2,133,355
Financial agent fees (Provinces)	1,015,210	1,011,337
Debit card fees	798,557	990,136
Credit card fees	5,061,414	4,096,929
Credit related fees	1,004,514	765,878
Total commissions income	22,000,691	19,441,433
Total commissions expense	(1,430,689)	(1,609,947)
Net commissions income	20,570,002	17,831,486

(1) Figures stated in thousands of pesos adjusted for inflation as of December 31, 2019. See “*Presentation of certain financial and other information*”.

2019 and 2018

Net commission income decreased by 13%, or Ps. 2,738.5 million in 2019, mainly due to a decrease in total commissions income.

Total commissions income decreased by 12% or Ps. 2,559.3 million in 2019 compared to fiscal year ended December 31, 2018, primarily due to a 20% or Ps. 1,977.7 million decrease in fees charged on deposit accounts, a 24% or Ps. 238.6 million decrease in credit related fees and a 19% or Ps. 964.5 million decrease in credit cards fees. These decreases were partially offset by a 22% or Ps. 193.8 million increase in ATM transaction fees and a 13% or Ps. 252.7 million increase in corporate services fees.

Although in 2019 there was an increase in income fee in terms of nominal value, as a result of the higher amount of accounts/clients and transactions, as well as the increase in applicable tariffs, the evolution of these fees did not offset the inflationary effect. The main increases in nominal values obey to an increase in maintenance costs of savings accounts and in the services of retirement payments and unemployment subsidies provided by the Bank, as well as an increment in credit/debit card commissions resulting from an increase in tariffs and higher consumption.

Total commissions expense increased by 13% or Ps. 179.3 million compared to fiscal year ended December 31, 2018, due to a 29% or Ps. 175.6 million increase in commissions paid to ATM's exchange.

Differences in quoted prices in gold and foreign currency

2019 and 2018

In fiscal year ended December 31, 2019, the difference in quoted prices of gold and foreign currency totaled Ps. 3,497.3 million representing a 230% or Ps. 6,189.8 million increase compared to 2018, originated as the combination of different factors: i) the change of foreign exchange position, from a negative position (liability) in average in fiscal year 2018 to a positive position (asset) on average during fiscal year 2019, ii) the increase in the exchange rate, from an annual average of Ps. 28.0937 during fiscal year 2018 to an annual average Ps. 48.2423 in fiscal year 2019, and iii) 48% or Ps. 1,180 million increase in result of foreign currency trading.

Other operating income

The components of our other operating income for the years ended December 31, 2018 and 2019 were as follows:

<u>OTHER OPERATING INCOME</u>	Year ended December 31,	
	2018 (1)	2019
	(in thousands of Pesos)	
Credit and debit cards	331,280	220,421
Lease of safe deposit boxes	412,607	428,950
Other service related fees	693,381	749,476
Sale of real estate and other non-financial assets	75,383	—
Other adjustments and interest from other receivables	407,755	787,089
Initial recognition of loans	121,600	119,856
Sale of property, plant and equipment	58,375	—
Others	3,310,644	5,375,047
Other Operating Income	5,411,025	7,680,839

- (1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. See “*Presentation of certain financial and other information*”.

2019 and 2018

Other operating income increased 42% or Ps. 2,269.8 million, mainly due to a 62% or Ps. 2,064.4 increased in Others related to the results of sale of the 51% equity interest in PRISMA Medios de Pagos S.A. registered in the first quarter 2019 (for further information please see note 21 to our audited consolidated financial statements as of December 31, 2019 and 2018).

Employee benefits and administrative expenses

The components of our employee benefits and administrative expenses for the years ended December 31, 2018 and 2019 were as follows:

<u>EMPLOYEE BENEFITS AND ADMINISTRATIVE EXPENSES</u>	2018 (1)	
	2019	
	(in thousands of Pesos)	
Employee benefits	19,192,702	21,202,596
Remunerations	14,487,872	14,659,764
Payroll taxes	2,819,542	4,303,126
Compensation and bonuses to employees	1,405,378	1,749,590
Employee services	479,910	490,116
Administrative Expenses	12,726,636	12,800,757
Taxes	1,707,051	1,515,681
Maintenance, conservation and repair expenses	1,684,199	1,715,812
Fees to directors and syndics	1,338,022	2,071,603
Security services	1,331,120	1,184,114
Electricity and communications	1,094,525	1,185,887
Other fees	1,043,481	1,012,093
Leases	612,437	225,273
Advertising and publicity	558,242	472,968
Representation, travel and transportation expenses	214,905	197,972
Stationery and office supplies	109,690	102,209
Insurance	114,796	121,477
Hired administrative services	123,144	85,610
Other	2,795,024	2,910,058
Total Employee benefits and Administrative Expenses	31,919,338	34,003,353

- (1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. See “*Presentation of certain financial and other information*”.

2019 and 2018

Employee benefits and administrative expenses increased by 7%, or Ps. 2,084 million, in 2019, due to an increase in employee benefits and fees to directors and syndics.

Employee benefits rose 10% or Ps. 2,009.9 million, mainly due to a 53% or Ps. 1,483.6 million increase in Social security contribution (for further information please see note 49 “Tax and Other Claims”) to our audited consolidated financial statements as of December 31, 2019 and 2018 and a 24% or Ps. 344.2 million increase in Compensation and bonuses of (related to severance payments occurred in the last quarter 2019).

Fees to Directors and syndics increased 55% or Ps. 733.6 million as compared to fiscal year 2018.

Other operating expenses

The components of our other operating expenses for the years ended December 31, 2018 and 2019 were as follows:

<u>OTHER OPERATING EXPENSES</u>	Year ended December 31,	
	2018 (1)	2019
	(in thousands of Pesos)	
Turnover tax	10,825,343	10,231,629
Charges for other provisions	1,993,045	1,431,716
Deposit guarantee fund contributions	569,938	575,881
Donations	163,739	279,547
Insurance claims	101,389	59,595
Punitive interests and other Central Bank’s penalties	183	426
Other	5,360,515	9,522,101
Other Operating Expenses	19,014,152	22,100,895

- (1) Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019. See “*Presentation of certain financial and other information*”.

2019 and 2018

Other operating expenses increased 16% or Ps.3.086.7 million mainly due to an increase in Others which rose 78% or Ps. 4,161.6 million. The increase in Others is related to these concepts: i) Losses in the amount of Ps. 2,866 million due to reprofiling of short term debt (Lecaps, Lelink, Letes, Lecer Notes) announced by the Argentine government on August 19, 2019 (for further information please see note 20 “Modifications of Financial Assets” to our audited consolidated financial statements as of December 31, 2019 and 2018) and ii) Ps.1,333 million related to Charges on social security contributions (for further information please see note 49 “Tax and Other Claims 49.1 c)”) to our audited consolidated financial statements as of December 31, 2019 and 2018. The increase in Others was offset by a 5% or Ps. 593.7 million and a 28% or Ps. 561.3 million decrease in turnover tax and charges for other provisions respectively.

Loss on net monetary position

2019 and 2018

The loss generated by the net monetary position in fiscal year 2019 was 1% or Ps. 295 million lower than that recorded in 2018, moving from Ps. 28,492 million loss in 2018 to Ps. 28,195 million loss in 2019, as a consequence of the movements of the net monetary position during the year and the evolution of the inflation rate in comparison with the previous year.

B. Liquidity and Capital Resources

Our main source of liquidity consists of deposits, which totaled Ps. 262,865.4 million as of December 31, 2019, Ps. 366,049.5 million as of December 31, 2018 and Ps. 327,360.6 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 7% of our total deposits as of December 31, 2019 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 10% in nominal value in 2019 compared to 2018, represented 78% of our total liabilities as of December 31, 2019. 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, 2019, we had liquid assets up to Ps. 154,151 million, primarily comprised of cash and due from banks (Ps. 100,680 million) and LELIQS (Ps. 45,932 million). During 2019, the liquidity ratio increased from 57.1% as of December 31, 2018 to 59.0% as of December 31, 2019. 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 Resetable Notes due 2026 (Series A), for a nominal amount of U.S.\$400 million. In addition, on May 8, 2017, we issued our 17.50% Notes due 2022 (Series B), for a nominal amount of Ps.4,620.6 million, and on April 9, 2018 we issued our Notes, at a Badlar Rate, plus 3.5% due 2021 (Series C), 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 April 10, 2019 the board of Directors decided to use the maximum amount of the Global Notes Program for the Issuance of Corporate Bonds Approved on April 27, 2018, i.e., U.S.\$ 1,000,000,000 (one billion U.S. dollars) or an equal amount in other currencies or value units, for the issuance of Corporate Bonds under CNV frequent issuers system.

On October 17, 2018, the board of directors decided to cancel Series B Notes for a nominal value of Ps.1,229.5 million and on October 16, 2019 the board of directors decided to cancel Series B Notes for a nominal amount of Ps. 501.9 million, equivalent to the amounts of purchases of those issuances as of those dates. As of the date of this annual report and after the dates indicated in the preceding paragraph, we have made purchases for a nominal value of Ps. 496.9 million, with an outstanding nominal value of Ps. 2,392.3 million.

On October 16, 2019 and on January 29, 2020, the board of directors decided to cancel Series C Notes for a nominal value of Ps. 750.5 million and Ps. 44 million respectively, equivalent to the amounts of purchases of this issuance as of that dates. As of the date of this annual report, the outstanding nominal value is Ps. 2,413 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, 2019, we had excess regulatory capital of Ps. 69,009 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 51 "Capital Management, Corporate Governance Transparency and Risk Management" to our audited consolidated financial statements as of December 31, 2019 and 2018. Additionally, for further information regarding our restricted assets and trust agreements please see notes 43 "Restricted assets" and 44 "Trust activities" to our audited consolidated financial statements as of December 31, 2019 and 2018.

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 (1)	2019 (1)
	(in thousands of Pesos, except ratios and percentages)		
Calculation of excess capital:			
Allocated to assets at risk	11,023,213	15,609,273	21,403,835
Market risk	184,406	212,280	591,252
Operational risk	3,219,309	4,615,577	7,562,571
Required minimum capital under Central Bank Rules	14,426,928	20,437,130	29,557,658
Ordinary capital Level 1 (Con1)	41,709,067	52,285,150	83,090,092
Deductible concepts COn1	(1,021,975)	(3,046,813)	(10,637,093)
Additional capital Level 1 (CAn1)	18,074	120	—
Capital Level 2 (COn2)	8,836,474	16,874,710	26,113,428
Total capital under Central Bank Rules	49,541,640	66,113,167	98,566,427
Excess capital	35,114,712	45,676,037	69,008,769

(1) These amounts are not adjusted for inflation.

As of December 31, 2019, 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, 2018 and 2019.

	As of December 31,		
	2017 (1)	2018 (1)	2019
	(in thousands of Pesos)		
Deposits			
From the non-financial government sector	29,278,650	29,707,339	17,560,282
From the financial sector	184,791	228,091	314,162
From the non-financial private sector and foreign residents			
Checking accounts	47,194,452	37,592,904	40,123,987
Savings accounts	101,146,616	105,675,105	90,727,971
Time deposits	141,669,340	186,291,233	106,068,177
Investment accounts (2)	97,559	230,979	2,428,549
Other (3)	7,789,184	6,323,840	5,642,226
Financing received from the Central Bank of Argentina and other financial entities			
Central Bank	26,090	37,576	26,982
Banks and international institutions	380,166	3,997,749	1,876,666
Financing received from Argentine financial entities	2,260,503	576,514	342,156
Other Financial Liabilities	23,987,660	23,559,130	22,169,608
Unsubordinated Corporate Bonds	10,702,857	9,810,217	5,525,039
Subordinated Corporate Bonds	17,184,109	23,518,130	24,311,663
Shareholders' equity	109,900,637	93,692,941	106,056,386
Total funding	491,802,614	521,241,748	423,173,855

- (1) *Figures stated in thousands of Pesos adjusted for inflation as of December 31, 2019 and considering the merger effects mentioned in note 2.4 to our audited consolidated financial statements as of December 31, 2018 and 2019. 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 the 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.

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. On December 23, 2019 was passed Law 27,541 which suspends, until fiscal years beginning on January 1, 2021 included, the income tax reduction. Significant matters related to the tax reform are discussed in Note 3.13) and 28) 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, 2019 and 2018.

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 are under the direction of the accounting and financial management.

At level 3, we mainly hold Equity instruments at fair value through profit or loss (which comprises Prisma Medios de Pago SA) and a put option taken for the mentioned holding. Additionally, the other instruments measured as level 3 include debt securities and certificates of participation in financial trusts.

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 12 to our audited consolidated Financial Statements.

Impairment of financial assets

The expected credit loss (ECL) allowance is a forward-looking approach which 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. We are required 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).

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 51.1 to our audited consolidated Financial Statements.

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 provide value to our shareholders will depend, among other factors, upon the economic growth of the Argentine economy and the related growth of the 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 2020, we expect the Argentine economy to continue in recession, showing a decrease in real terms, inflation to be similar or higher than last year's level, affected by the consequences of the worldwide COVID-19 pandemic. As many other affected countries, Argentina has decided to reduce nominal interest rates to fuel the economy and, in the first part of the year, it might have negative real interest rates.

In addition, we expect deposits and loans to grow below inflation levels while margins are expected to narrow. Moreover, efficiency measured as expenses over net financial and fee income is expected to deteriorate.

The uncertainty resulting from the Argentine government's debt restructuring process and the economic impact of COVID-19 is likely to result in cautious economic decision making by the Argentine government. For further information, please see *"Risk Factors—Risk relating to Argentina—The result of the debt restructuring and the impact of COVID-19 in Argentina is uncertain, which creates uncertainty in the Argentine economy and consequently in our business and the results of our operations."*

Potential impact related to COVID-19 pandemic

On March 20, 2020, the Central Bank decided that bank branches in Argentina should remain closed. From April 3 until April 10, 2020, branches were allowed to open with limited hours, only for the attention of beneficiaries of pension schemes and certain retirement benefits and beneficiaries of aid programs funded by the ANSES. During this period, the rest of the banking activities were performed only through digital platforms. Further, since April 13, 2020, we have reopened only for a limited number of services, and only by prior appointment, with teller services initially restricted to pensioners and social plan beneficiaries subject to certain health and security measures. Additionally, on April 20, 2020, the Central Bank allowed the provision of teller services exclusively for deposits in, and withdrawals from, foreign currency accounts.

Potential impact on future operations:

In order to provide liquidity and financial assistance mainly to PyMEs, the Central Bank has issued several regulations to help them carry on with their business activities and maintain payroll payments, including regulations allowing for delayed payments on credit cards, mortgages and other loans, and the provision of an additional 60 days of non-payment before a debtor is required to be re-classified in accordance with Central Bank regulations. Banco Macro is actively involved in these initiatives and believes its liquidity ratios are adequate. For further information, see *"Recent Developments – Measures implemented to address the COVID-19 outbreak"*.

In recent years, and increasingly since the beginning of the COVID-19 pandemic, we have been prompting customers to join our digital platforms to reduce the number of clients attending ATMs, ATSS and branch offices, together with prevention and personal hygiene recommendations.

In this context, remote availability of funds, processes and services will become more relevant. Demand of debit cards and access to our *home banking* and app have increased and are expected to continue growing.

We have adopted new ways to operate, such as allowing funds withdrawals without a debit card, and we enabled password renewal and saving account openings with biometric technology.

Since the start of the mandatory lock-down, there has been a significant increase in transactions through digital platforms. Particularly, monetary transactions made through *home banking* and Mobile platforms increased by 118% in period between February and May. In addition, digital customers increased approximately by 22% since February.

We expect to provide access to credit with special terms and conditions to the sectors that have been most affected by the commercial slowdown. Such credit is expected to be subsidized by the Argentine government.

Banco Macro has been involved in different actions in order to facilitate clients' financial needs. For example, it has made available the following credit for payroll payments and capital expenditures, among others:

- Approximately Ps.15,000 million has been available for credit lines to MiPyMEs at a rate of 24%.
- An special credit line to pay salaries called "Asistencia pago de sueldos" is available to more than 6,000 clients for a total amount of approximately Ps. 6,000 million, approximately Ps. 3,500 million is expected to be guaranteed by the Fondo de Garantías Argentino (FoGAR).

As of the date of this annual report, the Bank has granted more than Ps. 20,000 million in loans under these programs in 2020.

Potential impact on operating results and solvency

The COVID-19 pandemic will have an adverse impact on different sectors of the Argentine economy. In this context, and especially where restrictions on the mobility of customers and their suppliers are in force, sales volumes have decreased, adversely impacting the generation of income from certain product lines. There has been a decrease in the demand for consumer loans. Regarding our credit card portfolio, there has been a decrease in the volume of consumption focused on industries directly affected by the nation-wide lockdown, such as tourism, clothing, and restaurants, among others.

As a consequence, the COVID-19 crisis may affect the Bank's ability to generate financial and fee income, and therefore its operating results and solvency. The Central Bank has been lowering interest rates and eliminating certain fees to customers as a way to assist the most affected sectors. Additionally, an increase in non-performing loans in the financial system, including in the Bank's loan portfolio, is expected.

On the other hand, there are certain factors that could potentially partially offset the previously mentioned impacts. First, the Bank's cash position in branches and ATMs was relatively high at the beginning of the crisis, while after reopening of the branches the cash position has been decreasing. In addition, the limitations on LELIQ positions was partially offset by maintaining LELIQs' interest rates unchanged. Since the beginning of the COVID-19 pandemic, the cost of liabilities has been declining as deposit interest rates have been falling sharply, and non-interest bearing deposits are growing much faster than time deposits. Moreover, we believe that the Bank has the highest capital base and excess capital in the Argentine financial system and, therefore, it should be well positioned to manage this crisis. Finally, the Bank is highly liquid in local and foreign currency.

The Bank has a low leveraged balance sheet (4.8% of asset to equity ratio as of December 31, 2019). In addition, deposits represented 78% of total liabilities as of December 31, 2019, where transactional and time deposits represented 54% and 46%, respectively, of total deposits. This explains the capacity of our transactional and structural base of retail deposits to fund our assets.

The Bank's exposure to public sector debt (excluding Central Bank instruments) as of December 31, 2019 was 6.5% of total assets, mainly concentrated in short-term peso instruments. Moreover, the Bank's liquidity does not rely on instruments issued by the Argentine government that are expected to be restructured in 2020.

Regarding liquidity mismatches, although the Bank's liabilities are mostly short-term (sight deposits and 30 to 60 day term deposits), the nature of this funding is mainly transactional, as discussed above.

Potential impact on the quality of the Bank's asset portfolio

The COVID-19 pandemic and the nation-wide lockdown are negatively impacting the national economy, resulting in higher expected defaults by borrowers. However, the steps taken by the Argentine government, the Central Bank and other governmental agencies, have helped mitigate the impact of such defaults on the financial system in the second quarter of 2020.

Companies with exposure to the domestic market (as retail or construction) were already in a tight financial situation and were further affected by the sudden stop of the economic activity resulting from the lockdown, the end of which is uncertain and probably will be gradual. The COVID-19 pandemic also affects some export markets (as automobiles, warehouses, refrigeration companies or regional productions). There are other sectors that, even after the lockdown, will continue with reduced or almost zero sales levels, either due to the lack of purchasing power of individuals or due to changes in people's habits (as tourism, passenger transport, gambling, resorts, gastronomic services, and retail credits, among others).

The Bank will also be affected by the circumstances described above and an increase in the charges for uncollectibility and impairment of its assets subject to credit risk is expected. Nevertheless, we expect a solid performance of the active loan portfolio, given the sensible credit policies enforced by the Bank, with risk diversification in sectors and regions; almost no exposure in the most affected sectors (as for tourism, air transportation or airports); retail financing oriented to the most solid companies in the market; wide relative participation of financing linked to the agricultural primary production and the agro-industry, two of the sectors among the least affected by the COVID-19 pandemic; among other reasons.

With regard to consumer and housing loans, we estimate an increase in default of loans granted to workers of the private sector, as well as self-employed professionals and microenterprises, derived in the first case from layoffs, suspensions and loss of purchasing power and the fall in sales and domestic consumption during and after the COVID-19 pandemic, in the latter case. In this regard, the Bank has adopted credit policies aimed at low-risk or well-scored customers, with a high relative share of loans to retirees and public sector employees, whose income and payment capacity are more stable and whose assets are credited to the Bank, which is why we expect the consumption credit portfolio to have a higher performance than in the rest of the financial institutions.

Finally, despite the measures adopted by the Central Bank to temporarily reduce the default levels, Banco Macro's accounting statements will recognize the expected credit losses prospectively, incorporating the impact of new macroeconomic scenarios on the variables affecting credit risk, in accordance with the provision of IFRS 9.

Potential impact on assets

The Bank's asset structure is mainly short-term, with 59% of total assets comprised of cash and liquid instruments as of December 31, 2019. Additionally, as of December 31, 2019, long-term loans such as mortgages represented only 11% of total assets. Commercial loans such as overdrafts and documents, and retail loans such as credit cards, contribute to the relatively low average tenor of the loan portfolio.

We could also be impacted by lower valuations of financial assets affected by restructurings or mandatory maturity deferrals.

We continue to assess the impact of COVID-19 on our assets and our statement of financial position generally.

Potential impact on human capital resources

Due to the COVID-19 pandemic, the Bank has implemented a remote-work arrangement, through which employees can remotely access the Bank's systems, supporting the continuity of operations and working to maintain adequate standards of internal control over financial information. Approximately 95% of employees at our central offices are working from home as of the date of this annual report.

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:

	2017	As of December 31, 2018 (In millions of Pesos)	2019
Financial System (Central Bank Rules) (1)			
Total loans	1,737,093	2,365,472	2,883,383
Total deposits	2,445,998	4,084,868	4,838,143
Banco Macro (Central Bank Rules) (1)			
Total loans	131,709	177,969	218,774
Total deposits	144,129	237,957	262,865

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 in nominal values by 22% in 2019, and amounted to Ps. 2,883,383 million as of December 31, 2019, 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 in nominal values by 18% in 2019, driven by private sector deposits. Private sector deposits increased by 27% in 2019, amounting to Ps. 4,003,513 million as of December 31, 2019. Public sector deposits decreased by 12% in 2019, amounting to Ps. 754,244 million. Our portfolio shows the same trend in nominal value that the financial system as a whole shows.

Private sector lending

In 2019, loans to the private sector grew 21% 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 23% in nominal value compared to the balance as of December 31, 2018, as shown in the following table:

	2017	As of December 31, 2018 (In millions of Pesos)	2019
Financial System (Central Bank Rules) (1)			
Private sector loans	1,655,049	2,254,468	2,721,098
Banco Macro (Central Bank Rules) (1)			
Private sector loans	125,930	170,807	209,613

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.

Asset Quality

As of December 31, 2019, the non-performing credit portfolio level reached 5.7% of the total credit portfolio, whereas the coverage ratio level reached 92% 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 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, but with milder results, the ratio of non-performing portfolio reached a level of 2.1% while the coverage ratio amounted to 123%, as of December 31, 2019, based on Central Bank Rules.

The table below reflects our asset quality and that of the financial system as of December 31, 2017, 2018 and 2019:

	2017	As of December 31 2018	2019
Financial System (Central Bank Rules)			
Non-performing lending ratio (1)	1.7%	3.0%	5.7%
Coverage ratio (2)	151%	121%	92%
Banco Macro (Central Bank Rules)			
Non-performing lending ratio (1)	1.1%	1.9%	2.1%
Coverage ratio (2)	182%	118%	123%

Source: Central Bank for Financial System. See "Market and Central Bank Data".

- (1) 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.
- (2) Allowances for un-collectability risk as a percentage of non-performing credit portfolio.

Profitability

In 2019 the profitability of the financial system increased by 110% in nominal values, achieving a total of Ps. 302,799 million as of December 31, 2019, representing a 5.2% return on assets and 44.9% on equity.

The table below reflects our profitability and that of the financial system as of December 31, 2017, 2018 and 2019:

	2017	As of December 31, 2018	2019
Financial System (Central Bank Rules) (1)			
Total income (in millions of Pesos)	77,709	144,428	302,799
Return on average equity	23.4%	36.1%	44.9%
Return on average assets	2.7%	4.1%	5.2%
Banco Macro (Central Bank Rules) (1)			
Total income (in millions of Pesos)	10,290	15,730	41,563
Return on average equity	31.4%	30.7%	59.0%
Return on average assets	5.7%	5.8%	10.4%

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 transactions and financial instruments with off-balance sheet risk see note 10 "Contingent transactions" and note 48 "Off balance sheet transactions" to our audited consolidated financial statements as of December 31, 2019 and 2018.

F. Contractual Obligations and Commercial Commitments

The following table represents our contractual obligations and commercial commitments, excluding undrawn commitments of credit cards and checking accounts, as of December 31, 2019:

	Maturing				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Contractual Obligations					
Financing received from the Central Bank of Argentina and other financial entities	2,245,804	2,059,767	180,935	5,102	—
Issued Corporate Bonds	5,525,039	250,119	5,274,920	—	—
Subordinated Corporate Bonds	24,311,663	353,663	—	—	23,958,000
Other Financial Liabilities	21,252,660	21,096,300	151,686	4,674	—
Operating Leases	916,948	335,422	279,249	149,832	152,445
Total contractual obligations	54,252,114	24,095,271	5,886,790	159,608	24,110,445
Commercial commitments					
Lines of credit	1,052,364	1,052,364	—	—	—
Guarantees	1,719,015	1,709,091	9,674	250	—
Standby letters of credit	446,470	446,470	—	—	—
Total commercial commitments	3,217,849	3,207,925	9,674	250	—

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 our board as of the date of this annual report:

Name	Position	Age	Year First Appointed as Director	Year of Expiration of Term
Jorge Horacio Brito	Chairman	67	2002	2022
Delfin Jorge Ezequiel Carballo	Vice Chairman	67	2002	2020
Jorge Pablo Brito	Director	40	2002	2021
Carlos Alberto Giovanelli	Director	63	2016	2021
Nelson Damián Pozzoli	Director	54	2016	2021
Fabián Alejandro de Paul (1)	Director	56	2016	2021
Guillermo Merediz (1)(2)	Director	43	2020	2021
Constanza Brito	Director	38	2007	2020
Mario Luis Vicens (1)	Director	68	2016	2020
Juan Martín Monge Varela (1)(2)(3)	Director	44	2017	2020
Guillermo Eduardo Stanley	Director	72	2018	2020
Delfin Federico Ezequiel Carballo	Director	35	2015	2022
Ramiro Tosi (1)	Director	44	2020	2022
Santiago Horacio Seeber	Alternate Director	43	2018	2021
Alan Whamond (1)	Alternate director	58	2019	2021
Vacancy (4)	Alternate Director			

(1) Independent Director under CNV Rules

(2) Proposed by ANSES-FGS.

(3) Mr. Juan Martín Monge Varela submitted his resignation on March 12, 2020, effective as of the appointment of his successor by the Shareholders' Meeting, and accepted by the Board on March 18, 2020. The General and Special Shareholders' Meeting held on April 30, 2020 resolved, upon a motion made by the shareholder ANSES-FGS, to call a 30-day recess for the appointment of his successor and therefore Mr. Juan Martín Monge Varela will continue in his position until the effective appointment of his successor once the shareholders' meeting is resumed on May 27, 2020.

(4) Since the General and Special Shareholders' Meeting held on April 30, 2020 resolved, upon a motion made by the shareholder ANSES-FGS, to call a recess for the appointment of an alternate director to act in the place of Mr. Alejandro Guillermo Chiti, who submitted his resignation on March 12, 2020 and which resignation was accepted by the Board on March 18, 2020, such office remains vacant until the effective appointment of his successor once the shareholders' meeting is resumed next May 27, 2020.

The following family relationships currently exist within our Board of Directors:

- (i) Jorge Horacio Brito and Delfin Jorge Ezequiel Carballo are brothers-in-law;
- (ii) Jorge Pablo Brito is the son of Jorge Horacio Brito and the nephew of Delfin Jorge Ezequiel Carballo;
- (iii) Constanza Brito is the daughter of Jorge Horacio Brito and the niece of Delfin Jorge Ezequiel Carballo;
- (iv) Jorge Pablo Brito and Constanza Brito are siblings;
- (v) Delfin Federico Ezequiel Carballo is the son of Delfin Jorge Ezequiel Carballo and the nephew of Jorge Horacio Brito;
- (vi) Delfin Federico Ezequiel Carballo and Jorge Pablo 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,
- asset laundering and terrorist financing prevention 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	50
Jorge Francisco Scarinci	Chief Financial Officer and Finance Manager	49
Gerardo Adrián Álvarez	Administration Manager	50
Marcelo Agustín Devoto	Investment Banking Manager	43
Alberto Figueroa	Internal Audit Manager	59
Ana María Magdalena Marcet	Credit risk manager	59
Juan Domingo Mazzon	Government Banking and Management Control Manager	46
Ernesto Eduardo Medina	Human resources Manager	53
María Milagro Medrano	Institutional relations and customer services Manager	43
Francisco Muro	Distribution and sales Manager	47
Adrián Mariano Scosceria	Corporate Banking Manager	54
Ernesto López	Legal Manager	47
Leonardo Rodolfo Maglia	Technology Manager	51

Set forth below are brief biographical descriptions of members of our directors and our senior management:

Jorge Horacio Brito, was born on July 23, 1952. He was appointed as the chairman of our board of directors on April 30, 2020 and previously he had been the chairman until April 23, 2015. He has been with our bank since June 1988. He also serves as chairman of the board of directors of Inversora Juramento S.A.

Delfín Jorge Ezequiel Carballo was born on November 21, 1952. Mr. Carballo was appointed as the vice chairman of our board of directors on April 30, 2020, and previously he had been the chairman of the Board of Directors since April 27, 2018 and the vice chairman of our Board of Directors until April 23, 2015. He was reappointed vice chairman on April 26, 2016 until April 27, 2018. He holds a law degree from 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. and as alternate director of BYMA S.A.

Jorge Pablo Brito was born on June 29, 1979. Mr. Brito is a member of our Board of Directors and was the vice chairman of our Board of Directors since April 27, 2018 until April 30, 2020. 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., Coy Aike S.A and Genneia S.A. and as vice chairman of the Board of Directors of Inversora Juramento S.A.

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 Havanna S.A., Desarrollo PI S.A., and Inverlat Investments S.A. He is also vice chairman of Impresora Contable S.A, Havanna 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 Impresora Contable S.A., QSR S.A., Desarrollo Pi S.A. and Cablevisión Holding S.A. Furthermore, he serves as alternate Director of Havanna S.A. and Havanna 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.

Guillermo Merediz was born on December 12, 1976. He was appointed as director on April 30, 2020. Mr. Merediz holds a degree in economics from the Facultad Latinoamericana de Ciencias Sociales. Mr. Merediz was appointed on December, 2019, Secretary of PyMES at the Ministry of Production.

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 director of Visora Desarrollos Inmobiliarios S.A..

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 Universidad Argentina de la Empresa (UADE).

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 S.A., Havanna S.A. and Havanna Holding S.A. and as alternate director of Genneia S.A. He is vice chairman of Santa Genoveva S.A. and Argenpay S.A.U.

Ramiro Tosi, was born on June 17, 1975. He was appointed as director on April 30, 2020. Mr Tosi holds a degree in economics from Universidad de la Plata. Mr. Tosi was appointed on December, 2019, as Subsecretary of Financiamiento at the Ministry of Economy.

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 chairman of the Board of Directors of LAB Real Estate S.A. and New Lines S.A., as vice-chairman of Comercio Interior S.A. and Anglia S.A. and as director of Inversora Juramento S.A., Frigorífico Bermejo S.A., MediaInvest S.A., and Macro Warrants S.A.

Alan Whamond was born on May 13, 1961. He has been a member of our Board of Directors since April 30, 2019. Mr. Whamond holds a degree in industrial engineer from Instituto Tecnológico de Buenos and a Master's degree in Finance from 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, and the Risk Management Committee. Mr. Manriquez holds a degree in Business Management from Universidad de Belgrano and a Master's 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. He also serves as director of Macro Securities S.A.

Gerardo Adrián Alvarez was born on December 13, 1969. He is our Administration Manager. Mr. Alvarez holds a law degree from the Instituto Universitario Policía Federal Argentina and a post-graduate degree in Money Laundering from Universidad Torcuato Di Tella. He has been with us since January 2006.

Marcelo 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 post-graduate degree in Finance from Universidad Torcuato Di Tella. He joined us in December 2000. He also serves as president of Macro Bank Limited, as vice president of Macro Securities S.A. and as director of Macro Fiducia S.A.

Alberto Figueroa was born on September 1, 1960. He is our Internal Audit Manager since October 2019 and a member of the Internal Audit Committee. Mr. Figueroa holds a degree in Public Accounting from Universidad de Buenos Aires. Mr. Figueroa joined us in March 2007 and was our Manager of Comprehensive Risk Management since March 2009 until October 2019.

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 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 and Management Control since August 2019 and member of the Assets and Liabilities Committee and the Systems Committee. Mr. Juan Mazzon holds a degree in Public Accounting from Universidad Argentina de la Empresa (UADE) and holds an MBA from Vanderbilt University (USA). Mr. Mazzon joined us in October 2017.

Ernesto Eduardo Medina was born on January 9, 1967. He is our Human Resources Manager since October 2016 and a member of the Ethics and Compliance Committee. Mr. Medina holds degrees in Public Accounting and Business Management from 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.

María 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.

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 Universidad de Buenos Aires and a Master's degree from IAE (Universidad Austral). Mr. Muro joined us in August 2004. He also serves as director of Argen pay S.A.U.

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.

Ernesto López was born on October 5, 1972. He is our Legal Manager since December 2019 and a member of the Asset Laundering and Terrorist Financing Prevention Committee, the Senior Recovery Committee, the Ethics and Compliance Committee, the Senior Credit Committee and the Financial Services Users Protection Committee. Mr. López holds a Law degree from University of Buenos Aires. He also serves as director of Macro Fiducia S.A.

Leonardo Rodolfo Maglia was born on January 18, 1969. He is our Technology Manager since August 2018 and a member of the Systems Committee and the Risk Management Committee. Mr. Maglia has a degree in Computer Science from Universidad del Salvador.

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 2019 was Ps. 1,734.6 million. The aggregate nominal amount of compensation paid by Banco Macro to its senior management during 2019 was Ps. 177.3 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. 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, 2019. As of the date of this annual report, Mario Luis Vicens, Fabián Alejandro de Paul, Guillermo Merediz, Juan Martín Monge Varela, Ramiro Tosi and the alternate director 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, Enrique Alfredo Fila, Alejandro Carlos Piazza, Leonardo Pablo Cortigiani and Gustavo Macagno 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	62	2020	April 2021
Carlos Javier Piazza	Syndic	61	2020	April 2021
Enrique Alfredo Fila (1)	Syndic	61	2020	April 2021
Alejandro Carlos Piazza	Alternate syndic	65	2020	April 2021
Leonardo Pablo Cortigiani	Alternate syndic	51	2020	April 2021
Gustavo Macagno (1)	Alternate syndic	66	2020	April 2021

(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., Arganpay SAU and Seguro de Depósitos S.A. and as alternate member of the supervisory committee of Banco de Valores S.A., Empresa de Energía Río Negor S.A. and Opción Seguros 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 Securities S.A., Macro Fiducia S.A., Argenpay SAU and Banco de Valores S.A. Mr. Piazza was admitted to the Accountants Professional Association of the City of Buenos Aires in 1983.

Enrique Fila is a syndic on our supervisory committee. Mr. Fila holds an accounting degree from Universidad Nacional de la Plata. Mr. Fila also serves as member of the supervisory committee of Nación Seguros S.A., Nación Seguros de retiro S.A. and Nación Reaseguros S.A.

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., Otoba S.A., Culturagro S.A., Argenpay SAU 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., Empresa de Energía Río Negro S.A. and Argenpay SAU. 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.

Gustavo Macagno holds an accounting degree. Mr. Macagno also serves as syndic of Tandanor S.A. and Ferrosur Roca and as alternate syndic of Disribuidora de Gas Cuyana S.A. and Corporación Antiguo Puerto Madero S.A.

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 (a majority of them satisfies the independence requirements as per the CNV Rules), 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 Technology Manager and the Government Banking and Management Control 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.155,000,000 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 Government Banking and Management Control 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.

Asset Laundering and Terrorist Financing Prevention Committee. The Committee is made up of four directors, one of whom is a responsible officer designated as Compliance Officer, the Legal Manager and the senior officer responsible for the anti-laundering unit. The asset laundering and terrorist financing prevention 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 asset laundering and terrorist financing prevention committee in the examination of unusual or suspicious transactions,
- (ix) approve and follow-up on the work program submitted by the asset laundering and terrorist financing prevention 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 Risk Management Manager, the Finance Manager, the Credit Risk Manager, the Banking Operations Manager and the Technology 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 Compliance 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.

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 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 12th floor, Ing. Butty 275, City of Buenos Aires (C1001AFA). 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, 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

Financial Statements as of	Auditor	Tax ID	Firm	Address	Enrollment
December 31, 2019	Carlos M. Szpunar	20-17802096-0	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°192 F°110

Banco Macro's alternate auditor was:

Auditor	Tax ID	Firm	Address	Enrollment
Pablo M. Moreno	20-16171094-7	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°164 F°23

All the auditing firm's members are enrolled in the C.P.C.E.C.A.B.A.

D. Employees

As of December 31, 2019, we had 8,768 employees, 38% of whom worked at our headquarters and the remaining 62% 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,		
	2017	2018	2019
Headquarters	3,518	3,550	3,338
Branches	5,256	5,478	5,430
Total (1)	8,774	9,028	8,768

- (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, 8,826, 9,113, and 8,788 for 2017, 2018, and 2019, 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 April 30, 2020, the persons who were members of Banco Macro S.A.'s Board of Directors and supervisory committee held as a group a total of 228,284,949 shares of our capital stock. This represented 35.70% of our outstanding capital stock and 39.36% of the voting rights as of such date. Other than Delfin Jorge E. Carballo, Delfin Federico E. Carballo, Jorge Pablo Brito 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 April 30, 2020. In addition, Alberto Figueroa and Juan Domingo Mazzon, members of our senior management, owned less than one percent of Class B shares as of April 30, 2020.

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 April 30, 2020:

Shareholder Name	Number of Class A shares owned	Number of Class B shares owned	Percentage of Capital stock (%)	Percentage of Voting rights (%)
Jorge Horacio Brito	5,368,840	105,727,603	17.37%	19.37%
Delfin Jorge Ezequiel Carballo	4,898,897	106,824,523	17.47%	19.19%
Other members	—	5,465,086	0.85%	0.80%
Total	10,267,737	218,017,212	35.70%	39.36%

Item 7. Significant Shareholders and Related Party Transactions

A. Significant Shareholders

As of December 31, 2019, we had 639,413,408 outstanding shares of common stock, consisting of 11,235,670 Class A shares and 628,177,738 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, 2019:

	Class A	Class B	Total	% of capital	% of votes
ANSES	0	184,120,650	184,120,650	28.80%	26.90%
Jorge Horacio Brito	5,367,840	105,727,603	111,095,443	17.37%	19.37%
Delfín Jorge Ezequiel Carballo	4,897,897	106,824,523	111,722,420	17.47%	19.19%
Other	969,933	231,504,962(1)	232,474,895	36.36%	34.54%
Total	11,235,670	628,177,738	639,413,408	100.00 %	100.00 %

(1) Includes The Bank of New York Mellon as depositary of our ADSs.

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 last three years:

Date	Capital Stock (Shares)	Event	Significant Shareholders
December 31, 2017	669,663,021	Increase by 85,099,993 (1)	Jorge H. Brito 16.58% Delfín Jorge Ezequiel Carballo 16.68% ANSES (as manager of the Fondo de Garantía de Sustentabilidad) 27.49%
December 31, 2018	669,663,021		Jorge H. Brito 16.59% Delfín Jorge Ezequiel Carballo 16.68% ANSES (as manager of the Fondo de Garantía de Sustentabilidad) 27.49%
December 31, 2019	639,413,408	Decrease by 30,265,275 (2) Increase by 15,662 (3)	Jorge H. Brito 17.37% Delfín Jorge Ezequiel Carballo 17.47% ANSES (as manager of the Fondo de Garantía de Sustentabilidad) 28.80%

(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.

(2) Capital reduction as approved by the Shareholders' Meeting held on April 30, 2019.

(3) Increase in share capital due to the merger of Banco Macro S.A. and Banco del Tucumán S.A. as approved by the Shareholders' Meeting held on April 30, 2019.

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, 2018 and 2019 an aggregate of Ps. 938.2 million, Ps. 1,922.7 million and Ps. 3,313.3 million, respectively, in financial assistance granted by us (including loans, leases and guarantees granted) was outstanding to related parties (not including main subsidiaries). 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, 2018 and 2019, the total amount of deposits made by related parties (not including main subsidiaries) to us amounted Ps. 6,351.0 million, Ps. 11,766.6 million and Ps. 14,408.2 million, respectively.

For further information regarding related party transactions see note 19 “Related parties” to our audited consolidated financial statements as of December 31, 2019 and 2018.

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, 2019 and 2018 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 49 “Tax and other claims” to our audited consolidated financial statements as of December 31, 2019 and 2018. 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” 5689 and 5940 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 consider 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 2019. 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
2019	(3)	(3)	(3)

- (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).
- (3) The shareholder's meeting held on April 30, 2020 resolved to approve a cash dividend for a total amount of Ps. 12,788.3 million subject to prior authorization of the BCRA. Pursuant to Communication "A" 6939 of the BCRA, the distributions of profits is suspended until June 30, 2020.

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..

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, 2014, 2015 and 2016, we sought authorization from the Central Bank to distribute dividends, which we paid in July 2014, March 2016, August 2016 and June 2017. As a result of certain regulatory modifications introduced by the Central Bank, dividend payments made for the years 2017 and 2018 did not require prior authorization.

On January 31, 2020, the Central Bank issued Communication "A" 6886, pursuant to which financial entities must obtain prior approval of the Central Bank in order to distribute dividends. The Superintendency shall take into account the effects of the enforcement of section 5.5 of the International Financial Reporting Standards 9 by Communication "A" 6430 and the restatement of the financial statements as provided by Communication "A" 6651, among others.

On March 19, 2020, in the midst of the Coronavirus crisis, the Central Bank issued Communication "A" 6939, by virtue of which the distribution of dividends by financial entities was temporarily suspended until June 30, 2020.

For more information, see Item 4.B.—Business Overview—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 50 "Restriction on dividends distribution" of our audited consolidated financial statements as of December 31, 2019 and 2018.

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, 2019, our capital stock consisted of Ps.639,413,408, 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 628,177,738 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 depository 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 not 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 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; or
- 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 paid 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 consider 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

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. Among other consequences, the crisis resulted in Argentina defaulting on its foreign debt obligations and the introduction of numerous changes in economic policies, including currency controls that tightened restrictions on capital flows, exchange controls, an official U.S. dollar exchange and transfer restrictions that substantially limited the ability of companies to retain foreign currency or make payments abroad. These foreign exchange controls were eased in a series of measures introduced by President Mauricio Macri’s administration starting in December 2015.

For instance, on May 19, 2017, the Central Bank issued Communication “A” 6244, effective as of July 1, 2017, which structurally modified the exchange regulations in force, establishing a new foreign exchange regime that significantly eased the access to the MLC. This regime was in force until September 1, 2019.

On September 1, 2019, with the purpose of strengthening the normal functioning of the economy, fostering a prudent administration of the exchange market, reducing the volatility of financial variables and containing the impact of the variations of financial flows on the real economy, the Argentine government issued Decree No. 609/2019 whereby foreign exchange controls were temporarily reinstated. The decree: (i) reinstated, initially until December 31, 2019, the exporters’ obligation to repatriate the proceeds from exports of goods and services on the terms and conditions set forth by the Central Bank’s implementing regulations and settle for Pesos through the MLC; and (ii) authorized the Central Bank to (a) regulate access to the foreign exchange market for the purchase of foreign currency and outward remittances; and (b) set forth regulations to avoid practices and transactions aimed to circumvent, through the use of securities and other instruments, the measures adopted through the decree. On the same date, the Central Bank issued Communication “A” 6770, which was subsequently amended and supplemented by further Central Bank communications.

At present, foreign exchange regulations have been consolidated in a single regulation, Communication “A” 6844, as subsequently amended and supplemented from time to time by Central Bank of Argentina’s Communications, including without limitation Communications “A” 6862, 6869, 6882 and 6915 of the Central Bank of Argentina (jointly, the “FX Regulations”). Below is a description of the main exchange control measures implemented through the aforementioned regulations

Specific provisions for inward remittances

Repatriation and settlement of the proceeds of exports of goods.

In accordance with section 7.1 of the FX Regulations, exporters must repatriate, and settle for Pesos through the MLC, the proceeds of their exports of goods cleared through customs as from September 2, 2019.

Although the FX Regulations, maintain the obligation to bring export proceeds to Argentina through the MLC, in accordance with article 2.6, exporters are authorized to avoid the settlement for Pesos to the extent that: (a) the funds are credited in foreign-denominated accounts in the name of the exporter, opened at local banks; (b) the funds are brought to Argentina within the applicable terms; (c) the funds are simultaneously applied to the making of payments for which the regulations grant access to the MLC, subject to any applicable caps; (d) if the funds correspond to the proceeds of new external financial indebtedness and are applied to the prepayment of foreign currency-denominated loans with local banks, the new indebtedness must have a longer average life than the local indebtedness, and (e) the mechanism is tax-neutral.

Decree No. 661/2019 clarified that the collection of the export benefits set forth under the Argentine Customs Code shall be subject to the exporter complying with the repatriation and Peso settlement obligations imposed by the new regulations.

Finally, the FX Regulations authorize the application of export proceeds to the repayment of: (i) pre-export financings and export financings granted or guaranteed by local financial entities; (ii) foreign pre-export financings and export advances settled in the MLC, provided that the relevant transactions were entered into through public deeds or public registries; (v) financings granted by local financial entities to foreign importers; and (vi) financial indebtedness under contracts executed prior to August 31, 2019 providing for cancellation thereof through the application abroad of export proceeds. The application of export proceeds to the repayment of other indebtedness shall be subject to Central Bank approval.

Obligation to repatriate and settle in Pesos the proceeds from exports of services

Article 2.2 of the FX Regulations imposes to exporters the obligation to repatriate, and settle in the MLC, the proceeds from exports of services within 5 business days following payment thereof.

External financial indebtedness

Pursuant to article 2.4 of the FX Regulations, the new regulations have reinstated the requirement to repatriate, and settle in Pesos through the MLC, the proceeds of new financial indebtedness disbursed from and after September 1, 2019 as a condition for accessing the MLC to make debt service payments thereunder. Although the regulations do not establish a specific term for repatriation, this requirement shall be met any time prior to accessing the MLC. The reporting of the debt under the reporting regime established by Communication “A” 6401 (as amended and restated from time to time, “the External Assets and Liabilities Reporting Regime”) is also a condition to access the MLC to repay debt service.

Subject to compliance with the aforementioned obligations, access to the MLC is granted for the repayment of debt services at maturity or up to 3 business days in advance. In addition, as set forth by article 3.5 of the FX Regulations, access to the MLC for prepayments will be granted, provided all of the following conditions are met: (i) the prepayment is simultaneous with the conversion

of the new indebtedness to Pesos; (ii) the new indebtedness has a higher average life than the outstanding of the current debt being prepaid; and (iii) the first principal payment under the new indebtedness is (a) at a later date and (b) for an amount not greater than, the scheduled principal payment under the existing debt being prepaid. Furthermore, pursuant to Communication "A" 7001, Central Bank's prior approval shall be required to access the MLC for the repayment of debts services regarding external financial indebtedness standing as of April 19, 2020, whose maturity date has either occurred prior to such date or is not stipulated, unless the entity accessing the MLC complies with the reporting regime established by Communication "A" 7001, thus providing a sworn statement that it has no standing facilities in pesos in the terms of Communication "A" 6937.

Moreover, article 3.11 of the FX Regulations authorizes (1) local borrowers under (A) foreign financial indebtedness with non-related creditors and (B) foreign indebtedness to finance the import of goods granted by foreign financial entities or official credit agencies, and (2) Argentine security trusts created to guarantee indebtedness detailed in (A) and (B) above, to access the MLC to purchase foreign currency to constitute the guarantees for the amounts required under the relevant loan agreements, subject to compliance with the following conditions: (a) the relevant indebtedness grants the relevant borrower access to the MLC for repayment and the agreements provide for debt service guarantee accounts; (b) the funds are transferred to accounts opened in local financial entities; credit into offshore accounts shall only be admitted if that is the only alternative set forth under the financing documents provided that such financing documents were entered into before August 31, 2019; (c) the amount accumulated in guarantee accounts does not exceed the amount of the next debt service; (d) the daily purchases do not exceed 20% of the maximum amount mentioned in (c); and (e) the bank must review the financing documents and confirm that the aforementioned conditions are met. Any funds not applied to cancel debt services must be settled through in Pesos in the MLC within 5 business days from the corresponding debt service payment date. Additionally, article 3.3 of the FX Regulations states that the Central Bank's prior approval will be required to access the MLC for the repayment of debts for imports of goods and services.

Duly registered securities that are denominated and payable in foreign currency in Argentina

In accordance with article 2.5 of the FX Regulations issued by the Central Bank, resident debt issuers are granted access to the MLC for the payment at maturity of principal and interest under new duly registered issuances of debt securities that are denominated and payable in foreign currency in Argentina, to the extent they (i) are fully subscribed in foreign currency, and (ii) the proceeds from the issuance are settled through the MLC. However, the settlement of the proceeds from the issuance shall not be required for the future access to the MLC for repayment of domestic issuances as provided in (ii) above, provided that certain are met (i.e., the proceeds are deposited in a local foreign currency-denominated bank accounts and are simultaneously applied to transactions having access to the MLC, and the mechanism is tax neutral, among others).

Specific Provisions Regarding Access to the Exchange Market

Residents are authorized to access the MLC for the payment of import of goods in accordance with article 10.1 of the FX Regulations. This regulation sets forth different requirements depending on whether it relates to the payment of imports of goods with customs clearance or the payments of import of goods pending customs clearance. Moreover the imports and import payments monitoring system (SEPAIMPO) has been reinstated, setting forth rules governing such monitoring process and exceptions thereof. Importers will need to appoint a financial entity in charge of monitoring compliance with the aforementioned obligations.

Likewise, the local importer must designate a local financial entity to act as a monitoring bank, which will be responsible for verifying compliance with the applicable regulations, including, among others, the liquidation of import financing and the entry of imported goods.

Repayment of principal and interest of imports of goods and services

Access to the foreign exchange market for the repayment of principal and interest of imports of goods and services is granted, provided that the operation has been declared, if applicable, in the last overdue presentation of the External Assets and Liabilities Reporting.

Access to the MLC for the prepayment of debts for imports of goods and services shall require prior authorization by the Central Bank.

Payment of dividends and corporate profits

In accordance with article 3.4 of the FX Regulations, access is granted to the MLC to pay dividends to non-resident shareholders, subject to the following conditions:

- Maximum amounts: The total amount of transfers executed through the MLC as of January 17, 2020, for payment of dividends to non-resident shareholders may not exceed 30% of the total value of the new capital contributions made in the local company that had been entered and settled through the MLC as of the abovementioned date. The total amount paid to non-resident shareholders shall not exceed the corresponding amount denominated in Argentine Pesos that was determined by the shareholders' meeting.

- Minimum Period: Access to the MLC will only be granted after a period of not less than thirty (30) calendar days has elapsed as from the date of the settlement of the last capital contribution that is taken into account for determining the 30% cap aforementioned.
- Documentation requirements: Dividends must be the result of closed and audited balance sheets. When requesting access to the MLC for this purpose, evidence of the definitive capitalization of the capital contribution must be provided or, in lack thereof, evidence of the initiation of the process of registration of the capital contribution before the Public Registry of Commerce shall be provided. In this case, evidence of the definitive capitalization shall be provided within 365 calendar days from the date of the initial filing with the Public Registry of Commerce. If applicable, the External Assets and Liabilities Reporting Regime shall have been complied with.

Derivatives transactions

Article 4.4 of Communication “A” 6915 requires that derivatives transactions, including payment of premiums, constitution of collateral and settlement of futures, forwards, options and other derivatives, held in the country -as of September 11, 2019- be made in local currency (i.e., Pesos).

Likewise, access to the MLC for the payment of premiums and settlements, margins and other collateral in connection with interest rate hedge agreements for foreign debt declared and validated, if applicable, in the External Assets and Liabilities Reporting Regime, as long as such agreements do not cover higher risks than external liabilities of the recorded debtor’s interest rate risk being covered.

An entity authorized to operate in the MLC must be designated by the debtor to track the operation and an affidavit must be provided in which the debtor undertakes to repatriate and settled the funds into Pesos that are in favor of the local client as a result of such operation, or as a result of the release of the funds of the constituted as collateral, within the following five (5) business days.

Securities transactions and transfer to foreign brokerage houses – Affidavit

On April 30, 2020, the Central Bank issued Communication “A” 7001, pursuant to which the Central Bank has established that in order for clients to perform foreign exchange operations which imply outward remittances, the financial entity involved in such foreign exchange operation shall require the client to submit an affidavit stating the following:

- a) as of the date of the foreign exchange operation, the client has not carried out any sale of securities with settlement in foreign currency and/or transferred such securities to a foreign brokerage house in the past 30 days; and
- b) the client agrees not to effect any sale of securities with settlement in foreign currency and/or transferred such securities to a foreign brokerage house for a 30-day period starting on the date of the foreign exchange operation.

In addition, Communication “A” 7001 also sets forth that clients with outstanding peso financings foreseen in Communication “A” 6937 shall not effect capital market operations with settlement in foreign currency until full payment of such financings.

Other Specific Provisions

Exchanges and arbitrage. Transactions involving securities

Pursuant to article 4.2 of the Argentine FX Restrictions, entities are allowed to carry out exchange and arbitrage operations with their clients in the following cases: (i) such operation is not subject to the settlement obligation in the MLC; (ii) an individual transfers funds from their local accounts in foreign currency to own bank accounts abroad, (iii) when foreign currency transfers by local central collective deposit securities for funds received in foreign currency for capital services and income from National Treasury securities, (iv) arbitration operations not originated in foreign transfers provided that such funds are debited from an account in foreign currency of the client in a local entity, and (v) may be carried out without the need to obtain prior Central Bank approval, provided that if structured as separate transactions, these would have access to the MLC without the need of an authorization by the Central Bank.

Securities related Operations

As per article 4.5 of the FX Regulations, if an individual purchases securities through payment in foreign currency, the same must have been held by the client for at least 5 business days since the settlement of the transaction before their subsequent sale or transfer to another depository. This minimum holding period shall not apply if the sale of the securities is carried out in the same jurisdiction and the settlement of the transactions is made in the same foreign currency. In all cases, the client shall be obligated to submit a sworn statement expressing that the funds shall not be used for the secondary purchase of securities within the following 5 business days.

Foreign Exchange Criminal Regime

Any operation that does not comply with the provisions of the foreign exchange regulations is subject to compliance with the Foreign Exchange Criminal Regime.

Notwithstanding the above mentioned measures adopted by the current administration, the Central Bank of Argentina and the federal government in the future may impose additional exchange controls that may further impact our ability to transfer funds abroad and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina.

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 U.S. 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 depository;

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 depository, 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 depository, 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, exchange 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 General Resolution (AFIP) No.4227/2018 (published in the Official Gazette on April 12, 2018), regulating, among others, the income tax applicable to income derived from financial transactions, obtained by Foreign Beneficiaries (as defined below). Decree No.1170/2018 (published in the Official Gazette on December 27, 2018) has regulated certain amendments introduced by the Tax Reform Law. Also, on December 6, 2019, Decree No.824/2019 was published in the Official Gazette, which approves a new ordered text of the Income Tax Law. On December 9, 2019, Decree No.862/2019 was published in the Official Gazette, which approves a new ordered text of the regulatory decree of the Income Tax Law, with certain modifications. It is important to point out that on December 23, 2019, Law N° 27,541 was published in the Official Gazette, which also introduces several modifications to the Argentine tax regime, such as the income tax applicable to income obtained by Argentine resident individuals and undivided estates located in Argentina derived from financial operations, among other aspects. Law N° 27,541 has been regulated by the Decree No.99/2019 (published in the Official Gazette on December 28, 2019), General Resolution (AFIP) No.4659/2020 (published in the Official Gazette on January 7, 2020) and General Resolution (AFIP) No.4664/2020 (published in the Official Gazette on January 15, 2020).

This summary includes the modifications under the mentioned regulations, 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. In this regard, it is important to highlight that, notwithstanding the issuance of the Decree No.99/2019, General Resolution (AFIP) No.4659/2020 and General Resolution (AFIP) No. 4664/2020, it is expected that more regulations and explanations would be issued shortly, since to date it is not possible to determine how the recent modifications incorporated to the Argentine tax regime will be applied and/or construed by the tax authorities of Argentina. 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 amendments introduced to the Income Tax Law by virtue of the Tax Reform Law, and Law N° 27,541, 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, 2020: 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”) (please note that according to Section 48 of Law N° 27,541, the application of the corporate 25% rate was suspended for one tax period; thus the 7% rate would also apply for dividend distributions involving profits obtained during fiscal years initiated after January 1, 2018 and up to December 31, 2020). 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. It is worth noting that the unclear statutory language under Law N° 27,541 with respect to the suspension provision led to different opinions in the market stating whether the 25% corporate income tax rate was suspended for one period (until January 1, 2021) or for two tax periods (until January 1, 2022). The Argentine tax authorities have unofficially stated (through the minutes of a meeting held on January 8, 2020 with professional associations) that the suspension period was limited to just one period (until January 1, 2021). However, by the time of drafting this document, no formal clarification nor specific rule was formally issued to clarify said understanding.

Argentine individuals and undivided estates located in Argentina 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, 2021 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 (please note that according to Section 48 of Law N° 27,541, the application of the corporate 25% rate was suspended for one tax period; thus the 13% rate would apply for dividend distributions involving profits obtained during fiscal years initiated after January 1, 2021). 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. As stated above, the unclear statutory language under Law N° 27,541 with respect to the suspension provision led to different opinions in the market stating whether the 25% corporate income tax rate was suspended for one period (until January 1, 2021) or for two tax periods (until January 1, 2022). The Argentine tax authorities have unofficially stated (through the minutes of a meeting held on January 8, 2020 with professional associations) that the suspension period was limited to just one period (until January 1, 2021). However, by the time of drafting this document, no formal clarification nor specific rule was formally issued to clarify said understanding.

(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, among others) 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, 2020, and at the rate of 25% for tax periods initiated after January 1, 2021, and onwards (note that, according to Section 48 of Law N° 27,541, the reduction of the corporate rate provided for in the Tax Reform Law was suspended until tax periods commencing after January 1, 2021, inclusive). As stated above, the unclear statutory language under Law N° 27,541 with respect to the suspension provision led to different opinions in the market stating whether the 25% corporate income tax rate was suspended for one period (until January 1, 2021) or for two tax periods (until January 1, 2022). The Argentine tax authorities have unofficially stated (through the minutes of a meeting held on January 8, 2020 with professional associations) that the suspension period was limited to just one period (until January 1, 2021). However, by the time of drafting this document, no formal clarification nor specific rule was formally issued to clarify said understanding. 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 located in Argentina 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; and/or (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; and/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. In addition, Section 34 of Law N° 27,541, provides that since tax period 2020, in the case of securities under the provisions of Section 98 of the Income Tax Law, not included in the first paragraph of Section 26 subsection u) of the Income Tax Law, Argentine resident individuals and undivided estates located in Argentina are exempt from capital gains tax derived from their sale, exchange, or disposal to the extent said securities are listed on stock exchanges or securities markets authorized by the CNV, without being applicable the provisions of Section 109 of the Income Tax Law. In this sense, Section 109 of the Income Tax Law provides that the total or partial exemptions established or that will be established in the future by special laws regarding securities, issued by the National, Provincial, or Municipal States or the City of Buenos Aires, will not have effects on income tax for Argentine resident individuals and undivided estates located in Argentina. ADSs would 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 and undivided estates located in Argentina from the sale, exchange or other disposition of ADSs (and shares, if applicable) is subject to income capital gains tax at a 15% rate on net income (calculated in Argentine currency). Losses arising from the sale of non-exempt Argentine shares can only be offset by Argentine individuals and undivided estates located in Argentina against income derived from operations of the same source and type (understanding by “type” the different concepts of income included under each article of Chapter II, Title IV of the Income Tax Law), for a five-year carryover period.

If Argentine resident individuals and undivided estates located in Argentina perform a conversion procedure of securities representing shares, that do not meet the exemption requirements stated in the conditions mentioned in points (i), (ii) and (iii) of 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. Pursuant to recent amendments introduced by Law N° 27,541, it could also be construed that a capital gains exemption could also apply for Argentine resident individuals and undivided estates located in Argentina if the securities involved are listed on stock exchanges or securities markets authorized by the CNV (although the matter is not free from doubt and further clarifications should be issued). 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; and/or (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; and/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 Section 90 of the regulatory decree of the Income Tax Law, if their funds come from “cooperative jurisdictions” (as defined below).

In addition, the Tax Reform Law stated that 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 Section 90 of the regulatory decree of the Income Tax Law, their funds come from cooperative jurisdictions, are exempt from income tax on capital gains derived from the sale of ADSs to the extent the underlying shares 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 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 resident in a cooperative jurisdiction and their funds were channeled through 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 resident 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 No.4227/2018, the presumed net basis on which the 35% rate should apply in the case of sale or disposition of securities is assessed at 90%. General Resolution (AFIP) N°4227/2018 provides different payment mechanisms depending on the specific circumstances of the sale transaction. Pursuant to Section 252 of the regulatory decree of the Income Tax Law, in the cases included in the last paragraph of Section 98 of the Income Tax Law, (i.e. when the acquirer and the seller of the security involved are non-Argentine residents), the tax shall be paid by the foreign seller directly through the mechanism established for such purpose by the tax authorities, or (i) through an Argentine individual resident with sufficient mandate or (ii) by the foreign seller's legal representative domiciled in Argentina

As a result of the recent enactment of Law N° 27,541, certain clarifications and definitions are still pending and expected to be issued shortly.

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, the UK and the United Arab Emirates. The treaties signed with China, Luxembourg, Qatar, Turkey, Austria and Japan 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

For tax period 2019, onwards, Argentine entities, like us, have to pay the personal assets tax corresponding to Argentine and foreign resident individuals and foreign resident entities for the holding of company shares at December 31 of each year. Recently enacted Law N° 27,541 (published in the Official Gazette on December 23, 2019) changed the "domicile" criterion for the "residence" criterion as stipulated under income tax rules. Also, according to Section 13 of the Decree No. 99/2019 any reference to "domicile" criterion in relation to the personal assets tax should be understood as referring to "residence". For tax period 2019, inclusive, and onwards the applicable tax rate is 0.50% and is levied on the proportional net worth value ("valor patrimonial proporcional") by December 31st 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 resident individuals and/or foreign resident 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 resident 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%. According to Section 45 of Law N° 27,541, the applicable rate of tax on debits and credits on Argentine bank accounts (the “TDC”) is doubled for certain cash withdrawals made by certain Argentine legal entities. 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 or for the special contributions on cooperatives capital. The remaining amount is deductible for income tax purposes. If lower rates were applied, the available credit would be reduced to 20%.

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. For certain exemptions and/or tax rate reductions to apply, bank accounts must be registered with the Tax Authority (AFIP-DGI) in accordance with AFIP’s General Resolution No.3900/2016.

Pursuant to Law No. 27,432 (published in the Official Gazette on December 29, 2017), the TDC shall apply until December 31, 2022, inclusive. 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

Pursuant to Law No. 27,260, passed by the Argentine Congress on June 29, 2016, the tax on minimum presumed income was eliminated for tax periods beginning as of January 1, 2019.

PAIS Tax (“Impuesto para una Argentina inclusiva y solidaria”)

Law N° 27,541 establishes, on an emergency basis and for the term of five fiscal periods from the entry into force of said law (i.e. December 23, 2019), a federal tax applicable to certain transactions for the purchase of foreign currency for saving purposes or without a specific destination and other operations of currency exchange and acquisition of services performed by Argentine tax residents (individuals, undivided estates, legal entities, among others). The applicable rate is, in general, 30%.

Investors should consider the provisions that apply to them according to their specific case.

Gross turnover tax

This tax is a local tax levied on gross revenues resulting from the regular and onerous exercise of commerce, industry, profession, business, services or any other onerous activity conducted on a regular basis within the respective jurisdiction. Each of the provinces and the City of Buenos Aires apply different tax rates depending on the type of activity.

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.

In accordance with the stipulations of the Fiscal Consensus entered into by and amongst the Argentine Executive Branch, the representatives of the Provinces and the City of Buenos Aires on November 16, 2017 and approved by the Argentine Congress on December 21, 2017 (the so-called “Fiscal Consensus” and/or the “Consensus”), local jurisdictions took on certain commitments in connection with certain taxes that are within their powers. The Consensus shall be effective only in connection with the jurisdictions

that have their legislative branches approve the Consensus and such effectiveness shall not commence if such approval has not been granted. When it comes to the impact of the Consensus on gross turnover tax, the Argentine provinces and the City of Buenos Aires agreed to grant exemptions and impose maximum tax rates on certain businesses and for certain periods.

However, it is important to point out that on December 17, 2019, the Argentine Executive Branch, the representatives of the Provinces and the City of Buenos Aires signed an agreement to suspend the Fiscal Consensus. This agreement shall be effective only in connection with the jurisdictions that have their legislative branches approve it and such effectiveness shall not commence if such approval has not been granted.

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 gross 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 an Argentine provincial jurisdiction or the City of Buenos Aires or outside an Argentine 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.

Regarding the Fiscal Consensus, almost all the provinces in Argentina and the City of Buenos Aires have committed to establish for the stamp tax a maximum tax rate of 0.75% as from January 1, 2019, 0.5% as from January 1, 2020, 0.25% as from January 1, 2021 and abrogate the stamp tax starting from January 1, 2022. However, such commitment was delayed by one calendar year pursuant Law No 27,469 “Fiscal Consensus 2018” (published in the Official Gazette on December 4, 2018). Fiscal Consensus 2018 shall be effective only in connection with the jurisdictions that have their legislative branches approve it and such effectiveness shall not commence if such approval has not been granted. However, on December 17, 2019, the Argentine Executive Branch, the representatives of the Provinces and the City of Buenos Aires signed an agreement to suspend the Fiscal Consensus and the Fiscal Consensus 2018.

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. For tax period 2020, any gratuitous transfer of property lower than or equal to Ps.322,800 is exempt. This amount is increased to Ps.1,344,000 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

According to Section 82 of the Tax Reform Law, for fiscal purposes, any reference to “low tax or no tax countries” or “non-cooperative countries” should be understood to be “non-cooperative jurisdictions or low or nil tax jurisdictions,” as defined in Section 19 and Section 20 of the Income Tax Law.

As defined under Section 19 of the 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. In this sense, according to Section 24 of the regulatory decree of the Income Tax Law, the following jurisdictions should be considered as “non-cooperative” under the disposition of Section 19 of the aforementioned law:

1. Bosnia and Herzegovina
2. Brecqhou
3. Burkina Faso
4. State of Eritrea
5. State of the Vatican City
6. State of Libya
7. Independent State of Papua New Guinea
8. Plurinational State of Bolivia
9. Ascension Island
10. Sark Island
11. Santa Elena Island
12. Solomon Islands
13. The Federated States of Micronesia
14. Mongolia
15. Montenegro

16. Kingdom of Bhutan
17. Kingdom of Cambodia
18. Kingdom of Lesotho
19. Kingdom of Swaziland
20. Kingdom of Thailand
21. Kingdom of Tonga
22. Hashemite Kingdom of Jordan
23. Kyrgyz Republic
24. Arab Republic of Egypt
25. Syrian Arab Republic
26. Algerian Democratic and Popular Republic
27. Central African Republic
28. Cooperative Republic of Guyana
29. Republic of Angola
30. Republic of Belarus
31. Republic of Botswana
32. Republic of Burundi
33. Republic of Cape Verde
34. Republic of Ivory Coast
35. Republic of Cuba
36. Republic of the Philippines
37. Republic of Fiji
38. Republic of the Gambia
39. Republic of Guinea
40. Republic of Equatorial Guinea
41. Republic of Guinea-Bissau
42. Republic of Haiti

43. Republic of Honduras
44. Republic of Iraq
45. Republic of Kenya
46. Republic of Kiribati
47. Republic of the Union of Myanmar
48. Republic of Liberia
49. Republic of Madagascar
50. Republic of Malawi
51. Republic of Maldives
52. Republic of Mali
53. Republic of Mozambique
54. Republic of Namibia
55. Republic of Nicaragua
56. Republic of Palau
57. Republic of Rwanda
58. Republic of Sierra Leone
59. Republic of South Sudan
60. Republic of Suriname
61. Republic of Tajikistan
62. Republic of Trinidad and Tobago
63. Republic of Uzbekistan
64. Republic of Yemen
65. Republic of Djibouti
66. Republic of Zambia
67. Republic of Zimbabwe
68. Republic of Chad
69. Republic of the Niger

70. Republic of Paraguay
71. Republic of the Sudan
72. Democratic Republic of Sao Tome and Principe
73. Democratic Republic of East Timor
74. Republic of the Congo
75. Democratic Republic of the Congo
76. Federal Democratic Republic of Ethiopia
77. Lao People's Democratic Republic
78. Socialist Democratic Republic of Sri Lanka
79. Federal Republic of Somalia
80. Federal Democratic Republic of Nepal
81. Gabonese Republic
82. Islamic Republic of Afghanistan
83. Islamic Republic of Iran
84. Islamic Republic of Mauritania
85. People's Republic of Bangladesh
86. People's Republic of Benin
87. Democratic People's Republic of Korea
88. Socialist Republic of Vietnam
89. Togolese Republic
90. United Republic of Tanzania
91. Sultanate of Oman
92. British Overseas Territory Pitcairn, Henderson, Ducie and Oeno Islands
93. Tristan da Cunha
94. Tuvalu
95. Union of the Comoros

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 Section 25 of the regulatory decree of the Income Tax Law, 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.
- value added tax 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 2018 and 2019 of the market risk requirements of foreign currency status and status in securities charged to the Trading portfolio:

In million Pesos	2018	2019	Variation 2019
Minimum	154.1	188.3	34.2
Maximum	450.5	778.3	327.8
Average	287.4	433.7	146.3
As of December 31,	212.3	591.3	379.0
Market Risk for exchange rates	2018	2019	Variation 2019
Minimum	78.8	86.1	7.3
Maximum	313.6	496.1	182.5
Average	179.1	297.4	118.3
As of December 31,	78.8	496.2	417.4
Market Risk for securities	2018	2019	Variation 2019
Minimum	70.0	75.2	5.2
Maximum	155.9	352.0	196.1
Average	108.0	136.3	28.3
As of December 31,	133.3	95.1	-38.2
Market Risk for stock price	2018	2019	Variation 2019
Minimum	0.0	0.0	0.0
Maximum	0.5	0.0	-0.5

In million Pesos	2018	2019	Variation 2019
Average	0.3	0.0	-0.3
As of December 31,	0.2	0.0	-0.2

Between 2018 and 2019, there was an increase in the average exposures. The increase values was attributable to an increase in the average foreign exchange risk by Ps. 118.3 million or 66%, due to an increase of the foreign exchange rates. The average U.S. dollar exchange rate went from Ps. 29.3 per dollar in 2018 to Ps. 49.2 per dollar in 2019, while average Euro exchange rate went from Ps. 34.3 in 2018 to Ps. 44.6 in 2019.

As of December 31, 2018, the foreign exchange exposure was 37% of the total exposure, while as of December 31, 2019, the foreign exchange exposure was 84%. The VaR increase year-on-year, from Ps. 78.8 million to Ps. 496.2 million, was mainly explained by the increase of the Foreign Currency Net Global Position at the end of year 2019, in comparison to the end of year 2018. The fx rate also increase year-on-year by 58% increasing the value at risk of this portfolio.

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.

The following table shows changes in economic value of equity (Δ EVE) for last two years (in millions of Pesos):

	2018	2019
Minimum	2,272.4	1,415.9
Maximum	3,104.6	1,803.7
Average	2,688.5	1,676.0
December 31	2,272.4	1,803.7

In average and in minimum, maximum and closing points, the table shows a decrease in 2019 compared to year 2018. The decrease was primarily attributable to an inter-annual increase of the market interest rate curves. Thus, the relative impact of the disturbance shocks is lower, generating a decrease in the capital requirements for interest rate risk.

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 51 “Capital Management, Corporate Governance Transparency and Risk Management” to our audited consolidated financial statements as of December 31, 2019 and 2018.

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

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:

- 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
- 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 2019, 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

The shareholders meeting held on April 30, 2019 resolved to amend Section 9 of the Bank's by-laws so that, as long as the Bank is authorized to make a public offering of its shares, shareholders shall not be entitled to subscribe on a pro-rata basis the unsubscribed shares remaining at the end of a preemptive rights offering, known as accretion rights.

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, 2019. 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, 2019. 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, 2019 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, 2019, 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 its 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, 2019, 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, 2019, 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 statements of financial position of the Bank as of December 31, 2019 and 2018, the related consolidated statements of income, other comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated May 15, 2020 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.

/s/ Pistrelli, Henry Martin y Asociados S.R.L.

PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.

Member of Ernst & Young Global

City of Buenos Aires, Argentina
May 15, 2020

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during 2019 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 2019 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/en/corporate-governance/corporate-governance-policy>

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 2018 and 2019 are detailed below.

	2018 (not restated)	2019
	(in thousands of Pesos)	
Audit Fees	66,999	92,951
Audit Related Fees	—	—
Tax Fees	250	—
All Other Fees	108	494
Total	67,357	93,445

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 and limited review of our consolidated financial statements and services.

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 advisory 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 2019 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

Not applicable.

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
303A.01-Independent Directors	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.
303A.02-Independence Tests	<p data-bbox="508 363 932 415">This section establishes general standards to determine directors' independence.</p> <p data-bbox="508 436 1016 651">(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 data-bbox="553 672 1016 970">(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> <ul style="list-style-type: none"> <li data-bbox="651 991 1016 1148">(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 <li data-bbox="651 1169 1016 1306">(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 data-bbox="508 1327 971 1348">(b) In addition, a director is not independent if:</p> <ul style="list-style-type: none"> <li data-bbox="508 1369 1016 1610">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; <li data-bbox="508 1631 1016 1789">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 	<p data-bbox="1032 363 1524 577">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 data-bbox="1032 598 1524 703">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> <ul style="list-style-type: none"> <li data-bbox="1032 724 1547 882">(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; <li data-bbox="1032 903 1547 1092">(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; <li data-bbox="1032 1113 1547 1438">(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; <li data-bbox="1032 1459 1547 1564">(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; <li data-bbox="1032 1627 1547 1768">(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**

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);

- 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;
- 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;
- 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.

A non-independent director will only be deemed independent upon the elapse of a three-year look-back period.

"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.

Banco Macro Corporate Practices

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;

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.

Section

**NYSE corporate governance rule for U.S.
domestic issuers**

Banco Macro Corporate Practices

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.

Section	NYSE corporate governance rule for U.S. domestic issuers	Banco Macro Corporate Practices
		Likewise, control by one person or entity over another is defined as:
		i) holding or controlling, directly or indirectly, 25% or more of the total voting stock in the other entity.
		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.
		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.
		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>).
303A.03-Executive Sessions	Non-management directors of each listed company must meet at regularly scheduled executive sessions without management.	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.
303A.04-Nominating/Corporate Governance Committee	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 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>

Section
303A.05-Compensation Committee

**NYSE corporate governance rule for U.S.
domestic issuers**

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.

Banco Macro Corporate Practices

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.

However, as a result of a general recommendation issued by the Central Bank to all financial institutions, we have created a Personnel Incentives Committee. 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 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

Section
303A.06/07- Audit
Committee/Requirements

**NYSE corporate governance rule for U.S.
domestic issuers**

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

Banco Macro Corporate Practices

- (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 May 11, 2020, 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**

- 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;
- 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";
 - C. discuss the listed company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
 - D. discuss risk assessment and risk management policies;

Banco Macro Corporate Practices

- 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;
- iii. supervising the enforcement of the Bank's risk management information policies;
- 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;
- 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;
- 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;

Section	NYSE corporate governance rule for U.S. domestic issuers	Banco Macro Corporate Practices
	<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>F. review any issue or difficulty arising from the audit or management's response with the independent auditor;</p> <p>G. set clear policies for the recruitment of employees or former employees of the independent auditors; and</p> <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>	<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>In addition, pursuant to the provisions of the CNV Rules, the audit committee is responsible for:</p> <ul style="list-style-type: none"> • reviewing external and internal auditors' plans, evaluating their performance, and issuing an opinion on such regard upon the publication of the annual financial statements; • analyzing 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; • 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.
303A.08-Shareholder Approval of Equity Compensation Plans-	<p>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.</p> <p>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.</p>	<p>We do not currently offer equity-based compensation to our directors, executive officers or employees; therefore, we have no policy on this matter.</p>

Section 303A.09-Corporate Governance Guidelines	NYSE corporate governance rule for U.S. domestic issuers 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.	Banco Macro Corporate Practices 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.
303A.10-Code of Business Conduct and Ethics	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.
303A.12-Certification Requirements	(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-100 of this annual report.

Item 19. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
1.1	<u>Restated Bylaws of the Bank, as amended and restated on April 30, 2019, incorporated by reference to the Form 6-K filed by the Bank on July 24, 2019 (File No. 199-70013).</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, 2019.</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>
101. INS*	XBRL Instance Document.
101. SCH*	XBRL Taxonomy Extension Schema Document.
101. CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101. LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101. PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
101. DEF*	XBRL Taxonomy Extension Definition Linkbase Document.

* 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 15, 2020.



**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2019 AND 2018, 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 statements of financial position of BANCO MACRO S.A. (a bank organized under Argentine legislation) and its subsidiaries (the Bank) as of December 31, 2019 and 2018, and the related consolidated statements of income, other comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, 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 the Bank as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards (IFRS) as issued by the International 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 the Bank as of December 31, 2019, 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 15, 2020 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.

Critical audit matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (i) relates to accounts or disclosures that are material to the financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment of financial assets

Description of the matter

As more fully described in Note 3.2.4. to the financial statements, the Bank recognized an allowance for credit losses related to loans and investments in private and government debt securities not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, using an expected credit loss model (ECL). This allowance, that amounts to 5,135,597 thousand pesos as disclosed in note 51.1.1, represents a probability-weighted amount, which is determined by evaluating a range of possible outcomes and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination or there is objective evidence of impairment. In those cases, the allowance is based on the change in the ECL over the life of the financial instrument.

Auditing the allowance for credit losses was complex and required the application of significant judgment due to the inherent complexity of the models, assumptions and the interrelationship of the variables used in measuring the ECL, including the effects of the current and future Argentine macroeconomic and financial environment in relation to the Bank's exposure to government securities and Argentine Central Bank bills. Significant assumptions and judgments with respect to the estimation of the allowance for credit losses include the determination of significant changes in credit risk; the forecast of multiple alternative economic scenarios and the probability weighting of those scenarios, and the application of management's expert credit judgment. The allowance for credit losses is a significant estimate for which variations in model methodology, underlying assumptions and judgments could have a material effect on its measurement.

How we addressed the matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the Bank's controls, including those related to information systems used in the determination of the allowance for credit losses. The controls we tested included, amongst others, controls over the development and review of inputs and models used to calculate the ECL, data completeness and accuracy, economic forecasting, including the probability weighting of the economic scenarios and the governance and oversight over the modelled results and the use of expert credit judgment.

To test the allowance for credit losses, our audit procedures included, amongst others, involving our credit risk modelling specialists to assist in assessing whether the methodology and assumptions used to estimate ECL are consistent with the requirements of IFRS, the Bank's own historical data and industry standards; assessing significant changes in credit risk triggers; evaluating management's forecasting methodology and comparing management's forward-looking information to independently derived forecasts and publicly available information; evaluating the scenario probability weights used in the ECL models and performing independent recalculations; evaluating that the assumptions used were reflective of the credit quality and macroeconomic trends and testing the completeness and accuracy of data used in the measurement of the ECL. We also assessed the adequacy of the allowance for credit loss financial statement disclosures.

/s/ Pistrelli, Henry Martin y Asociados S.R.L.

PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.

Member of Ernst & Young Global

We have served as the Bank's auditor since 2003

City of Buenos Aires, Argentina

May 15, 2020

BANCO MACRO SA AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2019, except otherwise indicated)

Items	Notes	12/31/2019	12/31/2018
ASSETS			
Cash and Deposits in Banks	12	100,680,063	115,012,597
Cash	12	19,511,636	16,454,373
Central Bank of Argentina	12	55,158,158	77,241,315
Other Local and Foreign Entities	12	26,006,523	20,615,753
Other	12	3,746	701,156
Debt Securities at fair value through profit or loss	3, 4 and 12	5,675,008	4,053,802
Derivative Financial Instruments	11 and 12	615,902	26,602
Repo transactions	7 and 12	1,087,916	
Other financial assets	12 and 18	6,163,890	4,614,240
Loans and other financing	9, 12 and 51.1	220,897,814	275,611,789
Non-financial Public Sector	12	6,450,647	2,731,262
Other Financial Entities	12	3,952,205	8,654,244
Non-financial Private Sector and Foreign Residents	12	210,494,962	264,226,283
Other Debt Securities	5 and 12	64,513,415	99,350,734
Financial Assets delivered as guarantee	8 and 12	10,673,334	10,393,093
Equity Instruments at fair value through profit or loss	6, 12 and 21	2,616,728	79,249
Investment in associates and joint arrangements	14	146,331	167,402
Property, plant and equipment	15	25,747,557	23,911,732
Intangible Assets	17	3,542,060	3,262,112
Deferred Income Tax Assets	28.c)	43,423	
Other Non-financial Assets	18	1,085,336	1,515,894
Non-current assets held for sale	21	1,751,093	2,302,462
TOTAL ASSETS		445,239,870	540,301,708

BANCO MACRO SA AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2019, except otherwise indicated)

Items	Notes	12/31/2019	12/31/2018
LIABILITIES			
Deposits	12	262,865,354	366,049,491
Non-financial Public Sector	12	17,560,282	29,707,339
Financial Sector	12	314,162	228,091
Non-financial Private Sector and Foreign Residents	12	244,990,910	336,114,061
Derivative Financial Instruments	11 and 12	768,732	2,106
Repo Transactions	7 and 12	1,002,511	253,003
Other Financial Liabilities	12 and 24	22,169,608	23,559,130
Financing received from the Central Bank of Argentina and other financial entities	12	2,245,804	4,611,839
Issued Corporate Bonds	12 and 47	5,525,039	9,810,217
Current Income Tax Liabilities	28	8,136,185	4,532,568
Subordinated Corporate Bonds	12 and 47	24,311,663	23,518,130
Provisions	22	1,473,517	1,625,404
Deferred Income Tax Liabilities	28.c)	560,582	3,601,862
Other Non-financial Liabilities	24	10,124,489	9,045,017
TOTAL LIABILITIES		339,183,484	446,608,767
SHAREHOLDERS' EQUITY			
Capital Stock	40	639,413	669,663
Additional paid-in capital		12,429,781	12,428,461
Adjustments to Shareholders' Equity		33,487,341	33,509,145
Earnings Reserved		85,695,155	64,605,999
Unappropriated Retained Earnings		(47,017,897)	(16,392,892)
Other Comprehensive Income / (Loss)		170,775	(46,832)
Net Income / (Loss) for the fiscal year		20,650,410	(1,082,089)
Net Shareholders' Equity attributable to controlling interest		106,054,978	93,691,455
Net Shareholders' Equity attributable to non-controlling interests		1,408	1,486
TOTAL SHAREHOLDERS' EQUITY		106,056,386	93,692,941
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		445,239,870	540,301,708

The accompanying notes 1 to 54 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, 2019, 2018 AND 2017

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2019, except otherwise indicated)

Items	Notes	12/31/2019	12/31/2018	12/31/2017
Interest income	29	151,566,640	120,214,259	86,464,572
Interest expense	30	(64,156,959)	(46,426,316)	(26,142,862)
Net Interest income		87,409,681	73,787,943	60,321,710
Commissions income	31	19,441,433	22,000,691	22,786,131
Commissions expense	32	(1,609,947)	(1,430,689)	(1,713,229)
Net Commissions income		17,831,486	20,570,002	21,072,902
Subtotal (Net Interest income +Net Commissions income)		105,241,167	94,357,945	81,394,612
Net gain from measurement of financial instruments at fair value	33	7,932,797	1,940,516	1,453,442
Profit / (Loss) from sold or derecognized assets at amortized cost		27,417	(9,429)	29,052
Differences in quoted prices of gold and foreign currency	34	3,497,301	(2,692,459)	3,465,434
Other operating income	35	7,680,839	5,411,025	4,279,228
Credit loss expense on financial assets		(4,346,885)	(4,461,143)	(4,020,812)
Net operating income before expenses, depreciation and amortization		120,032,636	94,546,455	86,600,956
Employee benefits	36	(21,202,596)	(19,192,702)	(19,285,133)
Administrative expenses	37	(12,800,757)	(12,726,636)	(11,740,501)
Depreciation and amortization of fixed assets	15, 16 and 17	(3,006,376)	(2,266,602)	(2,164,964)
Other Operating Expenses	38	(22,100,895)	(19,014,152)	(17,057,242)
Net operating income after expenses, depreciation and amortization		60,922,012	41,346,363	36,353,116
Income from associates and joint arrangements		898,428	409,655	446,584
Loss on net monetary position		(28,194,756)	(28,489,943)	(14,730,578)
Income before tax on continuing operations		33,625,684	13,266,075	22,069,122
Income tax on continuing operations	28.c)	(12,975,037)	(14,347,904)	(12,935,657)
Net Income / (Loss) from continuing operations		20,650,647	(1,081,829)	9,133,465
Net Income / (Loss) for the fiscal year		20,650,647	(1,081,829)	9,133,465
Net Income / (Loss) for the fiscal year attributable to controlling interest		20,650,410	(1,082,089)	9,132,907
Net Income for the fiscal year attributable to non-controlling interest		237	260	558

BANCO MACRO SA AND ITS SUBSIDIARIES
CONSOLIDATED EARNINGS/LOSSES PER SHARE
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2019, except otherwise indicated)

<u>Items</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Net Income / (Loss) attributable to controlling interest	20,650,410	(1,082,089)	9,132,907
PLUS: Potential diluted earnings per common share			
Net Income /(Loss) attributable to controlling interest adjusted as per diluted earnings	20,650,410	(1,082,089)	9,132,907
Weighted average of outstanding common shares for the fiscal year	639,402	661,141	629,531
Weighted average of outstanding common shares for the fiscal year adjusted as per dilution effect	639,402	661,141	629,531
Basic earnings / (loss) per share	32.2964	(1.6367)	14.5075

BANCO MACRO SA AND ITS SUBSIDIARIES

**STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2019, except otherwise indicated)

<u>Items</u>	<u>Notes</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Net Income / (Loss) for the fiscal year		20,650,647	(1,081,829)	9,133,465
Foreign currency translation differences in financial statements conversion		85,322	588,750	(97,145)
Foreign currency translation differences for the fiscal year		85,322	588,750	(97,145)
Profit or losses for financial instruments measured at fair value through other comprehensive income (FVOCI) (IFRS 9 (4.1.2) (a))		132,277	(698,009)	(27,400)
Profit or losses for the fiscal year from financial instruments at fair value through other comprehensive income (FVOCI) (1)		244,068	(930,830)	18,448
Income tax	28.c)	(111,791)	232,821	(45,848)
Other Comprehensive (Loss) / Gain			(425)	1,136
Other Comprehensive (Loss) / Gain for the fiscal year			(425)	1,136
Total Other Comprehensive Income / (Loss) that is subsequently reclassified to profit or loss		217,599	(109,684)	(123,409)
Total Other Comprehensive Income / (Loss)		217,599	(109,684)	(123,409)
Total Comprehensive Income / (Loss) for the fiscal year		20,868,246	(1,191,513)	9,010,056
Total Comprehensive Income / (Loss) attributable to controlling interest		20,868,017	(1,191,770)	9,009,500
Total Comprehensive Income attributable to non-controlling interest		229	257	556

(1) Includes amounts reclassified to income statements disclosed in note 33.

The accompanying notes 1 to 54 to the consolidated financial statements are an integral part of these consolidated financial statements.

BANCO MACRO SA AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019**

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2019, except otherwise indicated)

	Capital stock		Additional paid-in capital		Other Comprehensive Income		Earnings Reserved		Unappropriated Retained Earnings	Total Controlling Interests	Total Non Controlling Interests	Total Equity
	Outstanding shares	In treasury	Additional paid-in capital	Adjustments to Shareholders' Equity (1)	Accumulated foreign currency translation difference in financial statements conversion	Other	Legal	Other				
Changes	Notes											
Balance at the beginning of the fiscal year		640,715	28,948	12,428,461	33,509,145	491,605 (538,437)	18,422,441	46,183,558	(17,474,981)	93,691,455	1,486	93,692,941
Total comprehensive income for the fiscal year												
- Net income for the fiscal year												
- Other comprehensive income for the fiscal year												
- Other												
- Comprehensive income for the fiscal year												
- Own shares in treasury	40	(1,317)	1,317									
Distribution of unappropriated earnings as approved by Shareholders' Meeting held on April 30, 2019												
- Legal reserve												
- Normative Reserve												
- Cash dividends - Other (2)												
Decrease of own shares in treasury	40		(30,265)		(22,523)			52,788				
Other changes	40	15		1,320	719					2,054		2,054
Amount at the end of the fiscal year												
		639,413		12,429,781	33,487,341	576,927 (406,152)	23,261,699	62,433,456	(26,367,487)	106,054,978	1,408	106,056,386

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY **FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2019, except otherwise indicated)

	Capital stock		Additional paid-in capital		Other Comprehensive Income		Earnings Reserved		Unappropriated Retained Earnings	Total Controlling Interests	Total Non-Controlling Interests	Total Equity
	Outstanding shares	In treasury	Additional paid-in capital	Shareholders' Equity (1)	Accumulated foreign currency translation difference in financial statements conversion	Other	Legal	Other				
Changes												
Balance at the beginning of the fiscal year	669,663		12,428,461	33,509,145	(97,145)	159,994	14,158,046	43,725,230	5,345,467	109,898,861	1,776	109,900,637
Impact of adoption of IFRS ⁹									(31,695)	(31,695)		(31,695)
Total comprehensive loss for the fiscal year												
- Net loss for the fiscal year									(1,082,089)	(1,082,089)	260	(1,081,829)
- Other comprehensive loss for the fiscal year								588,750	(698,431)	(109,681)	(3)	(109,684)
Distribution of unappropriated retained earnings as approved by Shareholders' Meeting held on April 27, 2017												
- Legal reserve								4,264,395	(4,264,395)	(6,940,053)	(547)	(6,940,600)
- Cash dividends												
- Other (2)								17,056,909	(17,056,909)	(7,658,528)		(7,658,528)
Own shares in treasury	40	28,948							(385,360)	(385,360)		(385,360)
Other changes (3)												
Amount at the end of the fiscal year	640,715	28,948	12,428,461	33,509,145	491,605	(538,437)	18,422,441	46,183,558	(17,474,981)	93,691,455	1,486	93,692,941

- (1) Inflation adjustment of capital stock and additional paid-in capital.
(2) Related to earnings reserved for future distribution of earnings.
(3) Related to differences between the consideration paid and the adjustment of the non-controlling interests for the acquisition of Banco del Tucumán S.A. See additionally note 2.4.

BANCO MACRO SA AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2019, except otherwise indicated)

	Capital stock		Non-capital Contributions		Other Comprehensive Income		Earnings Reserved		Unappropriated Retained Earnings	Total Controlling Interests	Total Non-Controlling Interests	Total Equity	
	Outstanding shares	In treasury	Additional paid-in capital	Shareholders' Equity (2)	Adjustments to difference in financial statements conversion	Accumulated for foreign currency translation	Other	Legal					Other
Balance at the beginning of the fiscal year	584,563		399,499	14,923,916			186,256	10,449,349	30,324,681	15,282,928	72,151,192	1,339	72,152,531
Total comprehensive income for the fiscal year													
- Net income for the fiscal year										9,132,907	9,132,907	558	9,133,465
- Other comprehensive loss for the fiscal year							(97,145)	(26,262)			(123,407)	(2)	(123,409)
Distribution of unappropriated retained earnings as approved by Shareholders' Meeting held on April 28, 2017													
- Legal reserve								3,708,697		(3,708,697)	(1,824,651)	(119)	(1,824,770)
- Cash dividends								(1,824,651)			(136,471)		(136,471)
- Other (1)								15,225,200		(15,361,671)			
Increase of Capital Stock approved by Shareholders' Meeting held on April 28, 2017	85,100		12,028,962	18,585,229							30,699,291		30,699,291
Balance at the end of the fiscal year	669,663		12,428,461	33,509,145	(97,145)	159,994	14,158,046	43,725,230	5,345,467	109,898,861	1,776		109,900,637

(1) Related to earnings reserved for future distribution of earnings. At 2017, included tax on personal assets of shareholders.

(2) Inflation adjustment of capital stock and additional paid-in capital.

The accompanying notes 1 to 54 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, 2019, 2018 AND 2017

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2019, except otherwise indicated)

<u>Items</u>	<u>Notes</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Income for the fiscal year before Income Tax		33,625,684	13,266,075	22,069,122
Effect of inflation on cash and cash equivalents		85,341,803	58,036,461	29,631,481
Adjustments to obtain cash flows from operating activities:				
Depreciation and amortization of fixed assets		3,006,376	2,266,602	2,164,964
Credit loss expense on financial assets		4,346,885	4,461,143	4,020,812
Difference in quoted prices of foreign currency		(22,627,072)	(17,209,805)	(985,521)
Other adjustments		(13,847,751)	(15,774,309)	(2,988,456)
Net (increase) / decrease from operating assets:				
Debt Securities at fair value through profit and loss		(4,050,748)	(1,633,547)	(3,032,397)
Derivative financial instruments		(589,300)	(7,913)	8,864
Repo transactions		(1,087,916)	3,224,714	(3,170,509)
Loans and other financing				
Non-financial public sector		(3,719,385)	1,546,787	215,839
Other financial entities		4,702,039	(1,296,555)	(2,501,880)
Non-financial private sector and foreign residents		49,836,331	21,053,089	(52,285,828)
Other debt securities		(4,531,861)	19,667,330	(19,598,667)
Financial assets delivered as guarantee		(280,241)	6,955,379	(6,887,577)
Equity instruments at fair value through profit or loss		(36,283)	562,735	511,240
Other assets		(1,132,294)	1,858,620	(2,072,096)
Net increase/ (decrease) from operating liabilities:				
Deposits				
Non-financial public sector		(12,147,057)	494,622	2,441,541
Financial sector		86,071	43,306	26,436
Non-financial private sector and foreign residents		(91,123,151)	38,156,544	7,819,164
Liabilities at fair value through profit or loss			(14,649)	14,649
Derivative financial instruments		766,626	(50,375)	52,481
Repo transactions		749,508	(5,852,281)	2,999,820
Other liabilities		(1,373,572)	739,508	6,031,622
Payments for Income Tax		(9,241,934)	(13,756,685)	(10,562,519)
TOTAL CASH FROM / (USED IN) OPERATING ACTIVITIES (A)		<u>16,672,758</u>	<u>116,736,796</u>	<u>(26,077,415)</u>

BANCO MACRO SA AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2019 AND 2018

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos as of December 31, 2019, except otherwise indicated)

<u>Items</u>	<u>Notes</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments:				
Acquisition of PPE, intangible assets and other assets		(4,055,268)	(3,516,077)	(4,530,055)
TOTAL CASH USED IN INVESTING ACTIVITIES (B)		(4,055,268)	(3,516,077)	(4,530,055)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments:				
Dividends		(8,506,855)	(6,940,053)	(1,824,770)
Acquisition or redemption of equity instruments		(298,747)	(7,658,528)	
Non-subordinated corporate bonds	39	(3,009,728)	(4,434,990)	(5,777,187)
Financing from local financial entities	39	(2,356,979)		
Subordinated Corporate Bonds	39	(1,619,379)	(1,352,821)	(1,083,365)
Changes in equity instruments of subsidiaries that do not lead to the loss of control			(834,689)	
Other payments related to financing activities		(241,193)		
Proceeds:				
Issued Equity instruments				30,699,291
Non-subordinated corporate bonds	39	14,614	6,647,042	11,807,368
Central Bank of Argentina	39	3,715	11,486	2,272
Financing to local financial entities	39	580	1,805,855	1,526,649
TOTAL CASH (USED IN) / FROM FINANCING ACTIVITIES (C)		(16,013,972)	(12,756,698)	35,350,258
EFFECT OF EXCHANGE RATE FLUCTUATIONS (D)		35,181,261	32,043,031	3,778,328
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS (E)		(85,341,803)	(58,036,461)	(29,631,481)
TOTAL CHANGES IN CASH FLOWS				
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D+E)		(53,557,024)	74,470,591	(21,110,365)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FISCAL YEAR	39	200,947,751	126,477,160	147,587,525
CASH AND CASH EQUIVALENTS AT THE END OF THE FISCAL YEAR	39	147,390,727	200,947,751	126,477,160

The accompanying notes 1 to 54 to the consolidated financial statements are an integral part of these consolidated financial statements.

BANCO MACRO SA AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019 AND 2018

(Figures stated in thousands of pesos in terms of purchasing power of Argentine pesos
as of December 31, 2019, except otherwise indicated)

1. CORPORATE INFORMATION

Banco Macro SA (hereinafter, the Bank), is a stock corporation (*sociedad anónima*), organized in the Argentine Republic, 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.

On May 21, 2019, the Bank acquired 100% of Argenpay SAU for an amount of 100 conformed by 100,000 common, registered shares, with a face value of Ps. 1 each one and entitled to one vote. The main activity of such company is the development of its own network or the incorporation into other networks so that it can operate with individuals or companies, in-person or remotely, by using information and communication technologies, grant, offer or accept electronic payments *online* or *offline*, digital and virtual wallets and e-commerce in general. This subsidiary started to develop its principal activities during the fourth quarter of 2019.

These consolidated financial statements for the year ended December 31, 2019, were authorized for issue by the Management on May 15, 2020. Even when the Shareholders' Meeting 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, December 28, 2006 and October 1, 2018, extensions to such agreement were agreed upon, making it currently effective through December 31, 2029.

As of December 31, 2019 and 2018, the deposits held by the Misiones Provincial Government with the Bank amounted to 6,835,569 and 8,523,711 (including 692,153 and 662,307 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, 2019 and 2018, the deposits held by the Salta Provincial Government with the Bank amounted to 4,358,569 and 4,046,547 (including 907,270 and 991,993 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, 2019 and 2018, the deposits held by the Jujuy Provincial Government with the Bank amounted to 1,180,551 and 2,133,985 (including 642,038 and 672,194 related to court deposits), respectively.

2.4. Agreement with the Tucumán Provincial Government – Merger with Banco del Tucumán SA

The Bank 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 non-endorsable 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 807,271. In addition, the Bank acquired from an individual shareholder 59 shares for an amount of 538.

On April 30, and July 19, 2019, the Shareholders' Meeting of Banco Macro SA and the Shareholders' Meeting of former Banco del Tucumán SA, respectively, decided, among other issues, to approve a preliminary merger agreement, the special consolidated financial statement of merger as of December 31, 2018 and the exchange relationship of shares.

On August 15, 2019, the Board of the Central Bank of Argentina (BCRA, for its acronym in Spanish) through Resolution No. 179, authorized the merger of Banco del Tucumán SA by Banco Macro SA. On September 25, 2019, Argentine Securities and Exchange Commission (CNV, for its acronym in Spanish), authorized the merger which was registered at the Public Registry of Commerce on September 30, 2019.

Through Communiqué "C" 84993, the BCRA informed that according to the authorization gave in due time, on October 15, 2019 Banco Macro SA performed the merger with former Banco del Tucumán SA. Additionally, since that date, the authorization of former Banco del Tucumán SA to operate as a commercial bank was revoked and its buildings were incorporated to Banco Macro SA as branches.

The exchange ratio has been agreed at 0.65258 ordinary shares of Banco Macro SA for each face value \$ 1 of common share of former Banco del Tucumán SA. Therefore, the minority shareholders of former Banco del Tucumán SA were entitled to receive at 0.65258 common shares of Banco Macro SA, for each face value \$ 1 of ordinary shares they hold in former Banco del Tucumán SA. Consequently, Banco Macro SA issued 15,662 Class B common, registered shares, with a face value of Ps. 1 each one and entitled to one vote (see additionally note 40).

As of December 31, 2019 and 2018, the deposits held by the Tucumán Provincial Government, the Municipality of San Miguel de Tucumán and the Municipality of Yerba Buena with the Bank amounted to 3,600,799 and 9,302,580 (including 2,455,045 and 2,907,999 related to court deposits), respectively.

Additionally, as of December 31, 2019 and 2018, the bank granted loans to the Tucumán Provincial Government for an amount of 5,587,274 and 3, respectively.

BANCO MACRO SA AND ITS SUBSIDIARIES

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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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).

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, 2019, 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 consolidated statements of financial position 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 25.

Financial assets and financial liabilities are generally reported gross in the consolidated 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 certain financial instruments which were valued at fair value through Other Comprehensive Income (OCI) or at Fair Value Through Profit or Loss. For further information see note 12. 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, 2019 is presented comparatively with the immediately preceding fiscal year and the statements of income and other comprehensive income, changes in shareholders' equity and cash flows for the fiscal year ended December 31, 2019, are presented comparatively with those as of December 31, 2018 and 2017.

Additionally, certain items from the consolidated statement of financial position, the consolidated statement of income, and other comprehensive income as of December 31, 2018 and 2017 were modified, with no effects on the shareholders' equity, only for comparative presentation purpose as of December 31, 2019, including the effects of the merger with former Banco del Tucumán SA, as described in note 2.4, the residual non-controlling interest was derecognized.

BANCO MACRO SA AND ITS SUBSIDIARIES

Measuring unit

These consolidated financial statements as of December 31, 2019 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. Due to miscellaneous macroeconomic factors the three-year inflation rate 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 53.83% and 47.64 % for the fiscal years ended on December 31, 2019 and 2018, 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 extend 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) Non-monetary 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 non-monetary items.
- (iv) Non-monetary 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 non-monetary cost shall be determined over the new restated amounts.
- (v) When an entity capitalizes borrowing cost in the non-monetary assets, the part of the borrowing cost that compensates for the inflation during the same period will not be capitalized.
- (vi) The restatement of non-monetary 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 non-monetary 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 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:

All equity's components were restated by applying a general price index, as mentioned before, from the beginning of the fiscal year or the date of contribution, if later. The inflation adjustment related to "Capital stock" and "Additional paid-in capital" is accumulated in "Adjustment to Shareholders' Equity" (see section of "Comparative information" of this note).

Other comprehensive income generated after the transition date are presented in terms of the measuring unit current at the end of the reporting period.

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 consolidated statement of comprehensive income. Corresponding figures as of December 31, 2018 and 2017, have also been restated so that they are presented in terms of the purchasing power of the Argentine peso as of December 31, 2019.

Basis for Consolidation

These consolidated financial statements include the financial statements of the Bank and its subsidiaries as of December 31, 2019.

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,
- 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,

BANCO MACRO SA AND ITS SUBSIDIARIES

- 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 and applying the inflation adjustment above explained in section "Measuring unit" of this note:

- 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, 2019 and 2018.
- 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, 2019 and 2018 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, non-controlling 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.

The Bank has consolidated into its financial statements the financial statements of the following companies:

Subsidiaries	Principal Place of Business	Country	Main Activity
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
Argenpay SAU (d)	Av. Eduardo Madero 1182 – Autonomous City of Buenos Aires	Argentina	Electronic payments services

(a) Consolidated with Macro Fondos SGFCISA (80.90% equity interest and voting rights).

(b) The indirect interest of Banco Macro SA comes from Macro Fiducia SA.

BANCO MACRO SA AND ITS SUBSIDIARIES

(c) Consolidated with Sud Asesores (ROU) SA (100% voting rights – Equity interest 11,570).

(d) Consolidated with the Bank since May 2019, as the equity interest was acquired in such month.

The tables below show the Bank's equity interest and voting rights in the companies it consolidates:

- As of December 31, 2019:

Subsidiaries	Shares		Bank's interest		Non-controlling interest	
	Type	Number	Total capital stock	Voting rights	Total capital stock	Voting rights
Macro Securities SA	Common	12,776,680	99.925%	99.932%	0.075%	0.068%
Macro Fiducia SA	Common	46,935,318	99.046%	99.046%	0.954%	0.954%
Macro Fondos SGFCISA	Common	327,183	99.939%	100.00%	0.061%	
Macro Bank Limited	Common	39,816,899	99.999%	100.00%	0.001%	
Argenpay SAU	Common	7,700,000	100.00%	100.00%		

- As of December 31, 2018:

Subsidiaries	Shares		Bank's interest		Non-controlling interest	
	Type	Number	Total capital stock	Voting rights	Total capital stock	Voting rights
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 Shareholders' equity of the Bank and its subsidiaries as of December 31, 2019 and 2018 are as follows:

As of 12/31/2019	Banco Macro SA	Subsidiaries	Eliminations	Consolidated
Assets	442,153,986	7,534,654	(4,448,770)	445,239,870
Liabilities	336,099,008	4,195,057	(1,110,581)	339,183,484
Equity attributable to the owners of the Bank				106,054,978
Equity attributable to non-controlling interests				1,408

As of 12/31/2018	Banco Macro SA	Subsidiaries	Eliminations	Consolidated
Assets	538,363,403	6,355,939	(4,417,634)	540,301,708
Liabilities	444,671,948	2,699,534	(762,715)	446,608,767
Equity attributable to the owners of the Bank				93,691,455
Equity attributable to non-controlling interests				1,486

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, 2019 and 2018.

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, 2019 and 2018:

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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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 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 non-observable 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 (see note 7).

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.

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.

BANCO MACRO SA AND ITS SUBSIDIARIES

- 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 (the SPPI test)

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 gain from measurement of financial instruments at fair value" 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 and 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 SPPI test.

BANCO MACRO SA AND ITS SUBSIDIARIES

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”, “Differences 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 (hereinafter, EIR). 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.

When a financial asset becomes credit-impaired (as set out in Note 3.2.4) and is therefore regarded a ‘Stage 3’, the Bank calculates interest income by applying the effective interest method to the net amortized cost of the financial asset. If the financial asset cures (as outlined in Note 3.2.4) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

3.2.1 Cash and deposits in banks

They were valued at their nominal value plus the relevant earned 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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 EIR. Income from interest was allocated in the statement of income as “Interest income”.

3.2.4 Impairment of financial assets

3.2.4.1. Overview of the Expected Credit Loss (ECL) principles

The Bank records an 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 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 (hereinafter, 12mECL) as described in note 3.2.4.2. The Bank’s policies for determining if there has been a significant increase in credit risk are set out in note 51.1.1.6.

The 12mECL is the portion of the lifetime expected credit loss (hereinafter, LTECL) that represents the ECL 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’s policy for grouping financial assets measured on a collective basis is explained in note 51.1.1.1.

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. This is further explained in note 51.1.1.6.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impaired (hereinafter, POCI), as described below:

- Stage 1: when financial instruments 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 instruments also include facilities where the credit risk has improved and the financial instrument has been reclassified from Stage 2.
- Stage 2: when a financial instrument has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 financial instruments also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: financial instruments considered credit-impaired. The Bank records an allowance for the LTECL.
- POCI: financial instruments 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 EIR. The ECL allowance is 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 instruments.

For financial instruments 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 instrument is reduced.

BANCO MACRO SA AND ITS SUBSIDIARIES

The Bank estimates an allowance for expected credit losses on the following financial instruments:

- 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.

3.2.4.2. The calculation of Expected Credit Loss

The Bank calculates ECL 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. The concept of PD is further explained in note 51.1.1.3.
- 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. The EAD is further explained in note 51.1.1.4.
- 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. The LGD is further explained in note 51.1.1.5.

When estimating the ECL, 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.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in note 3.2.4.4, 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.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The calculation of ECL, 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

The mechanics of the ECL method are summarized below:

- Stage 1: the 12mECL is calculated as the portion of LTECL that represents the ECL 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 an approximation to the original 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 instruments 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 instruments considered credit-impaired, the Bank recognizes the LTECL for these financial instruments. The method is similar to that for Stage 2 financial instruments, 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 drawn down 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 drawn down, 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, ECL is 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 ECL 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 forward-looking scenarios. The ECL related to financial guarantee contracts are recognized within Provisions.

3.2.4.3. Debt instruments measured at fair value through OCI

The ECL for debt instruments measured at fair value through Other Comprehensive Income (OCI) do not reduce the carrying amount of these financial instruments 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.

3.2.4.4. 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 ECL for these products is three years.

BANCO MACRO SA AND ITS SUBSIDIARIES

The interest rate used to discount the ECL for credit cards is based on the average EIR that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that some facilities are repaid in full each month and are consequently charged no interest.

3.2.4.5. 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
- Central Bank of Argentina base rates
- CPI

The inputs and models used for calculating ECL 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. Detailed information about these inputs and sensitivity analysis are provided in note 51.1.2.

3.2.4.6. Collateral valuation

To mitigate its credit risks on financial instruments, 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. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECL. 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.

3.2.4.7. Collateral repossessed

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 for 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.

3.2.4.8. 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 instrument in its entirety or a portion thereof. Any subsequent recoveries impact on the income statement of the current fiscal year under "Other operating income".

BANCO MACRO SA AND ITS SUBSIDIARIES

3.2.4.9. 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.

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). Those evaluated on an individual basis, could also be classified in stage 1 if they comply with the qualitative and quantitative conditions mentioned in note 51.1.1.7.

If modifications are substantial, the loan is derecognized and a new loan with different conditions is recognized.

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 the Bank 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, sale transactions of foreign currency without delivery of traded underlying asset and put options. 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 gain from measurement of financial instruments at fair value".

BANCO MACRO SA AND ITS SUBSIDIARIES

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.

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 EIR 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 – Changes in business model

Taking into account the volatile context in the local markets as described in note 52, during November 2019, the Bank’s management decided to update the objective related to the collection of contractual cash flows from the investment in Federal Government Treasury Bills in pesos adjusted by CER 2021, resulting in a reclassification from business model at amortized cost to business model at fair value to profit or loss, for such investment.

On December 1, 2019, the amortized cost of such investment amounted to 2,520,407 while its fair value as of that date amounted to 2,075,748, generating a reclassification loss for an amount of 444,658. As of December 31, 2019 this investment generated a gain since the reclassification date for an amount of 1,902,401.

During this fiscal year, there were not other material reclassifications. Additionally, financial liabilities are never reclassified.

3.3 Leases

From fiscal years beginning on January 1, 2019 included, IFRS 16 “Leases” supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC 15 “Operating Leases-Incentives” and SIC 27 “Evaluating the Substance of Transactions Involving the Legal Form of a lease”. For further information, see also section “New standards adopted – IFRS 16 -Leases” of this note.

The accounting policies applicable before IFRS 16 and as of January 1, 2019 are described as follows:

BANCO MACRO SA AND ITS SUBSIDIARIES

3.3.1 Policy applicable before January 1, 2019

The determination of whether an arrangement is a lease or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

3.3.1.1 The Bank as a lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to the ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease terms.

3.3.1.2 The bank as a lessor

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 EIR method, which reflects a constant rate of return and is recognized in the statement of income as "Interest income". Losses originated for impairment are included in the statement of income as "Credit loss expense on financial assets".

3.3.2 Policy applicable as of January 1, 2019

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3.3.2.1 The Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets, which payments are recognized as rent expense on a straight-line basis. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

- **Right-of-use assets**

The Bank recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right of use assets are depreciated on a straight-line basis over the lease term. Right-of-use assets are subject to impairment, as described in section 3.9 of this note.

- **Lease liabilities**

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

BANCO MACRO SA AND ITS SUBSIDIARIES

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

3.3.2.2 The Bank as a lessor

As describes in section “New standards adopted – IFRS 16 – Leases”, of this note, when the Bank acts as a lessor, no significant changes were generated with respect to the preceding IAS. See item 3.3.1.2.

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.

3.5 Property, plant and equipment

The Bank chose the cost model for all kinds of assets accounted for in this accounting item. 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.

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 if 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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
- 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

The Bank included certain real properties that 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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.

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 29 to 32 are disclosed the streams and amounts for the years ended in December 31, 2019, 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

3.11.2 Loan commissions

Commission charges and direct incremental costs related with the granting of financing facilities were deferred and recognized adjusting the EIR thereof.

3.11.3 Service commissions

The Bank earns service commissions from a diverse range of financial services it provides to its customers. Service commissions are recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligation, as well as the timing of their satisfaction, are identified, and determined, at the inception date of the contract.

The Bank has generally concluded that it is the principal in its revenue arrangement because it typically controls the services before transferring them to customers.

3.11.3.1 Servicecommissions where performance obligations are satisfied at a point in time

Services provided where the Bank's performance obligations are satisfied at a point in time are recognized once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria.

The Bank typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

3.11.3.2 Servicecommissions where performance obligations are satisfied over certain period of time

Performance obligations satisfied over time are where the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs.

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.

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 IncomeTax (see note 28)

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.

BANCO MACRO SA AND ITS SUBSIDIARIES

- 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 (see note 1), 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 separate 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, established a reduction of the corporate rate of income tax applicable to corporate retained earnings and also impacts on the measurement of deferred tax assets and liabilities. This reduction in the corporate rate of income had to 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. On December 23, 2019 was passed Law 27,541 (see notes 28.b and 52) which suspends, until fiscal years beginning on January 1, 2021 included, the reduction to 25% of the income tax rate and the withholding of 13% over income and dividends distribution. As a consequence, for fiscal years beginning up to December 31, 2021, the income tax rate of 30% and the withholding of 7% over income and dividends distributions are kept.

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 41.

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 44, 45 and 48.

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 (for additional information regarding fair value estimates see note 12).

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 (for additional information regarding income tax see note 28).

BANCO MACRO SA AND ITS SUBSIDIARIES

In the normal course of business, the Bank is a party to lawsuits of various types. In note 49, 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 instruments 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 (for additional information regarding impairment losses under IFRS 9 see notes 3.2.4 and 51.1.1).

New standards adopted

For the fiscal year beginning on January 1, 2019, the following IFRS amendments and interpretation (hereinafter, “IFRIC”) are applicable and they did not have a material impact over these consolidated financial statements, as a whole.

IFRS 16 “Leases”

As mentioned in item 3.3 of this note, on January 1, 2019, IFRS 16 superseded IAS 17 “Leases”, IFRIC 4, SIC-15 and SIC-27. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, introducing significant changes when the Bank acts as lessee. In cases when the Bank acts as a lessor, no significant changes were generated with respect to the preceding IAS.

Before the adoption of IFRS 16, the Bank classified its leases (as lessee) at the inception date as either a finance lease or an operating lease. The Bank has neither acted nor acts as a lessee in agreements classified as finance lease. See section 3.3.1 of this note related to the policies applicable before January 1, 2019.

The Bank adopted IFRS 16 under the modified retrospective approach from January 1, 2019, as the date of initial application of the standard.

Since the adoption of IFRS 16, the Bank has applied a single accounting model for the recognition and measurement of all its leases, except for short-term leases and leases of low-value assets. In section 3.3.2 of this note, are described the policies applicable as of January 1, 2019. This standard sets specific requirements for transition and practical expedients, which have been applied by the Bank.

For leases previously classified as operating leases, the Bank recognized a right-of-use assets and lease liabilities. The right-of-use assets were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Additionally, the Bank applied the following practical expedients established by the standard:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

As a result of the abovementioned explained, the effect of adoption of IFRS 16 as of January 1, 2019 was an increase of the Bank’s assets and liabilities for the following amounts:

BANCO MACRO SA AND ITS SUBSIDIARIES

Assets	
Right-of-use assets	599,502
Liabilities	
Finance lease payable	599,502

The adoption of IFRS 16 had no impact on the Bank's retained earnings.

The weighted average of the incremental borrowing rate applied, at the transition date, to lease liabilities was 45.98% for leases in pesos and 4.63% for leases in US Dollars.

A reconciliation between lease liabilities as of January 1, 2019 and the operating lease commitments as of December 31, 2019, is as follows:

	Pesos	US Dollars
Operating lease commitments as of 12/31/2018	479,255	399,381
Less:		
Commitments related to short-term leases	(46,207)	(26,543)
	433,048	372,838
Weighted average incremental borrowing rate as of 01/01/2019	45.98%	4.63%
Discounted operating lease commitments as of 01/01/2019	247,298	352,204
Lease liabilities as of 01/01/2019	247,298	352,204

IFRIC 23 "Uncertainty over income tax treatment"

This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 "Income tax". This interpretation addresses specifically the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how an entity considers changes in facts and circumstances.

This interpretation did not have a material impact on these consolidated financial statements since, currently, there are not material uncertainties over income tax treatments.

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 come effective:

- Amendments to the Conceptual Framework for Financial Reporting: the IASB issued the Conceptual Framework in March 2018. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. This Conceptual Framework is applicable to fiscal years beginning on January 1, 2020. The Bank does not expect this 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 this standard to have a material impact on the consolidated financial statements.
- IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – amendments to definition of material: the new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information or both. These amendments replaced the threshold "could influence" with "could reasonably be expected to influence". This implies that the materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions. This standard is applicable to fiscal years beginning on January 1, 2020. The Bank does not expect this standard to have a material impact on the consolidated financial statements.

BANCO MACRO SA AND ITS SUBSIDIARIES

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, 2019 and 2018 (see note 52):

Name	Holdings		
	12/31/2019	12/31/2018	12/31/2018
	Fair value level	Book amounts	Book amounts
DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS			
Local			
Government securities			
Federal government treasury bonds in pesos adjustment by CER – Maturity: 07-22-2021	1	3,923,304	118,818
Bonds Par denominated in pesos – Maturity: 12-31-2038	1	170,419	56,388
National treasury bills coupon capitalized in pesos – Maturity: 02-26-2020	1	165,621	
Discount bonds denominated in pesos at 5.83% – Maturity: 12-31-2033	1	131,760	3,498
National treasury bills coupon capitalized in pesos – Maturity: 03-11-2020	1	114,452	
Consolidation bonds in pesos 6° Series at 2% – Maturity: 03-15-2024	1	71,286	74,448
National treasury bills capitalized in pesos – Maturity: 04-08-2020	1	66,979	
National treasury bills capitalized in pesos – Maturity: 05-13-2020	1	58,512	
Debt securities of Province of Buenos Aires in pesos – Private Badlar + 375 PBS -Maturity: 04-12-2025	1	30,674	126,801
Consolidation bonds in pesos 8° Serie – Maturity: 10-04-2022	1	27,612	260,994
Other		49,201	1,270,929
Subtotal local government securities		4,809,820	1,911,876
Private securities			
Debt Securities in Financial Trusts Consubond	3	354,317	581,054
Debt Securities in Financial Trusts Surcos	3	105,308	
Debt Securities in Financial Trusts Agrocap	3	94,822	201,111
Debt Securities in Financial Trusts Secubono Series 191 Class A – Maturity: 06-29-2020	3	84,339	
Debt Securities in Financial Trusts Secubono	3	68,271	121,838
Corporate Bonds Province of Buenos Aires Bank Class 009 -Maturity: 04-18-2021	2	50,129	45,360
Debt Securities in Financial Trusts Chubut Regalías Hidrocarburíferas – Maturity: 07-01-2020	3	30,193	74,402
Debt Securities in Financial Trusts Secubono Series 189A – Maturity: 03-30-2020	3	22,198	
Debt Securities in Financial Trusts Secubono Series 191 CL.B – Maturity: 07-28-2020	3	12,062	
Debt Securities in Financial Trusts Secubono Series 190 CL.A – Maturity: 04-28-2020	3	11,169	
Other		32,380	1,118,161
Subtotal local private securities		865,188	2,141,926
TOTAL DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		5,675,008	4,053,802

5. OTHER DEBT SECURITIES

The following table shows holdings of other debt securities as of December 31, 2019 and 2018 (see note 52):

Name	Holdings		
	12/31/2019	12/31/2018	12/31/2018
	Fair value level	Book amounts	Book amounts
OTHER DEBT SECURITIES			
Measured at fair value through other comprehensive income			
Local			
Government securities			
Federal government bonds in US dollars at 8.75% – Maturity: 05-07-2024	(2) 1	386,445	816,580
Discount bonds denominated in pesos at 5.83% – Maturity: 12-31-2033	1	83,855	225,278

International bonds of the Argentina Republic in US dollars at 7.125 – Maturity: 06-28-2117			125,571
Subtotal local government securities		470,300	1,167,429
Central Bank of Argentina Bills			
Liquidity letters of Central Bank of Argentina in pesos – Maturity: 01-03-2020	1	14,782,386	
Liquidity letters of Central Bank of Argentina in pesos – Maturity: 01-07-2020	1	11,308,111	
Liquidity letters of Central Bank of Argentina in pesos – Maturity: 01-08-2020	2	9,893,453	
Liquidity letters of Central Bank of Argentina in pesos – Maturity: 01-06-2020	1	7,955,921	
Liquidity letters of Central Bank of Argentina in pesos – Maturity: 01-02-2020	1	1,992,248	
Liquidity letters of Central Bank of Argentina in pesos – Maturity: 01-04-2019			23,915,050
Liquidity letters of Central Bank of Argentina in pesos – Maturity: 01-08-2019			21,209,382
Liquidity letters of Central Bank of Argentina in pesos – Maturity: 01-02-2019			19,082,381
Liquidity letters of Central Bank of Argentina in pesos – Maturity: 01-03-2019			12,193,156
Liquidity letters of Central Bank of Argentina in pesos – Maturity: 01-07-2019			8,314,070
Subtotal Central Bank of Argentina		45,932,119	84,714,039
Foreign			
Government securities			
US Treasury Bill – Maturity: 01-07-2020	1	479,070	
US Treasury Bill – Maturity: 01-03-2019			348,942
US Treasury Bill – Maturity: 01-02-2019			290,803
US Treasury Bill – Maturity: 01-15-2019			290,567
Subtotal Foreign government securities		479,070	930,312
Total Measured at fair value through other comprehensive income (3)		46,881,489	86,811,780

BANCO MACRO SA AND ITS SUBSIDIARIES

		Holdings	
		12/31/2019	12/31/2018
		Fair value level	Book amounts
	Name (contd.)		Book amounts
Measured at amortized cost			
Local			
Government securities			
	Federal government bonds in pesos – Fixed rate 26% – Maturity: 11-21-2020		12,293,144
	National treasury bills coupon capitalized in pesos – Maturity: 02-26-2020 (2)	7,973,994	
	National treasury bills capitalized in pesos – Maturity: 11-15-2019 (1) and (2)	1,502,176	
	National treasury bills capitalized in pesos – Maturity: 05-29-2020 (1)	1,437,896	
	National treasury bills coupon capitalized in pesos – Maturity: 03-11-2020 (2)	1,222,188	
	National treasury bills capitalized in pesos – Maturity: 10-31-2019 (1)	883,292	
	National treasury bills capitalized in pesos – Maturity: 10-11-2019 (1) and (2)	753,407	
	Discount bonds denominated in pesos at 5.83% – Maturity: 12-31-2033	385,400	
	National treasury bills capitalized in pesos – Maturity: 07-31-2020	321,426	241,581
	Federal government treasury bonds adjustment by CER – Maturity: 08-30-2019 (1)	230,388	
	Other	159,430	
	Subtotal local government securities (4)	48,787	14,918,384
	Private securities		12,534,725
	Debt Securities in Financial Trusts Megabono Series 214 Class A – Maturity: 09-28-2020	294,978	
	Debt Securities in Financial Trusts Garbarino Series 153 Class A – Maturity: 06-10-2020	121,009	
	Corporate Bonds Banco Galicia S.A. Class 005 Series 001 -Maturity: 04-26-2020	119,827	
	Debt Securities in Financial Trusts Secubono Series 192 Class A – Maturity: 07-28-2020	96,583	
	Corporate Bonds YPF Class 017 -Maturity: 04-30-2020	94,884	
	Debt Securities in Financial Trusts Secubono Series 194 Class A – Maturity: 08-28-2020	91,774	
	Corporate Bonds Volkswagen Financial Services Class 004 -Maturity: 02-27-2020	89,868	
	Debt Securities in Financial Trusts Secubono Series 193 Class A – Maturity: 07-28-2020	88,588	
	Debt Securities in Financial Trusts Secubono Series 195 Class A – Maturity: 10-28-2020	80,463	
	Corporate Bonds Province of Buenos Aires Bank Class 012 -Maturity: 02-15-2020	74,817	
	Other	1,560,751	4,229
	Subtotal local private securities (5)	2,713,542	4,229
	Total Measured at amortized cost	17,631,926	12,538,954
	TOTAL OTHER DEBT SECURITIES	64,513,415	99,350,734

- (1) The maturities disclosed are related to conditions of original issuance. See additionally notes 20 and 52.
- (2) On January 22, 2020, the Bank presented this security in the exchange mentioned in note 52.
- (3) As of December 31, 2019 and 2018, these financial assets were high grade credit risk exposure in stage 1. During 2019 and 2018, there were no transfers between stages. As of December 31, 2019 the related ECL amounted to 210.
- (4) As of December 31, 2019, 8,354,873 and 6,608,365 of these financial assets are high grade credit risk exposure in stage 1 and standard grade credit risk exposure in stage 2, respectively. During 2019 there were transfers between stages considering what is mentioned in Note 20. As of December 31, 2018, these financial assets were high grade credit risk exposure in stage 1. During 2018, there were no transfers between stages. As of December 31, 2019 and 2018, the related ECL amounted to 44,854 and 88, respectively.

- (5) As of December 31, 2019, these financial assets are high grade credit risk exposure in stage 1. During 2019, there were no transfers between stages. As of December 31, 2019 the related ECL amounted to 1,880.

As of December 31, 2019 the unrealized gains and losses from government securities amounted to 92,304 and (439,127), respectively, and the unrealized losses related to Central Bank Bills amounted to (59,329). In addition, as of December 31, 2018, the unrealized gains and losses from government securities amounted to 8,169 and (145,851), respectively, and the unrealized losses related to Central Bank Bills amounted to (400,755). All the abovementioned amounts 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, 2019 and 2018:

Name	Holdings		
	12/31/2019		12/31/2018
	Fair value level	Book amounts	Book amounts
Equity instruments at fair value through profit or loss			
Measured at fair value through profit or loss			
Local			
Prisma Medios de Pago SA	3	2,501,196	
Mercado Abierto Electrónico SA	3	51,954	38,578
Matba Rofex SA	3	11,549	
Argentina Clearing SA	3	10,443	7,028
C.O.E.L.S.A	3	9,605	7,424
Mercado a Término Rosario SA	3	9,189	5,635
Sedesa	3	6,972	6,115
Provincanje SA	3	2,435	1,166
Proin SA	3	1,478	789
Sanatorio Las Lomas SA	3	694	923
Other		592	2,752
Subtotal local equity instruments at fair value through profit or loss		2,606,107	70,410
Foreign			
Banco Latinoamericano de Comercio Exterior SA	1	9,352	7,348
Sociedad de Telecomunicaciones Financieras Interbancarias Mundiales	3	1,269	1,491
Subtotal foreign equity instruments at fair value through profit or loss		10,621	8,839
Total Equity instruments at fair value through profit or loss		2,616,728	79,249

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, 2019 the Bank has agreed repurchase transactions of government and private securities for an amount of 1,087,916, and are recorded under "Repo Transactions".

As of December 31, 2019 and 2018 the Bank has agreed reverse repurchase transactions of government and private securities for an amount of 1,002,511 and 253,003, respectively, and are recorded under "Repo Transactions". Maturity of the agreed transactions as of December 2019 occurred during the month of January 2020.

As of December 31, 2019 and 2018, the securities delivered to guarantee the reverse repurchase transactions total 1,077,082 and 280,659, respectively, and are recorded under "Financial assets delivered as guarantee" (see note 8), while securities received guarantee repurchase transactions as of December 2019 total 1,210,761 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, 2019, 2018 and 2017 total 3,284,995, 692,036 and 1,721,743 respectively, and were accounted for in "Interest income" in the consolidated 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, 2019, 2018 and 2017 total 336,492, 336,326 and 279,495, respectively, and were recognized in "Interests expense" in the consolidated statement of income.

8. FINANCIAL ASSETS DELIVERED AS GUARANTEE

As of December 31, 2019 and 2018, the Bank delivered as guarantee the following financial assets:

Description	Carrying Amount	
	12/31/2019	12/31/2018
For transactions with the BCRA	7,438,646	8,798,598
For guarantee deposits	2,157,606	1,313,836
For securities forward contracts	1,077,082	280,659
Total	10,673,334	10,393,093

BANCO MACRO SA AND ITS SUBSIDIARIES

9. LOANS AND OTHER FINANCING

9.1. Exposure to credit risk

	12/31/2019	12/31/2018
Total	225,967,540	281,563,524
Commercial	98,573,176	106,618,283
Consumer	127,394,364	174,945,241
Less: Allowance for ECL/impairment losses	(5,069,726)	(5,951,735)
	<u>220,897,814</u>	<u>275,611,789</u>

9.2. Impairment allowance for loans and other financing

	12/31/2019				
Internal rating grade	Stage 1	Stage 2	Stage 3	Total	%
Performing	<u>205,724,293</u>	<u>9,964,364</u>		<u>215,688,657</u>	<u>95.45%</u>
High grade	172,513,230	112,709		172,625,939	
Standard grade	17,030,782	1,575,674		18,606,456	
Sub-standard grade	16,180,281	8,275,981		24,456,262	
Past Due but not impaired	<u>360,227</u>	<u>6,045,582</u>		<u>6,405,809</u>	<u>2.84%</u>
Non- Performing (Impaired)			<u>3,873,074</u>	<u>3,873,074</u>	<u>1.71%</u>
Total	<u>206,084,520</u>	<u>16,009,946</u>	<u>3,873,074</u>	<u>225,967,540</u>	<u>100%</u>
	<u>91.20%</u>	<u>7.09%</u>	<u>1.71%</u>	<u>100%</u>	

	12/31/2018				
Internal rating grade	Stage 1	Stage 2	Stage 3	Total	%
Performing	<u>242,391,780</u>	<u>25,603,704</u>		<u>267,995,484</u>	<u>95.18%</u>
High grade	204,641,782	9,520,210		214,161,992	
Standard grade	33,541,292	10,025,618		43,566,910	
Sub-standard grade	4,208,706	6,057,876		10,266,582	
Past Due but not impaired	<u>1,231,774</u>	<u>7,046,307</u>		<u>8,278,081</u>	<u>2.95%</u>
Non- Performing (Impaired)			<u>5,289,959</u>	<u>5,289,959</u>	<u>1.87%</u>
Total	<u>243,623,554</u>	<u>32,650,011</u>	<u>5,289,959</u>	<u>281,563,524</u>	<u>100%</u>
	<u>86.53%</u>	<u>11.60%</u>	<u>1.87%</u>	<u>100%</u>	

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 51.

	12/31/2019				
Internal rating grade	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	%
Performing	<u>94,035,693</u>	<u>2,127,100</u>		<u>96,162,793</u>	<u>97.55%</u>
High grade	88,963,268	7,874		88,971,142	
Standard grade	19,008	869,877		888,885	
Sub-standard grade	5,053,417	1,249,349		6,302,766	
Past Due but not impaired		<u>1,020,315</u>		<u>1,020,315</u>	<u>1.04%</u>
Non- Performing (Impaired)			<u>1,390,068</u>	<u>1,390,068</u>	<u>1.41%</u>
Total	<u>94,035,693</u>	<u>3,147,415</u>	<u>1,390,068</u>	<u>98,573,176</u>	<u>100%</u>
	<u>95.40%</u>	<u>3.19%</u>	<u>1.41%</u>	<u>100%</u>	

BANCO MACRO SA AND ITS SUBSIDIARIES

Internal rating grade	12/31/2018				
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	%
Performing	103,327,739	1,561,461		104,889,200	98.37%
High grade	86,670,205	384,375		87,054,580	
Standard grade	16,372,650	683,862		17,056,512	
Sub-standard grade	284,884	493,224		778,108	
Past Due but not impaired					
Non- Performing (Impaired)			1,729,083	1,729,083	1.63%
Total	103,327,739	1,561,461	1,729,083	106,618,283	100%
	96.91%	1.46%	1.63%	100%	

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	
Gross Carrying amount as at January 1, 2019	103,327,739	1,561,461	1,729,083	106,618,283
New assets originated or purchased	110,325,311	3,312,859		113,638,170
Assets derecognized or repaid	(81,066,720)	(1,192,392)	(1,272,953)	(83,532,065)
Transfers to Stage 1	393,965	(314,796)	(79,169)	
Transfers to Stage 2	(917,752)	917,752		
Transfers to Stage 3	(1,887,351)	(21,593)	1,908,944	
Amounts Written Off		(173)	(90,660)	(90,833)
Monetary effects	(36,139,499)	(1,115,703)	(805,177)	(38,060,379)
At December 31, 2019	94,035,693	3,147,415	1,390,068	98,573,176

	Stage			Total
	1	2	3	
Gross Carrying amount as at January 1, 2018	111,315,529	491,079	1,046,409	112,853,017
New assets originated or purchased	79,920,258	538,591		80,458,849
Assets derecognized or repaid	(40,336,332)	(221,881)	(279,951)	(40,838,164)
Transfers to Stage 1	46,783	3,127	(49,910)	
Transfers to Stage 2	(1,364,792)	1,364,792		
Transfers to Stage 3	(1,591,027)	(151,284)	1,742,311	
Amounts Written Off			(134,497)	(134,497)
Monetary effects	(44,662,680)	(462,963)	(595,279)	(45,720,922)
At December 31, 2018	103,327,739	1,561,461	1,729,083	106,618,283

	Stage			Total
	1	2	3	
ECL as at January 1, 2019	411,271	88,686	658,298	1,158,255
New assets originated or purchased	1,534,723	430,988		1,965,711
Assets derecognized or repaid	(302,022)	(64,628)	(461,569)	(828,219)
Transfers to Stage 1	56,143	(10,204)	(45,939)	
Transfers to Stage 2	(12,622)	12,622		
Transfers to Stage 3	(1,353,902)	(760)	1,354,662	
Amounts Written Off		(4)	(39,457)	(39,461)
Monetary effects	(13,018)	(121,731)	(508,229)	(642,978)
At December 31, 2019	320,573	334,969	957,766	1,613,308

BANCO MACRO SA AND ITS SUBSIDIARIES

	Stage			Total
	1	2	3	
ECL as at January 1, 2018	540,208	36,885	363,645	940,738
New assets originated or purchased	928,682	94,772		1,023,454
Assets derecognized or repaid	(194,955)	(14,857)	(62,338)	(272,150)
Transfers to Stage 1	1,111	37	(1,148)	
Transfers to Stage 2	(14,725)	14,725		
Transfers to Stage 3	(650,709)	(14,992)	665,701	
Amounts Written Off			(90,001)	(90,001)
Monetary effects	(198,341)	(27,884)	(217,561)	(443,786)
At December 31, 2018	411,271	88,686	658,298	1,158,255

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 51.

	12/31/2019				
Internal rating grade	Stage 1 Collective	Stage 2 Collective	Stage 3	Total	%
Performing	111,688,600	7,837,264		119,525,864	93.82%
High grade	83,549,962	104,835		83,654,797	
Standard grade	17,011,774	705,797		17,717,571	
Sub-standard grade	11,126,864	7,026,632		18,153,496	
Past Due but not impaired	360,227	5,025,267		5,385,494	4.23%
Non- Performing (Impaired)			2,483,006	2,483,006	1.95%
Total	112,048,827	12,862,531	2,483,006	127,394,364	100%
	87.95%	10.10%	1.95%	100%	

	12/31/2018				
Internal rating grade	Stage 1 Collective	Stage 2 Collective	Stage 3	Total	%
Performing	139,064,041	24,042,243		163,106,284	93.23%
High grade	117,971,577	9,135,835		127,107,412	
Standard grade	17,168,642	9,341,756		26,510,398	
Sub-standard grade	3,923,822	5,564,652		9,488,474	
Past Due but not impaired	1,231,774	7,046,307		8,278,081	4.73%
Non-Performing (Impaired)			3,560,876	3,560,876	2.04%
Total	140,295,815	31,088,550	3,560,876	174,945,241	100%
	80.19%	17.77%	2.04%	100%	

BANCO MACRO SA AND ITS SUBSIDIARIES

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to consumer lending is, as follows:

	1	Stage 2	3	Total
Gross carrying amount as of January 1, 2019	140,295,815	31,088,550	3,560,876	174,945,241
Net new assets originated or purchased	76,000,592	7,468,083		83,468,675
Assets derecognized or repaid	(52,430,227)	(14,428,356)	(1,211,898)	(68,070,481)
Transfers to Stage 1	11,012,532	(10,850,079)	(162,453)	
Transfers to Stage 2	(6,002,443)	6,434,177	(431,734)	
Transfers to Stage 3	(2,963,036)	(698,931)	3,661,967	
Amounts Written Off	(237,915)	(687,580)	(1,614,977)	(2,540,472)
Monetary effects	(53,626,491)	(5,463,333)	(1,318,775)	(60,408,599)
As of December 31, 2019	112,048,827	12,862,531	2,483,006	127,394,364

	1	Stage 2	3	Total
Gross carrying amount as of January 1, 2018	153,134,312	39,193,764	2,174,322	194,502,398
Net new assets originated or purchased	74,812,190	8,234,903		83,047,093
Assets derecognized or repaid	(20,457,415)	(11,035,978)	(1,179,538)	(32,672,931)
Transfers to Stage 1	(1,106,199)	1,238,039	(131,840)	
Transfers to Stage 2	(9,739,156)	8,180,775	1,558,381	
Transfers to Stage 3	(1,500,144)	(1,448,802)	2,948,946	
Amounts Written Off	(141,622)	(282,158)	(595,816)	(1,019,596)
Monetary effects	(54,706,151)	(12,991,993)	(1,213,579)	(68,911,723)
As of December 31, 2018	140,295,815	31,088,550	3,560,876	174,945,241

	1	Stage 2	3	Total
ECL as of January 1, 2019	1,191,301	1,911,332	1,690,847	4,793,480
Net new assets originated or purchased	1,816,147	647,721		2,463,868
Assets derecognized or repaid	14,670	(803,367)	(674,164)	(1,462,861)
Transfers to Stage 1	538,603	(467,359)	(71,244)	
Transfers to Stage 2	(85,037)	242,466	(157,429)	
Transfers to Stage 3	(1,404,504)	(73,973)	1,478,477	
Amounts Written Off	(6,776)	(106,281)	(812,803)	(925,860)
Monetary effects	(917,068)	(263,392)	(231,749)	(1,412,209)
As of December 31, 2019	1,147,336	1,087,147	1,221,935	3,456,418

	1	Stage 2	3	Total
ECL as at January 1, 2018	1,365,572	2,644,965	1,144,703	5,155,240
Net new assets originated or purchased	2,348,352	1,418,220		3,766,572
Assets derecognized or repaid	(338,071)	(1,451,503)	(91,832)	(1,881,406)
Transfers to Stage 1	(286,376)	289,103	(2,727)	
Transfers to Stage 2	(101,006)	114,223	(13,217)	
Transfers to Stage 3	(1,310,490)	(177,701)	1,488,191	
Amounts Written Off	(71,706)	(160,325)	(241,382)	(473,413)
Monetary effects	(414,974)	(765,650)	(592,889)	(1,773,513)
As of December 31, 2018	1,191,301	1,911,332	1,690,847	4,793,480

BANCO MACRO SA AND ITS SUBSIDIARIES

Over the course of 2019 and 2018, the Bank generated from loan portfolio sales, profits for 51,370 and 5,109, respectively and losses for 1,062 and 10,067, respectively.

The contractual amount outstanding on loans and other financing that have been written off by the Bank as of December 31, 2019 and 2018 that were still subject to enforcement activity was 3,031,951 and 4,250,248 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. The Bank is also exposed to overdrafts and unused agreed credits on credit cards for the Bank's customers. Since they imply a contingent obligation 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, 2019 and 2018, the Bank maintains the following maximum exposure to credit risk related to this kind of transactions:

	12/31/2019	12/31/2018
Undrawn commitments of credit cards and checking accounts	91,349,936	146,170,590
Guarantees granted	1,719,015	1,447,525
Overdraft and unused agreed commitments	1,052,364	975,725
Letters of credit	446,470	395,017
Total (1)	94,567,785	148,988,857

- (1) It includes high grade credit risk exposures in stage 1. During 2019 and 2018, there were no transfers between stages. The related ECL as of December 31, 2019 and 2018 amount to 17,273 and 16,506 as disclosed in note 22.

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 51.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank performs 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 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 51.

In addition, the Bank recorded a put option taken in respect of the Bank's right to sell its equity interest in Prisma Medios de Pago SA. (See note 21).

Notional values indicate the amount of the underlying pending transactions at year end and are not indicative of either the market risk or the credit risk. The fair value of the derivative financial instruments recognized as assets or liabilities in the statement of financial position is presented as follows. Changes in fair values were accounted for in profit or loss, the breakdown of which is disclosed in note 33.

BANCO MACRO SA AND ITS SUBSIDIARIES

	Underlying Notional Value	12/31/2019		12/31/2018	
		Notional Value	Fair Value	Notional Value	Fair Value
Derivative assets					
Transactions of foreign currency contract without delivery of underlying asset	US Dollars	73,920	50,685	24,867	22,390
Put options-US Dollars (see note 21)	Shares	8,910,878	395,652		
Put options-Pesos (see note 21)	Shares	8,910,878	169,565		
Forward contracts of Government bonds	US Dollars			5,000	4,212
Total derivatives held for trading		73,920	615,902	29,867	26,602
	Underlying Notional Value	12/31/2019		12/31/2018	
		Notional Value	Fair Value	Notional Value	Fair Value
Derivative liabilities					
Transactions of foreign currency contract without delivery of underlying asset	US Dollars	73,920	768,732	1,100	2,106
Total derivatives held for trading		73,920	768,732	1,100	2,106

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.

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, 2019 and 2018:

BANCO MACRO SA AND ITS SUBSIDIARIES
CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2019

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	19,511,636					
Financial institutions and Correspondents	81,164,681					
Other	3,746					
Debt securities at fair value through profit or loss			5,675,008	4,806,562	53,387	815,059
Derivative instruments			615,902	31,594	19,091	565,217
Repo transactions						
Other financial entities	1,087,916					
Other financial assets	5,794,761		369,129	346,128		23,001
Loans and other financing						
To the non-financial government Sector	6,450,647					
Other financial institutions	3,952,205					
To the non-financial private sector and foreign residents	210,494,962					
Overdrafts	41,337,285					
Documents	20,578,219					
Mortgage loans	20,603,981					
Pledge loans	4,066,988					
Personal loans	56,799,181					
Credit cards	42,157,065					
Financial leases	229,538					
Other (1)	24,722,705					
Other debt securities	17,631,926	46,881,489		36,988,036	9,893,453	
Financial assets delivered as guarantee	10,673,334					
Equity Instruments at fair value through profit or loss			2,616,728	9,434		2,607,294
TOTAL FINANCIAL ASSETS	356,765,814	46,881,489	9,276,767	42,181,754	9,965,931	4,010,571
FINANCIAL LIABILITIES						
Deposits						
From the non-financial government sector	17,560,282					
From the financial sector	314,162					
From the non-financial private sector and foreign residents						
Checking accounts	40,123,987					
Savings accounts	90,727,971					
Time deposits and Investment accounts	106,068,177					
Other	8,070,775					
Derivative instruments			768,732		768,732	
Repo transactions						
Other financial institutions	1,002,511					
Other financial liabilities	22,169,608					
Financing received from Central Bank and other financial entities	2,245,804					
Issued corporate bonds	5,525,039					
Subordinated corporate bonds	24,311,663					
TOTAL FINANCIAL LIABILITIES	318,119,979		768,732		768,732	

(1) Includes the total allowances to the non-financial private sector and foreign residents.

BANCO MACRO SA AND ITS SUBSIDIARIES
CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2018

	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	16,454,373					
Financial institutions and Correspondents	97,857,068					
Other	701,156					
Debt securities at fair value through profit or loss			4,053,802	1,510,791	556,986	1,986,025
Derivative instruments			26,602	21,124	5,478	
Other financial assets	3,978,713		635,527	495,283		140,244
Loans and other financing						
To the non-financial government Sector	2,731,262					
Other financial institutions	8,654,244					
To the non-financial private sector and foreign residents	264,226,283					
Overdrafts	27,764,057					
Documents	38,703,100					
Mortgage loans	24,386,047					
Pledge loans	6,717,828					
Personal loans	88,478,136					
Credit cards	45,271,473					
Financial leases	689,404					
Other (1)	32,216,238					
Other debt securities	12,538,954	86,811,780		65,602,398	21,209,382	
Financial assets delivered as guarantee	10,161,647		231,446	231,446		
Equity Instruments at fair value through profit or loss			79,249	9,399		69,850
TOTAL FINANCIAL ASSETS	417,303,700	86,811,780	5,026,626	67,870,441	21,771,846	2,196,119
FINANCIAL LIABILITIES						
Deposits						
From the non-financial government sector	29,707,339					
From the financial sector	228,091					
From the non-financial private sector and foreign residents						
Checking accounts	37,592,904					
Savings accounts	105,675,105					
Time deposits and Investment accounts	186,522,212					
Other	6,323,840					
Derivative instruments			2,106	912	1,194	
Repo transactions						
Other financial institutions	253,003					
Other financial liabilities	23,559,130					
Financing received from Central Bank and other financial entities	4,611,839					
Issued corporate bonds	9,810,217					
Subordinated corporate bonds	23,518,130					
TOTAL FINANCIAL LIABILITIES	427,801,810		2,106	912	1,194	

(1) Includes the total allowance to the non-financial private sector and foreign residents.

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 most of the 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”.

BANCO MACRO SA AND ITS SUBSIDIARIES

Finally, the Bank has categorized as level 3 those assets and liabilities for which there are no identical or similar transactions in the market. For this approach, the Bank mainly used the cash flow discount model.

As of December 31, 2019 and 2018, 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 categorized as level 3:

Description	As of December 31, 2019			
	Debt securities	Other financial assets	Equity instruments at fair value through profit or loss	Derivative financial instruments
Amount at the beginning	1,986,025	140,244	69,850	
Transfers to Level 3				
Transfers from Level 3				
Profit and loss (1)	650,365	13,763	241,416	
Recognition and derecognition	(1,253,240)	(105,234)	3,211,902	565,217
Monetary effects	(568,091)	(25,772)	(915,874)	
Amount at end of the fiscal year	815,059	23,001	2,607,294	565,217

Description	As of December 31, 2018			
	Debt securities	Other financial assets	Equity instruments at fair value through profit or loss	Derivative financial instruments
Amount at the beginning	81,404	367,374	81,251	
Transfers to Level 3				
Transfers from Level 3				
Profit and loss (1)	(330,415)	(163,603)	19,103	
Recognition and derecognition	2,463,437	12,899		
Monetary effects	(228,401)	(76,426)	(30,504)	
Amount at end of the fiscal year	1,986,025	140,244	69,850	

(1) Profit and loss are recorded under “Net gain from measurement of financial instruments at fair value”.

Instruments measured as level 3 mainly include equity instruments at fair value through profit or loss which comprise Prisma Medios de Pago SA (see note 21). Its Fair Value was calculated on the basis of independent appraisers’ valuations, who relied on a future discounted cash flow method embracing a combined income and market approach.

On the other hand, the Bank includes in Level 3 the put option taken for the abovementioned participation in Prisma Medios de Pago SA which its fair value was calculated for the same appraisers abovementioned. The result of the assets measured at fair value on the basis of unobservable data is recognized in “Net gain from measurement of financial instruments at fair value”. For the measurement of this instrument, a valuation technique based on the binomial method has been used by creating an equivalent portfolio with identical conditions to the put and taking into account different scenarios. The valuation model considers the projected value of the company’s cash flows and financial debt of the exercise date (34 months after the closing of the contract). Expected cash flows are discounted using WACC (Weighted Average Cost of Capital) discount rate.

Additionally, the other instruments measured as level 3 include 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

Quantitative information about Level 3 Fair Value Measurements

Equity instruments at fair value through profit or loss

The fair value of the equity interest held in Prisma Medios de Pago SA was calculated with the assistance of independent appraisers' using a discounted cash flow method by applying a combined income and market approach.

The most relevant unobservable input data include:

- Projected EBITDA and Free cash flow (mainly determined by the expected evolution of the level of transactions and fees)
- Minority discount rate (equivalent to $1 / (1 + \text{Premium control}) - 1$)
- WACC (Weighted Average Cost of Capital) of Prisma Medios de Pago SA.
- g = growth factor for terminal value.

Below is disclosed the sensitivity analysis for the valuation of the remaining 49% equity of Prisma Medios de Pago SA, still held by the selling shareholders. The sensitivity is related to the two following variables: the WACC and the g level for future cash flows after 2023 that determines the terminal value:

Prisma Medios de Pago SA equity (49%) + minority discount (9.09%) – US\$ millions

g (terminal value growth – annual)

		2.50%	3.00%	3.50%
WACC	97.5%	467.8	480.0	493.3
	100%	461.8	473.8	486.8
	102.5%	455.9	467.7	480.5

The scenario for the valuation considers WACC at 100% and g at 3%.

As Banco Macro SA holds an interest in Prisma Medios de Pago SA of 4.494083% the fair value accounts amounts to 2,501,196, which is within a range of 2,406,774 and 2,604,215 according to the calculated sensitivity.

Derivative financial instruments

As previously mentioned, the Bank recognized the put option taken related to the participation in Prisma Medios de Pago SA. These instruments were measured using a valuation technique based on a binomial option pricing model.

The most relevant unobservable input data used in the pricing model include:

- Monthly volatility (sensitivity to volatility ranging from 10%, 12.2% and 15%).
- The theoretical exercise price for the option. This price is 7 times the expected EBITDA for the third year. This EBITDA is calculated considering the expected cash flows of the business as well as the financial indebtedness, considering Cash and Banks and Short-term investments, and financial indebtedness projected for the option exercise date.

Below is disclosed the sensitivity for the valuation of the put option per share, based on the level of implied volatility and the theoretical exercise price of the share price:

BANCO MACRO SA AND ITS SUBSIDIARIES

Sensibility - \$

Volatility

		10.0%	12.2%	15.0%
EBITDA	95%	48.15	56.30	66.51
	100%	54.88	63.43	74.04
	105%	62.43	70.55	81.58

The scenario considered for the valuation considers EBITDA at 100% and volatility at 12.2%. Banco Macro SA has a position of 8,910,878 shares of Prisma Medios de Pago SA. Therefore, the fair value of the put is 565,217, which is within the range of 556,306 and 592,662 according to the calculated sensitivity.

Debt securities

The following table provides quantitative information about the valuation techniques and significant unobservable inputs used in the valuation of debt securities and certificates of participation in financial trusts for which the Bank uses an internal model.

	Fair value of Level 3 Assets 12/31/2019	Valuation Technique	Significant unobservable inputs	Range of inputs		
				12/31/2019		
				Range of inputs		
				Low	High	Unit
Debt Securities of Financial Trusts	192,340	Income approach (discounted cash flow)	Discount rate in pesos	48.07	73.39	%
Debt Securities of Financial Trusts Provisional	622,719	Income approach (discounted cash flow)	Discount rate in pesos	39.27	44.97	%
	Fair value of Level 3 Assets 12/31/2018	Valuation Technique	Significant unobservable inputs	Range of inputs		
				12/31/2018		
				Range of inputs		
				Low	High	Unit
Debt Securities of Financial Trusts	981,123	Income approach (discounted cash flow)	Discount rate in pesos	67.04	75.48	%
Debt Securities of Financial Trusts Provisional	1,004,902	Income approach (discounted cash flow)	Discount rate in pesos	68.21	76.27	%

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 analyze changes within the fair value methodology.

	12/31/2019		12/31/2018	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Debt Securities of Financial Trusts	4,153	(3,673)	51,396	(39,714)
Debt Securities of Financial Trusts Provisional	795	(776)	3,397	(3,290)

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, 2019 and 2018, the Bank has not recognized any transfers between levels 1, 2 and 3 of the fair value hierarchy.

BANCO MACRO SA AND ITS SUBSIDIARIES

Financial assets and liabilities not recognized at fair value

Next follows a description of the main methods and assumptions used to determine the fair values of financial instruments not recognized at their fair value in these consolidated financial statements:

- 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 and variable rate of 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 those for which the prices are reported by certain renown pricing providers, 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, 2019 and 2018:

12/31/2019					
	Carrying amount	Level 1	Level 2	Level 3	Fair Value
Financial assets					
Cash and deposits in banks	100,680,063	100,680,063			100,680,063
Repo transactions	1,087,916	1,087,916			1,087,916
Other financial assets	5,794,761	5,794,761			5,794,761
Loans and other financing	220,897,814	311,728	142,687	193,903,826	194,358,241
Other debt securities	17,631,926	1,562,621	16,638,686	1,220,043	19,421,350
Financial assets delivered as guarantee	10,673,334	9,596,252			9,596,252
	<u>356,765,814</u>	<u>119,033,341</u>	<u>16,781,373</u>	<u>195,123,869</u>	<u>330,938,583</u>
Financial liabilities					
Deposits	262,865,354	147,122,348		115,969,567	263,091,915
Repo transactions	1,002,511	1,002,511			1,002,511
Other financial liabilities	22,169,608	21,066,584	1,093,997		22,160,581
Financing received from the BCRA and other financial entities	2,245,804	1,837,376	353,520		2,190,896
Issued corporate bonds	5,525,039		1,380,033	2,658,829	4,038,862
Subordinated corporate bonds	24,311,663		18,339,369		18,339,369
	<u>318,119,979</u>	<u>171,028,819</u>	<u>21,166,919</u>	<u>118,628,396</u>	<u>310,824,134</u>
12/31/2018					
	Carrying amount	Level 1	Level 2	Level 3	Fair Value
Financial assets					
Cash and deposits in banks	115,012,597	115,012,597			115,012,597
Other financial assets	3,978,713	3,978,713			3,978,713
Loans and other financing	275,611,789		276,143	249,338,621	249,614,764
Other debt securities	12,538,954	266,645	11,022,076	4,229	11,292,950
Financial assets delivered as guarantee	10,161,647	10,112,434	49,213		10,161,647
	<u>417,303,700</u>	<u>129,370,389</u>	<u>11,347,432</u>	<u>249,342,850</u>	<u>390,060,671</u>
Financial liabilities					
Deposits	366,049,491	163,479,907		202,715,323	366,195,230
Repo transactions	253,003	253,003			253,003
Other financial liabilities	23,559,130	23,360,727	256,161		23,616,888
Financing received from the BCRA and other financial entities	4,611,839	3,895,412	665,078		4,560,490
Issued corporate bonds	9,810,217		7,663,328		7,663,328
Subordinated corporate bonds	23,518,130		18,860,755		18,860,755
	<u>427,801,810</u>	<u>190,989,049</u>	<u>27,445,322</u>	<u>202,715,323</u>	<u>421,149,694</u>

BANCO MACRO SA AND ITS SUBSIDIARIES

13. LEASES

13.1 The bank as a lessee

The Bank has lease contracts mainly for real properties recognized in the item "Property, plant and equipment". Generally, the bank is restricted from assigning or subleasing the leased assets.

As of December 31, 2019, the carrying amount of assets recognized for the right-of-use assets identified in the lease contracts, depreciation expense for the fiscal year and the additions to right-of-use assets are disclosed in note 15 to these consolidated financial statements.

Set out below are the carrying amounts of lease liabilities and the movements during the fiscal year:

	2019
As of 01/01/2019	599,502
Additions	495,644
Accretion of interest (see note 38)	121,967
Difference in foreign currency	272,503
Payments	(229,436)
Monetary effects	(343,232)
As of 12/31/2019 (see note 24)	916,948

The short term leases for the fiscal year were recognized as expense for an amount of 111,538.

The table below shows the maturity of the lease liabilities as of December 31, 2019:

	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
12/31/2019								
Lease liabilities	38,571	64,269	88,092	144,490	335,422	171,466	410,060	581,526

13.2 The Bank as a lessor

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:

	12/31/2019		12/31/2018	
	Total gross investment	Current value of minimum payments	Total gross Investment	Current value of minimum payments
Up to 1 year	193,294	157,712	483,306	369,548
From 1 to 5 years	95,004	71,826	383,900	319,856
	288,298	229,538	867,206	689,404

As of December 31, 2019 and 2018, income for non-accrued interests totaled 58,760 and 177,802, respectively.

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, the Bank used accounting information of Macro Warrants SA as of September 30, 2019. Additionally, the Bank has considered, when applicable, the material transactions or events occurring between October 1, 2019, and December 31, 2019.

BANCO MACRO SA AND ITS SUBSIDIARIES

The following table presents the summarized financial information on the Bank's investment in the associate:

Summarized statement of financial position	12/31/2019	12/31/2018
Total assets	31,479	27,859
Total liabilities	7,870	3,490
Shareholders' equity	23,609	24,369
Proportional Bank's interest	5%	5%
Investment carrying amount	1,180	1,218

As of December 31, 2019, 2018 and 2017 the investment carrying amount in the net income amounted to 653, 254 and 665 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:

Summarized statement of financial position	12/31/2019	12/31/2018
Total assets	380,560	415,782
Total liabilities	92,572	91,742
Shareholders' equity	287,988	324,040
Proportional Bank's interest	50%	50%
Investment carrying amount	143,994	162,020

As of December 31, 2019, 2018 and 2017 the investment carrying amount in the net income amounted to 112,372, 107,907 and 79,066, 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, 2019 and 2018, according to the above-mentioned, the remaining investment amounted to 1,157 and 4,164, respectively.

BANCO MACRO SA AND ITS SUBSIDIARIES

15. PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment during the fiscal years ended on December 31, 2019 and 2018 are as follow:

Item	12/31/2019								
	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
					Accumulated at the beginning	Decrease	For the fiscal year	At the end	
Cost									
Real property	20,288,316	50	1,728,083	111,131	1,083,299	86,957	391,929	1,388,271	20,516,997
Furniture and facilities	2,525,099	10	532,315	352,264	1,177,073	350,582	227,640	1,054,131	1,651,019
Machinery and equipment	5,616,117	5	631,916	2,676,922	3,880,909	2,674,100	691,435	1,898,244	1,672,867
Vehicles	610,336	5	98,415	93,229	489,700	48,103	61,120	502,717	112,805
Right of use real property		5	1,329,866	106,877		30,546	333,201	302,655	920,334
Other	1,811		148		1,780		165	1,945	14
Work in progress	1,503,005		1,453,931	2,083,415					873,521
Total property, plant and equipment (1)	30,544,684		5,774,674	5,423,838	6,632,761	3,190,288	1,705,490	5,147,963	25,747,557

Item	12/31/2018								
	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
					Accumulated at the beginning	Decrease	For the fiscal year	At the end	
Cost									
Real property	15,539,050	50	7,312,366	2,563,100	1,702,138	960,437	341,598	1,083,299	19,205,017
Furniture and facilities	1,947,009	10	611,380	33,290	998,132	71	177,200	1,175,261	1,349,838
Machinery and equipment	4,683,644	5	1,193,984	261,511	3,192,699	614	690,635	3,882,720	1,733,397
Vehicles	637,356	5	69,275	96,295	520,837	88,920	57,975	489,892	120,444
Other	1,778		62	29	1,717		63	1,780	31
Work in progress	6,997,741		3,327,844	8,822,580					1,503,005
Total property, plant and equipment (1)	29,806,578		12,514,911	11,776,805	6,415,523	1,050,042	1,267,471	6,632,952	23,911,732

(1) During fiscal years 2019 and 2018, this item observed transfers to and from property, plant and equipment and/or non-current assets held for sale.

16. INVESTMENT PROPERTY

The changes in investment property (including in “other non-financial assets” – see note 18) during the fiscal years ended on December 31, 2019 and 2018 are as follow:

Item	12/31/2019								
	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 (1)
					Accumulated at the beginning	Decrease	For the fiscal year	At the end	
Cost									
Rented properties	161,755	50	3		22,942	1	1,809	24,750	137,008
Other investment properties	535,793	50	318,742	238,273	21,067		7,458	28,525	587,737
Total investment property (2)	697,548		318,745	238,273	44,009	1	9,267	53,275	724,745

BANCO MACRO SA AND ITS SUBSIDIARIES

	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									
Rented properties		50	161,755		22,751		191	22,942	138,813
Other investment properties	2,060,961	50	793,250	2,318,418	84,331	75,805	12,349	20,875	514,918
Total investment property (2)	2,060,961		955,005	2,318,418	107,082	75,805	12,540	43,817	653,731

- (1) The amounts disclosed do not differ significantly from the fair value.
(2) During fiscal years 2019 and 2018, this item observed transfers to and from investment property and/or non-current assets held for sale.

17. INTANGIBLE ASSETS

The changes in intangible assets during the fiscal years ended on December 31, 2019 and 2018 are as follow:

	12/31/2019								
	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									
Licenses	1,989,068	5	511,189	866,093	1,226,313	860,341	303,908	669,880	964,284
Other intangible assets	6,060,854	5	1,188,674	2,149,960	3,561,497	2,027,416	987,711	2,521,792	2,577,776
Total intangible assets (1)	8,049,922		1,699,863	3,016,053	4,787,810	2,887,757	1,291,619	3,191,672	3,542,060

	12/31/2018								
	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	Residual value at the end of the fiscal year
Item						Decrease			
Cost									
Licenses	1,469,403	5	520,477	812	987,042	3	223,463	1,210,502	778,566
Other intangible assets	4,834,458	5	1,381,797	155,401	2,815,156	976	763,128	3,577,308	2,483,546
Total intangible assets (1)	6,303,861		1,902,274	156,213	3,802,198	979	986,591	4,787,810	3,262,112

- (1) During fiscal years 2019 and 2018, there were transfers between lines of the item that produce differences between the amounts at the end of one fiscal year and the beginning of the other without implying modifications of the residual value at the end of the fiscal year.

18. OTHER FINANCIAL AND NON-FINANCIAL ASSETS

The breakdown of the other financial and non-financial assets account in the statement of financial position is as follows:

Other financial assets	12/31/2019	12/31/2018
Sundry debtors (1)	4,698,660	2,781,583
Receivables from other spot sales pending settlement	911,860	648,026
Private securities	369,129	635,527
Receivables from spot sales of foreign currency pending settlement	13,443	362,490
Receivables from spot sales of government securities pending settlement	6,428	171,826
Other	174,678	22,502
Allowances	(10,308)	(7,714)
	<u>6,163,890</u>	<u>4,614,240</u>

BANCO MACRO SA AND ITS SUBSIDIARIES

Other non-financial assets	12/31/2019	12/31/2018
Investments property (see note 16)	724,745	653,731
Advanced prepayments	235,280	242,797
Tax advances	37,671	226,270
Prepayments for the purchase of assets		244,945
Other	87,640	148,151
	<u>1,085,336</u>	<u>1,515,894</u>

- (1) As of December 31, 2019, includes 1,616,781 related to the transaction mentioned in note 21, which is considered as a high grade credit risk exposure in stage 1. During 2019, there were no transfers between stages. As of December 31, 2019 the related ECL amounted to 1,654 included in "Allowances".

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, 2019 and 2018, amounts and profit or loss related to transactions generated with related parties are as follows:

- Information as of December 31, 2019

	Main subsidiaries (1)			Associates	Key management personnel (2)	Other related parties	Total
	Macro Bank Limited	Macro Securities SA	Macro Fondos SGFCISA				
Assets							
Cash and deposits in banks	480						480
Other financial assets		117,808					117,808
Loans and other financing (3)							
Documents						550,433	550,433
Overdrafts					665,412	1,063,171	1,728,583
Credit cards					38,748	23,565	62,313
Leases		3,384				6,850	10,234
Mortgage loans					58,987		58,987
Other loans						334,625	334,625
Guarantees granted						571,462	571,462
Total assets	<u>480</u>	<u>121,192</u>			<u>763,147</u>	<u>2,550,106</u>	<u>3,434,925</u>
Liabilities							
Deposits	11	900,662	84,018	22,918	13,063,833	1,321,487	15,392,929
Other financial liabilities					91	5,596	5,687
Total liabilities	<u>11</u>	<u>900,662</u>	<u>84,018</u>	<u>22,918</u>	<u>13,063,924</u>	<u>1,327,083</u>	<u>15,398,616</u>
Income							
Interest income		9,549			75,069	225,895	310,513
Interest expense				(3,573)	(877,202)	(249,491)	(1,130,266)
Commissions income		558	190	193	55	5,478	6,474
Net loss from measurement of financial instruments at fair value					(39,903)	(208,507)	(248,410)
Other operating income	4					31	35
Administrative expenses						(39,422)	(39,422)
Other operating expenses						(102,737)	(102,737)
Income / (loss)	<u>4</u>	<u>10,107</u>	<u>190</u>	<u>(3,380)</u>	<u>(841,981)</u>	<u>(368,753)</u>	<u>(1,203,813)</u>

BANCO MACRO SA AND ITS SUBSIDIARIES

- (1) These transactions are eliminated during the consolidation process.
- (2) Includes close members family of the key management personnel.
- (3) The maximum financing amount for loans and other financing as of December 31, 2019 for Macro Securities SA, Key management personnel and other related parties amounted to 5,188, 823,354 y 3,598,780 respectively.

- Information as of December 31, 2018

	Main subsidiaries (1)				Key management personnel (2)	Other related parties	Total
	Macro Bank Limited	Macro Securities SA	Macro Fondos SGFCISA	Associates			
Assets							
Cash and deposits in banks	897						897
Other financial assets		38,882		31,781			70,663
Loans and other financing (3)							
Documents						510,253	510,253
Overdrafts		9			5,392	249,058	254,459
Credit cards		440			29,244	79,106	108,790
Leases		8,839				2,164	11,003
Personal loans					2,135		2,135
Mortgage loans					84,336	547	84,883
Other loans						357,916	357,916
Guarantees granted						602,551	602,551
Other non-financial assets		127,953					127,953
Total assets	897	176,123		31,781	121,107	1,801,595	2,131,503
Liabilities							
Deposits	20	416,602	61,921	2,729,174	7,522,718	1,514,701	12,245,136
Other financial liabilities				155,725	48	791	156,564
Issued corporate bonds		17,277					17,277
Subordinated corporate bonds						71,692	71,692
Other non-financial liabilities						183	183
Total liabilities	20	433,879	61,921	2,884,899	7,522,766	1,587,367	12,490,852
Income							
Interest income					4,544	120,644	125,188
Interest expense		(5,879)		(348,087)	(628,039)	(38,619)	(1,020,624)
Commissions income		732	181	211	37	10,508	11,669
Administrative expenses						(18,058)	(18,058)
Other operating expenses				(2,340,988) (4)		(48,340)	(2,389,328)
Income / (loss)		(5,147)	181	(2,688,864)	(623,458)	26,135	(3,291,153)

- (1) These transactions are eliminated during the consolidation process.
- (2) Includes close members family of the key management personnel.
- (3) The maximum financing amount for loans and other financing as of December 31, 2018 for Macro Securities SA, Key management personnel and other related parties amounted to 11,100, 126,597 and 2,385,976, respectively.
- (4) These losses were mainly generated by debit and credit cards processing expenses billed by Prisma Medios de Pago SA.

- Information as of December 31, 2017

	Main subsidiaries (1)			Key management personnel (2)	Other related parties	Total
	Macro Bank Limited	Macro Securities SA	Associates			
Income						
Interest income		5,170		8,994	197,908	212,072
Interest expense	(700)		(346,285)	(7,884)	(12,482)	(367,351)
Commissions income		621	189	54	12,820	13,684
Commissions expenses					(32)	(32)
Other operating income	5	1,751				1,756
Administrative expenses					(33,326)	(33,326)
Other operating expenses		(40,371)	(1,713,900) (3)		(59,621)	(1,813,892)
Income / (loss)	(695)	(32,829)	(2,059,996)	1,164	105,267	(1,987,089)

BANCO MACRO SA AND ITS SUBSIDIARIES

- (1) These transactions are eliminated during the consolidation process.
- (2) Includes close members family of the key management personnel.
- (3) These losses were 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 remunerations received as salary and bonus by the key management personnel as of December 31, 2019, 2018 and 2017, totaled 239,149, 216,826 and 201,363, respectively.

In addition, fees received by the Directors as of December 31, 2019, 2018 and 2017 amounted to 2,072,977, 1,200,252 and 1,180,956, respectively.

Additionally, the composition of the Board of Directors and key management personnel of the Bank and its subsidiaries is as follows:

	12/31/2019	12/31/2018
Board of Directors	24	24
Senior managers of the key management personnel	10	15
	<u>34</u>	<u>39</u>

20. MODIFICATIONS OF FINANCIAL ASSETS

As explained in note 52, on August 28, 2019, the Federal Executive Power (PEN, for its acronym in Spanish), through the Emergency Decree No. 596/2019 (DNU, for its acronym in Spanish) set, for certain short-term government securities, an immediate and stepped extension of their maturities, with no effects on the denomination currency, principal and the agreed-upon interest rate. This DNU, established the following schedule related to how these obligations will be canceled: (i) 15% upon maturity according to the original terms and conditions of its issuance, (ii) 90 calendar days after the payments described in (i), 25% of the amount owed will be cancelled, plus accrued interest over the carrying amount (net of the payments made according to section (i)); and (iii) the remaining amount owed will be cancelled 180 calendar days as from the first payment described in (i). For LECAPS with maturity date from January 1, 2020, the remaining amount owed, after the payments described in section (i), will be fully cancelled at 90 calendar days after such payments.

As the Bank had in its portfolio under amortized cost business model, government securities which contractual cash flows were modified as explained above, the Bank recalculated, at the modification date, the gross carrying amount of those financial assets as the present value of the modified contractual cash flows discounted at the original effective rate.

At the modification date, the gross carrying amount of the modified financial assets amounted to 9,524,860. As a consequence, the new gross carrying amount amounted to 6,658,625 and generated a modification loss for 2,866,235 included in "Other operating expenses" (see additionally note 38). As of December 31, 2019 the gross carrying amount of the Bank's residual holding on these financial assets amounted to 6,608,365. All amounts disclosed in this paragraph are in terms of the measuring unit current at the end of the reporting period.

In the abovementioned note 52 are detailed other provisions established by the PEN, which have no effects for the Bank as of December 31, 2019.

21. NON-CURRENT ASSETS HELD FOR SALE – PRISMA MEDIOS DE PAGO SA

As of December 31, 2018, the Bank maintained recorded its investment in Prisma Medios de Pago SA ("Prisma"), under non-current 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 to 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 206,088.

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 vote, 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 for a total purchase price of (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 26,231 shall be deferred for 5 years as follows: (i) 30% of such amount in Pesos adjusted by Unit of Purchasing Power (UVA, for its acronym in Spanish) 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.

During July 2019, the process to determine the final selling price of the shares of Prisma Medios de Pago SA was completed and the final price was (in thousands) USD 63,456. The difference arising from a final price lower than the estimated price was deducted from the price balance, therefore there was no need for the Bank to return any amounts received. All other payment conditions were not modified and remain in full force and effect under the terms described in this note. The amounts receivable, in pesos and US dollars, are recorded in the item "Other financial assets" (see note 18).

The remaining holding of the Bank in Prisma Medios de Pago SA (equivalent to 49%), is recorded in "Equity instruments at fair value through profit or loss" determined from valuations performed by independent experts.

In addition, sellers retained the usufruct (dividends) of the shares sold to be reported by Prisma for the year ended December 31, 2018, which were collected on April 26, 2019, and have the possibility to execute a put for the non-sold shares of this transaction (49%) and the buyer has the obligation to buy them, on an specific term established on the agreement, according with specifics clauses. 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 put option above mentioned, is recorded in "Derivatives financial instruments" and measured by valuations performed by independent experts.

22. 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, 2019 and 2018 are as follow:

Item	Amounts at beginning of fiscal year	Increases	Decreases		Monetary effects	12/31/2019
			Reversals	Charge off		
For administrative, disciplinary and criminal penalties	1,104				(386)	718
Letters of credit, guarantees and other Commitments (1)	16,506	8,066			(7,299)	17,273
Commercial claims in progress	878,974	311,098		14,501	(336,115)	839,456
Labor lawsuits	169,358	131,980		45,187	(78,817)	177,334
Pension funds - reimbursement	191,177	120,184	26,976	55,617	(68,917)	159,851
Other	368,285	758,101		731,382	(116,119)	278,885
Total provisions	1,625,404	1,329,429	26,976	846,687	(607,653)	1,473,517

BANCO MACRO SA AND ITS SUBSIDIARIES

Item	Amounts at beginning of fiscal year	Increases	Decreases		Monetary effects	12/31/2018
			Reversals	Charge off		
For administrative, disciplinary and criminal penalties	1,631				(527)	1,104
Letters of credit, guarantees and other Commitments (1)	5,993	15,052			(4,539)	16,506
Commercial claims in progress	754,364	434,394	469	54,117	(255,198)	878,974
Labor lawsuits	193,915	122,784		74,486	(72,855)	169,358
Pension funds – reimbursement	231,119	263,717	4,761	226,868	(72,030)	191,177
Other	397,294	1,152,165	21,719	989,276	(170,179)	368,285
Total provisions	1,584,316	1,988,112	26,949	1,344,747	(575,328)	1,625,404

- (1) These amounts correspond to the ECL calculated for Contingent Transactions mentioned in note 10

The expected terms to settle these obligations are as follows:

	12/31/2019		12/31/2019	12/31/2018
	Within 12 months	Beyond 12 months		
For administrative, disciplinary and criminal penalties		718	718	1,104
Letters of credit, guarantees and other commitments (1)	17,273		17,273	16,506
Commercial claims in progress	679,980	159,476	839,456	878,974
Labor lawsuits	90,443	86,891	177,334	169,358
Pension funds – reimbursement	103,344	56,507	159,851	191,177
Other	243,801	35,084	278,885	368,285
	1,134,841	338,676	1,473,517	1,625,404

- (1) These amounts correspond to the ECL calculated for Contingent Transactions mentioned in note 10.

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.

23. EMPLOYEE BENEFITS PAYABLE

The table below presents the amounts of employee benefits payable as of December 31, 2019 and 2018:

Short-term employee benefits	12/31/2019	12/31/2018
Salaries, gratifications and social security contributions	2,322,012	1,247,415
Vacation accrual	1,346,407	1,294,423
Total short-term employee benefits	3,668,419	2,541,838

The Bank has not long-term employee benefits or post-employment benefits as of December 31, 2019 and 2018.

24. OTHER FINANCIAL AND NON-FINANCIAL LIABILITIES

The breakdown of the other financial and non-financial liabilities account in the statement of financial position is as follows:

Other financial liabilities	12/31/2019	12/31/2018
Credit and debit card settlement - due to merchants	13,479,768	15,689,033
Amounts payable for spot purchases pending settlement	2,554,079	1,433,557
Payment orders pending settlement foreign exchange	2,049,119	2,452,343
Collections and other transactions on account and behalf others	1,572,868	1,138,290
Leases liabilities (see note 13)	916,948	
Amounts payable for spot purchases of foreign currency pending settlement	23,130	1,066,244
Amounts payable for spot purchases of government securities pending settlement	13,671	96,712
Other	1,560,025	1,682,951
	22,169,608	23,559,130

BANCO MACRO SA AND ITS SUBSIDIARIES

Other non-financial liabilities	12/31/2019	12/31/2018
Salaries and payroll taxes payables (see note 49.1.c)	3,668,419	2,541,838
Withholdings	2,306,083	2,135,682
Taxes payables	1,895,286	2,111,035
Miscellaneous payables	958,213	940,357
Fees payables	490,163	237,009
Retirement pension payment orders pending settlement	332,044	392,776
Other	474,281	686,320
	10,124,489	9,045,017

25. 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, 2019 and 2018:

12/31/2019	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
Assets									
Cash and deposits in banks	100,680,063								
Debt securities at fair value through profit or loss		500,038	523,182	207,944	45,863	1,277,027	4,000,528	397,453	4,397,981
Derivative instruments		50,685				50,685		565,217	565,217
Repo transactions		1,087,916				1,087,916			
Other financial assets	2,782,280	1,895,941	2,166	284,621		2,182,728		1,198,882	1,198,882
Loans and other financing	2,922,412	91,584,374	21,845,603	14,935,811	16,620,476	144,986,264	26,742,049	46,247,089	72,989,138
Other debt securities		46,629,646	3,320,546	3,585,245	10,004,956	63,540,393	260,762	712,260	973,022
Financial assets delivered as guarantee	9,596,252	1,077,082				1,077,082			
Equity instruments at fair value through profit or loss	2,616,728								
Total assets	118,597,735	142,825,682	25,691,497	19,013,621	26,671,295	214,202,095	31,003,339	49,120,901	80,124,240
Liabilities									
Deposits	142,745,235	90,728,654	25,189,418	3,212,952	937,365	120,068,389	41,350	10,380	51,730
Derivative instruments		293,136	341,147	134,449		768,732			
Repo transactions		1,002,511				1,002,511			
Other financial liabilities		21,067,471	95,375	103,374	162,933	21,429,153	312,894	427,561	740,455
Financing received from the BCRA and other financial institutions		1,027,593	816,684	136,171	79,319	2,059,767	147,466	38,571	186,037
Issued corporate bonds		188,928		61,191		250,119	2,434,000	2,840,920	5,274,920
Subordinated corporate bonds				353,663		353,663		23,958,000	23,958,000
Total liabilities	142,745,235	114,308,293	26,442,624	4,001,800	1,179,617	145,932,334	2,935,710	27,275,432	30,211,142
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
Assets									
Cash and deposits in banks	115,012,597								
Debt securities at fair value through profit or loss		1,409,584	450,619	399,144	326,040	2,585,387	403,556	1,064,859	1,468,415
Derivative instruments		24,361	2,241			26,602			
Other financial assets	2,578,534	1,769,832	11,668	152,355		1,933,855	101,851		101,851
Loans and other financing	1,931,654	78,780,944	31,305,123	30,270,858	32,330,745	172,687,670	29,765,839	71,226,626	100,992,465
Other debt securities		85,644,351	4,227	1,276,420		86,924,998	11,156,908	1,268,828	12,425,736
Financial assets delivered as guarantee	10,112,433	280,660				280,660			
Equity instruments at fair value through profit or loss	79,249								
Total assets	129,714,467	167,909,732	31,773,878	32,098,777	32,656,785	264,439,172	41,428,154	73,560,313	114,988,467

BANCO MACRO SA AND ITS SUBSIDIARIES

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
Liabilities									
Deposits	159,051,684	144,652,292	49,947,663	10,500,363	1,788,986	206,889,304	88,974	19,529	108,503
Derivative instruments		1,568		538		2,106			
Repo transactions		253,003				253,003			
Other financial liabilities		23,276,499	27,572	12,623	17,729	23,334,423	29,186	195,521	224,707
Financing received from the BCRA and other financial institutions		651,149	1,396,453	1,621,848	680,349	4,349,799	96,791	165,249	262,040
Issued corporate bonds		362,903		107,446		470,349		9,339,868	9,339,868
Subordinated corporate bonds				253,927		253,927		23,264,203	23,264,203
Total liabilities	159,051,684	169,197,414	51,371,688	12,496,745	2,487,064	235,552,911	214,951	32,984,370	33,199,321

26. FOREIGN CURRENCY AMOUNTS

		12/31/2019				12/31/2018
		Total per currency				
Item	Total parent company and local branches	US dollar	Euro	Real	Other	Total
ASSETS						
Cash and deposits in banks	70,955,122	70,623,985	225,802	17,005	88,330	65,755,139
Debt securities at fair value through profit or loss	247,246	247,246				597,286
Derivative instruments	395,652	395,652				4,212
Other financial assets	3,749,958	3,749,958				2,378,184
Loans and other financing	38,973,779	38,973,779				70,622,301
To the non-financial government sector						123
Other financial institutions	608,185	608,185				746,278
From the non-financial private sector and foreign residents	38,365,594	38,365,594				69,875,900
Other debt securities	865,515	865,515				1,872,463
Financial assets delivered as guarantee	2,892,197	2,892,197				1,429,761
Equity instruments at fair value through profit or loss	10,621	10,621				8,839
TOTAL ASSETS	118,090,090	117,758,953	225,802	17,005	88,330	142,668,185
LIABILITIES						
Deposits	79,681,979	79,681,979				109,769,019
Non-financial government sector	3,990,300	3,990,300				3,529,634
Financial sector	229,923	229,923				154,138
Non-financial private sector and foreign residents	75,461,756	75,461,756				106,085,247
Other financial liabilities	5,248,054	5,144,209	96,413		7,432	4,029,540
Financing from the Central Bank and other financial entities	2,045,624	2,045,624				3,997,749
Subordinated corporate bonds	24,311,663	24,311,663				23,518,130
Other non-financial liabilities	24,960	24,960				53,762
TOTAL LIABILITIES	111,312,280	111,208,435	96,413		7,432	141,368,200

27. 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

28. INCOME TAX

a) Inflation adjustment on income tax

Tax Reform Law 27430, amended by Laws 27468 and 27541, established the following, regarding to inflation adjustment on income tax for the fiscal years beginning on January 1, 2018.

- i) Such adjustment will be applicable in the fiscal year in which the variation of the IPC will be higher than 100% for the thirty-six months before the end of the tax period.
- ii) Regarding to the first, second and third fiscal year after its effective date, this procedure will be applicable if the variation of the abovementioned index, calculated from the beginning until the end of each of those fiscal years exceeds 55%, 30% and 15% for the first, second and third fiscal year of application, respectively.
- iii) The positive or negative inflation adjustment, as the case may be, corresponding to the first, second and third fiscal years beginning on January 1, 2018, shall be allocated one third in the fiscal year for which the adjustment is calculated and the remaining two thirds in equal parts in the following two immediate fiscal years.
- iv) The positive or negative inflation adjustment, corresponding to the first and second fiscal years beginning on January 1, 2019, shall be allocated one sixth to the fiscal year in which the adjustment is determined and the remaining five sixth in the following immediate fiscal years.
- v) For fiscal years beginning on January 1, 2021, 100% of the adjustment may be deducted in the year in which it will be determined.

As of December 31, 2019, all the conditions established by the income tax Law to practice the inflation adjustment are met and the current and deferred income tax was recognized, including the effects of the application of the inflation adjustment on income taxes established by Law (see section d) of this note).

b) Income tax rate

The Law No. 27541 (see note 52) suspends, up to fiscal years beginning on January 1, 2019 included, the income tax rate reduction that had established the Law 27430, setting up for the suspended period a rate of 30%. For fiscal years beginning on January 1, 2022, the income rate will be 25%.

c) The main items of deferred 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:

	12/31/2019	12/31/2018
Deferred tax assets		
Inflation adjustment (section d) of this note)	5,438,908	
Allowances for contingencies	442,055	426,794
Provisions and employee benefits	388,925	400,563
Other financial assets	373,098	1,657
Loans and other financing	270,499	1,505,777
Other	373	
Total deferred tax assets	6,913,858	2,334,791
Deferred tax liabilities		
Property, plant and equipment	5,108,458	4,670,610
Intangible assets	970,288	884,607
Investments in other companies	653,194	64,112
Other financial and non-financial liabilities	465,853	317,324
Other	233,224	
Total deferred tax liabilities	7,431,017	5,936,653
Deferred tax liabilities	517,159	3,601,862

BANCO MACRO SA AND ITS SUBSIDIARIES

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.

Changes in net deferred tax liabilities as of December 31, 2019 and 2018 are summarized as follows:

	12/31/2019	12/31/2018
Net deferred tax liabilities at beginning of year	3,601,862	2,883,370
Profit / (loss) for deferred taxes recognized in the statements of income	3,123,443	(651,670)
Other tax effects	(38,740)	(66,822)
Net deferred tax liabilities at fiscal year end	517,159	3,601,862

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 (see note 3.13).

The main items of income tax expense in the consolidated financial statements are as follows:

	12/31/2019	12/31/2018	12/31/2017
Current income tax expense (see section d) of this note)	13,163,185	11,014,273	13,137,430
(Profit) / loss for deferred taxes recognized in the statement of income	(3,123,443)	651,670	(1,604,489)
Other tax effects	38,740	66,822	
Monetary effects	2,896,555	2,615,139	1,402,716
Income tax loss recorded in the statement of income	12,975,037	14,347,904	12,935,657
Income tax loss / (profit) recorded in other comprehensive income	111,791	(232,821)	45,848
	13,086,828	14,115,083	12,981,505

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:

	12/31/2019	12/31/2018	12/31/2017
Accounting Income before tax on continuing operations	33,625,684	13,266,075	22,069,122
Applicable income tax rate	30%	30%	35%
Income tax on income carrying amount	10,087,705	3,979,823	7,724,193
Net permanent differences and other tax effects (*)	(6,662,034)	218,840	(788,948)
Monetary effects	9,549,366	10,149,241	6,000,412
Total income tax	12,975,037	14,347,904	12,935,657

(*) As of December 31, 2019, includes 6,647,554 related to the inflation adjustment mentioned in section a) of this note.

As of December 31, 2019, 2018 and 2017, the effective income tax rate is 38.6%, 108.5% and 58.3%, respectively.

d) Annual income tax return for fiscal year 2019

As decided by the Board of Directors in the meeting dated May 11, 2020, considering certain case-law on the subject assessed by its legal and tax advisors, the Bank will file with the AFIP during May (May 26, 2020 is the regulatory due date) its annual income tax return considering the total effect of the inflation adjustment on income tax (see section a) iv) of this note). As a result, the current income tax determined by the Bank for fiscal year 2019 amounted to 7,002,124.

29. INTEREST INCOME

Description	12/31/2019	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	260,610	42,687	32,838
For government securities	7,202,845	1,340,065	
For debt securities	1,427,062	348,004	436,258

BANCO MACRO SA AND ITS SUBSIDIARIES

Description (contd.)	12/31/2019	12/31/2018	12/31/2017
For loans and other financing			
Non financial public sector			10,025
Financial sector	2,072,660	2,197,293	1,251,873
Non-financial private sector			
Overdrafts	16,100,277	10,106,400	6,802,541
Documents	5,578,114	6,166,140	4,657,787
Mortgage loans	8,103,107	7,679,158	2,617,392
Pledge loans	628,394	1,104,655	1,262,389
Personal loans	29,990,766	38,887,756	35,795,597
Credit cards	13,206,022	13,057,582	11,146,464
Leases	181,747	303,456	265,118
Other	6,068,720	8,368,521	6,718,872
For repo transactions			
Central Bank of Argentina	406,144	49,333	1,626,655
Other financial institutions	2,878,851	642,703	95,088
Subtotal Interest and adjustment for the application of the effective interest rate of financial assets measured at amortized cost	94,105,319	90,293,753	72,718,897
Interest and adjustment for the application of the effective interest rate of financial assets measured at fair value through OCI			
From debt government securities	57,461,321	29,920,506	13,745,675
Subtotal Interest and adjustment for the application of the effective interest rate of financial assets measured at fair value through OCI	57,461,321	29,920,506	13,745,675
	151,566,640	120,214,259	86,464,572

30. INTEREST EXPENSE

Description	12/31/2019	12/31/2018	12/31/2017
From deposits			
Non-financial private sector			
Checking accounts	394,448	1,024,805	
Saving accounts	658,507	633,960	294,134
Time deposits and investments accounts	58,225,160	39,794,118	23,036,663
For Financing received from BCRA and other financial entities	264,292	229,263	109,835
For repo transactions			
Other financial institutions	336,492	336,326	279,495
For other financial liabilities	187,095	89,033	68,786
Issued corporate bonds	2,387,574	2,788,216	1,200,185
For subordinated corporate bonds	1,703,391	1,530,595	1,153,764
	64,156,959	46,426,316	26,142,862

31. COMMISSIONS INCOME

Description	12/31/2019	12/31/2018	12/31/2017
Performance obligations satisfied at a point in time			
Commissions related to obligations	11,132,435	13,977,988	13,021,523
Commissions related to credit cards	5,930,277	5,726,542	6,759,474
Commissions related to insurance	1,169,363	1,297,810	1,411,206
Commissions related to trading and foreign exchange transactions	455,909	416,484	338,602
Commissions related to securities value	273,147	160,305	159,055
Commissions related to loans and other financing	159,513	135,994	661,205
Commissions related to financial guarantees granted	3,973	630	
Performance obligations satisfied over certain time period			
Commissions related to credit cards	267,083	235,417	301,811
Commissions related to trading and foreign exchange transactions	33,960	30,792	45,777
Commissions related to loans and other financing	10,705	8,804	37,658
Commissions related to obligations	2,845	8,440	41,834
Commissions related to financial guarantees granted	2,223	1,485	7,986
	19,441,433	22,000,691	22,786,131

BANCO MACRO SA AND ITS SUBSIDIARIES

32. COMMISSIONS EXPENSE

Description	12/31/2019	12/31/2018	12/31/2017
Commissions related to trading and foreign exchange transactions	153,622	75,603	50,152
Commissions related to debt securities		445	688
Commissions paid ATM exchange	776,979	601,308	718,359
Commissions credit cards and foreign trade	346,152	423,091	595,239
Checkbooks commissions and compensating cameras	333,194	330,242	348,791
	1,609,947	1,430,689	1,713,229

33. NET GAIN FROM MEASUREMENT OF FINANCIAL INSTRUMENTS AT FAIR VALUE

Description	12/31/2019	12/31/2018	12/31/2017
Gain from government securities	1,888,037	841,758	613,269
Gain from private securities	832,617	501,240	240,058
Gain / (Loss) from derivative financial instruments			
Forwards transactions	1,506,924	383,710	(63,976)
Put options	565,217		
Gain from other financial assets	180,956	385,103	188,232
Gain from investment in equity instruments	3,327,805	20,549	476,012
Loss from sales or derecognition of financial assets at fair value (1)	(368,759)	(191,844)	(153)
	7,932,797	1,940,516	1,453,442

- (1) Includes gains and losses for an amount of (211,158), 94,423 and 46,335 for the years ended on December 31, 2019, 2018 and 2017, respectively, reclassified from other comprehensive income.

34. DIFFERENCES IN QUOTED PRICES OF GOLD AND FOREIGN CURRENCY

Description	12/31/2019	12/31/2018	12/31/2017
Translation of foreign currency assets and liabilities into pesos	(142,383)	(5,152,248)	2,557,707
Income from foreign currency exchange	3,639,684	2,459,789	907,727
	3,497,301	(2,692,459)	3,465,434

35. OTHER OPERATING INCOME

Description	12/31/2019	12/31/2018	12/31/2017
Sale of non-current assets held for sale (see note 21)	3,298,397		
Services	2,012,663	2,476,579	2,604,007
Adjustments and interest from other receivables	628,208	406,134	165,148
Derecognition or substantial modification of financial liabilities	409,089	1,082,142	
Adjustments from other receivables with CER clauses	158,879		
Initial recognition of loans	119,856	121,600	
Sale of investment property and other non-financial assets		75,383	25,931
Sale of property, plant and equipment		58,375	1,445
Other	1,053,747	1,190,812	1,482,697
	7,680,839	5,411,025	4,279,228

36. EMPLOYEE BENEFITS

Description	12/31/2019	12/31/2018	12/31/2017
Remunerations	14,659,764	14,487,872	14,856,783
Payroll taxes (see note 49.1.c)	4,303,126	2,819,542	2,711,615
Compensations and bonuses to employees	1,749,590	1,405,378	1,183,236
Employee services	490,116	479,910	533,499
	21,202,596	19,192,702	19,285,133

BANCO MACRO SA AND ITS SUBSIDIARIES

37. ADMINISTRATIVE EXPENSES

Description	12/31/2019	12/31/2018	12/31/2017
Fees to directors and syndics	2,071,603	1,338,022	1,108,529
Maintenance, conservation and repair expenses	1,715,812	1,684,199	1,489,557
Armored truck, documentation and events	1,694,568	1,559,892	1,403,226
Taxes	1,515,681	1,707,051	1,817,013
Electricity and communications	1,185,887	1,094,525	875,861
Security services	1,184,114	1,331,120	1,347,203
Other fees	1,012,093	1,043,481	892,659
Software	817,012	776,739	651,433
Advertising and publicity	472,968	558,242	573,730
Leases	225,273	612,437	566,283
Representation, travel and transportation expenses	197,972	214,905	206,654
Insurance	121,477	114,796	113,244
Stationery and office supplies	102,209	109,690	108,648
Hired administrative services	85,610	123,144	308,051
Other	398,478	458,393	278,410
	12,800,757	12,726,636	11,740,501

38. OTHER OPERATING EXPENSES

Description	12/31/2019	12/31/2018	12/31/2017
Turnover tax	10,231,629	10,825,343	8,658,803
For credit cards	3,670,412	3,701,433	3,454,955
Modification of financial assets (see note 20)	2,866,235		
Charges for other provisions	1,431,716	1,993,045	1,745,683
Taxes (see note 49.1.c)	1,229,519	3,096	30,109
Deposit guarantee fund contributions	575,881	569,938	544,362
Donations	279,547	163,739	240,708
Loss from sale or impairment of non-financial assets	160,018		813
Interest on lease liabilities (see note 13)	121,967		
Insurance claims	59,595	101,389	82,450
Initial recognition of loans			188,829
Other	1,474,376	1,656,169	2,110,530
	22,100,895	19,014,152	17,057,242

39. 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

- 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:

	12/31/2019	12/31/2018	12/31/2017
Cash and deposits in banks	100,680,063	115,012,597	80,770,127
Debt securities at fair value			46,368
Other debt securities	46,411,189	85,644,351	45,447,458
Loans and other financing	299,475	290,803	213,207
	<u>147,390,727</u>	<u>200,947,751</u>	<u>126,477,160</u>

The following table shows additional information on operational cash flows interest:

	12/31/2019	12/31/2018	12/31/2017
Interest paid	(72,140,064)	(36,077,758)	(26,615,742)
Interest collected	143,200,165	114,296,124	84,130,995

The following table shows further information of changes in liabilities arising from financing activities for the year ended December 31, 2019 (lease liabilities changes are disclosed in note 13):

	Financing received from the Central Bank of Argentina and other financial entities	Issued Corporate Bonds	Subordinated Corporate Bonds
Opening balance	<u>4,611,839</u>	<u>9,810,217</u>	<u>23,518,130</u>
Cash flow items			
Proceeds	4,295	14,614	
Payments	(2,356,979)	(3,009,728)	(1,619,379)
Non-cash flow items			
Movement in accrued interest	190,840	2,385,073	1,682,205
Derecognition or substantial modification of financial liabilities		(409,089)	
Difference in quoted prices of foreign currency	1,447,190		11,106,999
Monetary effects	(1,651,381)	(3,266,048)	(10,376,292)
Ending balance	<u>2,245,804</u>	<u>5,525,039</u>	<u>24,311,663</u>

40. CAPITAL STOCK

The Bank's subscribed and paid-in capital as of December 31, 2019, amounted to 639,413. Since January 1, 2018, the Bank's capital stock has changed as follows:

SHARES			CAPITAL STOCK		
Class	Number of shares	Votes per share	Issued and outstanding	In treasury	Paid-in
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	658,427		658,427
Total as of January 1, 2018	<u>669,663,021</u>		<u>669,663</u>		<u>669,663</u>
Own shares acquired (1)		1	(28,948)	28,948	
Total 2018	<u>669,663,021</u>		<u>640,715</u>	<u>28,948</u>	<u>669,663</u>

BANCO MACRO SA AND ITS SUBSIDIARIES

SHARES			CAPITAL STOCK		
Class	Number of shares	Votes per share	Issued and outstanding	In treasury	Paid-in
Own shares acquired (1)			(1,317)	1,317	
Capital stock decrease (2)	(30,265,275)			(30,265)	(30,265)
Capital stock increase (3)	15,662		15		15
Total 2019	639,413,408		639,413		639,413
As of December 31, 2019:					
Registered Class A shares of common stock	11,235,670	5	11,236		11,236
Registered Class B shares of common stock	628,177,738	1	628,177		628,177
Total 2019	639,413,408		639,413		639,413

- (1) 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 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 5,578,851 (nominal amount: 3,113,925).

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 1,620,728 (nominal amount: 995,786).

The Program dated on December 20, 2018, established that the maximum amount of the investment amounted to 900,000 and the maximum numbers of shares to be acquired were equivalent to 1% of the capital stock. At the end of this program the Bank had 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 458,949 (nominal amount: 298,196) of which, as of December 31, 2018 were settled 711,386 common shares for an amount of 151,298 (nominal amount: 98,353), and in January 2019 were settled 1,316,865 common shares for an amount of 307,651 (nominal amount: 199,843).

- (2) Related to capital stock decrease approved by the Shareholders' Meeting of Banco Macro SA held on April 30, 2019 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, equivalent to all the own shares acquired as mentioned in section (1). On August 14, 2019 the Bank was notified that the capital stock decrease was registered at the Public Registry of Commerce.
- (3) Related to the capital stock increase through the issuance of 15,662 common, registered, Class B shares with a face value of Ps. 1 each one entitled with one vote, approved by Shareholders' Meeting mentioned in (2), due to the merger effects between Banco Macro SA and former Banco del Tucumán SA (see additionally note 2.4). On October 29, 2019 the Bank was notified that the capital stock increase was registered at the Public Registry of Commerce.

41. EARNINGS/LOSS PER SHARE. DIVIDENDS

Basic earnings per share were calculated by dividing net profit / loss attributable to common shareholders of the Bank by the weighted average number of common shares outstanding during the fiscal year.

BANCO MACRO SA AND ITS SUBSIDIARIES

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 40 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 2018 and 2017 to the shareholders of the Bank amounted to 6,940,053 (nominal amount: 3,348,315) and 1,824,679 (nominal amount: 701,476), respectively, which considering the number of shares outstanding to the date of effective payment and the inflation adjustment, represented 10.83 and 2.72 pesos per share, respectively.

The Shareholders' Meeting held on April 30, 2019 resolved to distribute cash dividends for an amount of 8,506,548 (nominal amount: 6,393,978), which considering the number of shares outstanding at the date of such resolution and the inflation adjustment, represented 13.30 per share. These cash dividends were paid and made available on May 14, 2019. See also note 50.

Finally, the Shareholders' Meeting dated on April 30, 2020, approved, among other issues, to distribute a cash dividend for an amount of 12,788,268 (nominal amount) which represents 20 per share. As mentioned in note 50, no earning distribution will be approved by the BCRA up to June 30, 2020.

42. 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 8.9440% interest in the capital stock of Sedesa according to the percentages disclosed by BCRA Communiqué "B" 11959 on February 27, 2020.

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 1,000, not restated, (from May 1, 2020 the amount is raised to 1,500; except for those performed by individuals at the minimum nominal rate in pesos, raised to 1,000 per individuals) 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.

43. RESTRICTED ASSETS

As of December 31, 2019 and 2018, the following Bank's assets are restricted:

Item	12/31/2019	12/31/2018
Debt securities at fair value through profit or loss and other debt securities		
• 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.	150,907	99,533
• Discount bonds in pesos regulated by Argentine legislation, maturing 2033 securing the regional economies Competitiveness Program – IDB loan No. 3174/OC-AR.	117,332	167,110
• Discount bonds in pesos regulated by Argentine legislation, maturing 2033 used as security in favor of Sedesa (1).	96,364	142,537
• 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, as amended, of the CNV	21,664	22,490

BANCO MACRO SA AND ITS SUBSIDIARIES

Item (Contd.)	12/31/2019	12/31/2018
<ul style="list-style-type: none"> Discount bonds in pesos regulated by Argentine legislation, maturing 2033 securing a IDB loan of Province of San Juan No. 2763/OC-AR. 	3,434	10,167
<ul style="list-style-type: none"> National treasury bills in pesos adjusted by CER, maturing 2021 for minimum statutory guarantee account required for Agents to act in the new categories contemplated under Resolution No. 622/2013 of the CNV 		15,964
Subtotal debt securities at fair value through profit or loss and other debt securities	<u>389,701</u>	<u>457,801</u>
Other financial assets		
<ul style="list-style-type: none"> Mutual fund shares for minimum statutory guarantee account required for Agents to act in the new categories contemplated under Resolution No. 622/13, as amended, of the CNV 	67,300	52,701
<ul style="list-style-type: none"> Sundry debtors – Other 	3,449	3,714
<ul style="list-style-type: none"> 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	1,272
Subtotal Other financial assets	<u>71,576</u>	<u>57,687</u>
Loans and other financing – non-financial private sector and foreign residents		
<ul style="list-style-type: none"> Interests derived from contributions made as contributing partner (2) 		49,996
Subtotal loans and other financing		<u>49,996</u>
Financial assets delivered as a guarantee		
<ul style="list-style-type: none"> Special guarantee checking accounts opened in the BCRA for transactions related to the electronic clearing houses and similar entities. 	7,438,646	8,798,598
<ul style="list-style-type: none"> Forward purchase for repo transactions 	1,077,082	280,660
<ul style="list-style-type: none"> Guarantee deposits related to credit and debit card transactions. 	806,613	1,149,859
<ul style="list-style-type: none"> Other guarantee deposits 	1,350,993	163,977
Subtotal Financial assets delivered as a guarantee	<u>10,673,334</u>	<u>10,393,094</u>
Other non-financial assets		
<ul style="list-style-type: none"> Real property related to a call option sold 	320,733	112,305
Subtotal Other non-financial assets	<u>320,733</u>	<u>112,305</u>
Total	<u>11,455,344</u>	<u>11,070,883</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.

44. 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:

44.1. Financial trusts for investment purposes

Debt securities include mainly prepayments towards the placement price of provisional trust securities of the financial trusts under public and private offerings (Consubond, Secubono, Carfacil, Agrocap and Red Surcos). 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

In addition, the Bank's portfolio is completed with financial trusts for investment purposes, trust securities of definitive financial trusts in public and private offering (Consubond, Garbarino, Chubut Regalías Hidrocarburíferas, Secubono, Megabono, Accicom and Carfauto) and certificates of participation (Saenz Créditos and Arfintech).

As of December 31, 2019 and 2018, debt securities and certificates of participation in financial trusts for investment purposes, total 1,936,980 and 2,128,612, 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.

44.2. 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, 2019 and 2018, 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 9,154 and 107,438, respectively.

44.3. 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 non-compliance.

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 non-compliance 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, 2019 and 2018, considering the latest available accounting information as of the date of these consolidated financial statements, the assets managed by the Bank amounted to 1,026,352 and 414,583, respectively.

44.4. 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

As of December 31, 2019 and 2018, considering the latest available accounting information as of these consolidated financial statements, the assets managed by the Bank amounted to 6,323,921 and 4,647,956 respectively.

45. MUTUAL FUNDS DEPOSITARY FUNCTION

As of December 31, 2019 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:

<u>Fund</u>	<u>Number of shares</u>	<u>Equity</u>
Pionero Pesos	365,004,359	2,597,555
Pionero Renta Ahorro	99,618,143	1,370,068
Pionero F F	27,004,093	327,228
Pionero Renta	4,039,467	108,451
Pionero Acciones	8,370,788	244,683
Pionero Renta Plus	143,370	4,634
Pionero Empresas FCI Abierto Pymes	234,534,859	1,062,430
Pionero Pesos Plus	1,894,509,380	8,063,038
Pionero Renta Ahorro Plus	154,409,497	474,505
Pionero Renta Mixta I	12,286,559	25,961
Pionero Renta Mixta II	26,374	50
Pionero Renta Estratégico	555,014,792	1,006,476
Pionero Renta Capital	50,000	50
Pionero Argentina Bicentenario	309,931,572	463,747
Pionero Ahorro Dólares	5,357,738	289,462
Pionero Renta Global	50,000	2,995
Pionero Renta Fija Dólares	3,952,154	176,696
Argenfunds Renta Pesos	525,260,972	2,065,720
Argenfunds Renta Argentina	16,452,325	83,311
Argenfunds Ahorro Pesos	46,647,904	301,152
Argenfunds Renta Privada FCI	25,063,747	238,894
Argenfunds Abierto Pymes	493,420,605	742,415
Argenfunds Renta Total	839,093,194	2,849,083
Argenfunds Renta Flexible	629,357,041	1,623,575
Argenfunds Renta Dinámica	118,107,501	282,638
Argenfunds Renta Mixta	117,445,198	79,196
Argenfunds Renta Global	21,042,794	51,659
Argenfunds Renta Capital	32,288,605	1,964,829
Argenfunds Renta Balanceada	46,257,703	120,396
Argenfunds Liquidez	2,798,316,372	3,604,188
Argenfunds Retorno Absoluto	302,845,328	373,248
Argenfunds Renta Crecimiento	312,066	16,566
Argenfunds Renta Mixta Plus	4,840,171	263,260
Argenfunds Renta Variable	100,000	69

BANCO MACRO SA AND ITS SUBSIDIARIES

46. 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 2019 are listed below, indicating the amounts as of month-end of the related items:

Description	Banco Macro SA - amounts
Cash and deposits in banks	
Amounts in BCRA accounts	55,158,158
Other debt securities	
Central Bank Bills computable for the minimum cash requirements	11,737,430
Government securities computable for the minimum cash requirements	8,007,622
Financial assets delivered as guarantee	
Special guarantee accounts with the BCRA	7,438,646
Total	<u>82,341,856</u>

47. CORPORATE BONDS ISSUANCE

The corporate bond liabilities recorded by Banco Macro SA in these consolidated financial statements amount to:

Corporate Bonds	Original value		Residual face value as of 12/31/2019	12/31/2019	12/31/2018
Subordinated Resetable – Class A	USD 400,000,000	(a.1)	USD 400,000,000	24,311,663	23,518,130
Non-subordinated – Class B	Ps. 4,620,570,000	(a.2)	Ps. 2,889,191,000	2,902,111	5,323,901
Non-subordinated – Class C	Ps. 3,207,500,000	(a.3)	Ps. 3,207,500,000	2,622,928	4,486,316
Total				<u>29,836,702</u>	<u>33,328,347</u>

- 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.

- 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

On October 17, 2018 and October 16, 2019 the Board of Directors decided to pay off these corporate bonds for a face value of pesos 1,229,518,000 and 501,861,000, respectively, equivalent to the amount of purchases made as those date.

As of the date of issuance of these consolidated financial statements, the Bank made purchases of this issuance for a face value of pesos 506,995,000 with a remaining outstanding face value of 2,382,196,000.

- 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.

The Bank made purchases of this issuance for a face value of pesos 794,500,000, with a remaining outstanding face value of pesos 2,413,000,000. In addition, on October 16, 2019 and January 29, 2020, the Board of Directors decided to pay off these corporate bonds for a face value of 750,500,000 and 44,000,000, respectively.

As of the date of issuance of these consolidated financial statements the Bank made new purchases of this issuance for a face value of pesos 45,000,000 with a remaining outstanding face value of 2,368,000,000.

The Shareholder's Meeting held on April 27, 2018, 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. During the meeting held on April 10, 2019 the Board of Directors decided to use the maximum amount of the Global Program for the Issuance of Corporate Bonds approved on April 27, 2018, i.e., US\$ 1,000,000,000 (one billion US dollars) or an equal amount in other currencies or value units, for the issuance of Corporate Bonds under CNV frequent issuers system.

48. OFF BALANCE SHEET TRANSACTIONS

In addition to note 10, the Bank maintains 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, 2019 and 2018:

Item	12/31/2019	12/31/2018
Custody of government and private securities and other assets held by third parties	81,402,991	123,144,365
Preferred and other collaterals received from customers (1)	55,540,563	70,061,801
Outstanding checks not yet paid	8,021,022	5,158,588
Checks already deposited and pending clearance	3,017,045	2,585,722
Written-off credits	3,031,951	4,250,248

(1) Related to collaterals used to secure loans transactions and other financing, under the applicable rules in force in this matter.

49. TAX AND OTHER CLAIMS

49.1. Tax claims

The Federal Public Revenue Agency (AFIP, for its acronym in Spanish) 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).

BANCO MACRO SA AND ITS SUBSIDIARIES

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) Pursuant to section 2, Presidential Decree No. 814/01, the Bank began applying the 17% rate instead of the 21% rate to settle payroll taxes as from November 2012. According to such presidential decree, the contributions made by private sector employers and by those governed by section 1, Law No. 22,016, would be taxable at a single and reduced 16% rate (subsequently, 17%).

The Bank was included in the scope of the abovementioned presidential decree merely due to the government interest in the Bank governed by General Business Associations Law No. 19,550 and based on the clarifications included subsequently in Tax Reform Law No. 27,430. The Argentine Government has an interest on the Bank through the ANSES-FGS (Sustainability Guarantee Fund), as a result of the nationalization of funds from AFJPs (private pension fund managers) in 2008. As of December 31, 2019, such interest represents 27.80% of the capital stock of Banco Macro S.A. and, by exercising its voting rights, it managed to appoint members of the Board of Directors and the Statutory Audit Committee.

On February 20, 2018, the AFIP required to the Bank to clarify the reasons for using such reduced rate. On March 14, 2018, the Bank provided a detailed explanation ratifying its position.

After several procedures and the submission of factual and legal grounds, as the Bank is allowed to do by law, the AFIP submitted the case file for consultation to the Ministry of Economy, which in turn submitted it to the Argentine Attorney General's Office on April 3, 2019, to request its participation in its capacity as the superior authority of the body of Argentine Government's attorneys and legal services for federal public administration.

Even though the Argentine Attorney General's Office has issued no resolution in this regard, on June 24, 2019, the Bank decided to join the installment-payment plan from November 2012 through March 2019, pursuant to AFIP General Resolution No. 4477/2019. The plan offered 60 installments, an interest rate that is significantly lower than current rates applicable to tax or social security obligations and a material fine reduction. This entailed an economic and financial benefit for the Bank because, in connection with the settlement of the abovementioned social security payables and even within the context of appeals against resolutions affecting its rights, it would have required the full payment of the periods challenged –potentially obtaining the reimbursement of the amounts paid– at a 6% annual nominal rate, in accordance with the legal framework then effective.

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.

49.2. Other claims

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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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.

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 plus VAT and interest. Although this court decision was appealed, the Entity understands that there is a low probability that a favorable ruling shall be obtained from the trial court, as the Entity became aware that the Court of Appeals approved related actions against other two banks, an agreement was reached and filed for court-approval effects on 11/03/2020. On such agreement, the Bank compromised to reimburse to credit card users for the period from August 2007 to December 2014, the amounts collected over the abovementioned concepts plus VAT over such commissions and interest calculated at the average current rate for Documents transactions in force at the Banco de la Nación Argentina. The court agreement is pending resolution.

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.

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.

50. 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 dated on April 30, 2020 applied 8,159,955 out of unappropriated retained earnings, to increase such legal earnings reserves.
- b) Through BCRA rules related to Earnings distribution of financial entities, 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, as established by BCRA Communiqué "A" 6768, considering that for statutory purposes Argentinean banks do not apply section 5.5. of IFRS 9 (impairment) and IAS 29 (inflation adjustment), the earnings distribution approved by the Shareholders' Meeting of the Bank could only be formalized once the Superintendence of Financial and Foreign Exchange Institutions assesses the potential effects of the application of IFRS according to Communiqué "A" 6430 (section 5.5 IFRS 9 "Impairment") and the restatement of financial statements according to Communiqué "A" 6651. Finally, through BCRA Communiqué "A" 6939 issued on March 19, 2020, the BCRA decided that no earning distribution will be approved up to June 30, 2020.

In addition, profits may only be distributed to the extent that the financial institution has positive results, after deducting, on a non-accounting 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 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 Superintendence 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 was created a special reserve, and its balance as of December 31, 2019 was 3,475,669 (not restated).

BANCO MACRO SA AND ITS SUBSIDIARIES

As of December 31, 2019, the related adjustments (not restated) to be made on unappropriated retained earnings are as follows:

- i. Legal earnings reserve 8,159,955.
- ii. Debit amounts of the accounting items recognized in “Other comprehensive income” 346,414.
- iii. The positive net difference between the amortized cost and the fair value 9,786.

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.

On the other hand, 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).

- c) 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.

As mentioned in note 41, the Shareholders’ meeting dated on April 30, 2020 approved a cash dividend amounted to 12,788,268 (nominal amount).

51. CAPITAL MANAGEMENT, CORPORATE GOVERNANCE TRANSPARENCY POLICY AND RISK MANAGEMENT

As financial institution, the activities of Banco Macro 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 BCBA and, thus, it is subject to the regulations issued by the CNV.

Through General Resolution No. 797/19, 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 annually requires the issuance of a report in which financial institutions have to explain how the recommendations are implemented or to 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:

- Ownership structure

As of December 31, 2019, the Bank’s shareholders are:

<u>FULL NAME/ CORPORATE NAME</u>	<u>Participating Interest</u>	<u>Voting Interest</u>
Brito Jorge Horacio	17.37	19.37
Carballo Delfin Jorge Ezequiel	17.47	19.19
ANSES FGS Law No. 26425	28.80	26.90
Grouped shareholders (Local Stock Exchanges)	6.11	6.27
Grouped shareholders (Foreign stock exchanges)	30.25	28.27

BANCO MACRO SA AND ITS SUBSIDIARIES

- 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. 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, 2019:

Name	Position
Delfin Jorge Ezequiel Carballo (1)	Chairman
Jorge Pablo Brito (1)	Vice chairman
Carlos Alberto Giovanelli	Director
Nelson Damián Pozzoli	Director
Fabian Alejandro de Paul (*)	Director
Martín Estanislao Gorosito (*)(**) (2)	Director
Constanza Brito	Director
Guillermo Stanley	Director
Mario Luis Vicens (*)	Director
Juan Martín Monge Varela(*)(**) (2)	Director
Marcos Brito	Director
Alejandro Eduardo Fargosi (*)(**) (2)	Director
Delfin Federico Ezequiel Carballo	Director
Santiago Horacio Seeber	Alternate director
Alejandro Guillermo Chiti (**) (2)	Alternate director
Alan Whamond (*)	Alternate director

(*) Independent directors

(**) Designated by Anses-Fgs

- (1) The Board of Directors held on April 30, 2020, decided, among other issues the designation of Jorge Horacio Brito as Chairman and Delfin Jorge Ezequiel Carballo as Vice chairman. Jorge Pablo Brito continues as a member of the Board of Directors.
- (2) The Shareholders' Meeting held on April 30, 2020 decided the designation of Ramiro Tosi and Guillermo Merendiz as Directors for the Anses-Fgs in place of Martín Estanislao Gorosito and Alejandro Eduardo Fargosi. The designation of Directors in place of Juan Martin Monge Varela and Alejandro Guillermo Chiti is pending resolution up to the next Shareholders' Meeting.

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
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
Ernesto López	Legal manager
Alberto Figueroa	Internal audit manager
Adrian Mariano Scosceria	Corporate banking manager
Leonardo Maglia	Operations and system manager
Juan Domingo Mazzon	Government and Management control manager
Eduardo Covelio	Banking operations manager
Gerardo Álvarez	Administration manager
Marilis de Carballo	Organizational Process manager
Manuel Rawson Paz	Mergers and acquisitions manager

BANCO MACRO SA AND ITS SUBSIDIARIES

- 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:

<u>Committee</u>	<u>Functions</u>
CNV Audit / SEC	They are established in Capital Markets Law as supplementary.
Internal Audit	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	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	Overseeing the proper operation of the information technology environment and contributing to improving the effectiveness thereof.
Credit	Approving credit transactions based on credit capacity.
Legal Recovery	Incumbent in defining payment arrangements exceeding the predetermined parameters, as well as reclassifying portfolio to be subject to legal proceedings or accounting derecognitions.
Personnel Incentives	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	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	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	Planning and coordinating compliance with the policies established by the Board of Directors on the matter.
Financial Services User Protection	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.

- 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

- Ethical line

According with ethical behavior standards, it was implemented for the Bank and its subsidiaries, Macro Securities SA, Macro Fondos SGFCI SA, Macro Fiducia SA and Argenpay SAU, 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 463 branches throughout the entire country.

Subsidiaries

The Bank carries out certain transactions through its subsidiaries, which are identified in note 3 to these consolidated financial statements.

Business lines

The Bank's business lines and transactions with trusts are mentioned in notes 1, 44 and 45, 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, Jujuy and Tucumán and the Municipalities of San Miguel de Tucumán and Yerba Buena.

- 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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. 27401 (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 Code of Ethics 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.

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 Code of Ethic 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

- 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 (“*Conocenos*” – *Relaciones con Inversores*) and, www.bancodeltucuman.com.ar (“*Información institucional e Inversores*”) additionally, some guidelines are disclosed in other notes to these consolidated financial statements. Moreover, the Bank’s public information is disclosed on the websites of the BCRA (www.bcra.gob.ar) and the CNV (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. The Bank has appointed a Risk Manager who reports directly to the Board of Directors.

Its duties include 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.

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 Risk Management area is 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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.
- 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 2019, together with the integration thereof (computable equity) as of the end of such month:

Description	12/31/2019
Minimum capital requirements	29,557,658
Computable equity	98,566,427
Capital surplus	69,008,769

The following are the policies and processes aimed at identifying, assessing, controlling and mitigating each one of the main risks:

51.1. **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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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.

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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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.

51.1.1. Impairment assessment

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.

The following table shows the allowance for credit losses splitted by class of financial instrument as of December 31, 2019 and 2018:

	12/31/2019	12/31/2018
Loans and other financing	5,069,726	5,951,735
Other debt securities at amortized cost	46,734	88
Contingent transactions	17,273	16,506
Sundry debtors	1,654	
Other debt securities at fair value through OCI	210	
	<u>5,135,597</u>	<u>5,968,329</u>

51.1.1.1 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.

Clients evaluated on an individual basis

Asset classes where the Bank calculates ECL on an individual basis include:

- Debt Securities at amortized cost.
- Debt Securities at fair value through Other Comprehensive Income.
- Loans and other financing that comprise the Commercial portfolio in accordance with Central Bank rules.
- Other financial assets

51.1.1.2. 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

- 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.

51.1.1.3. 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 model 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 and contemplates variables of internal behavior 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.

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

Category	12/31/2019		12/31/2018	
	Ponderate PD	% Gross Carrying Amount	Ponderate PD	% Gross Carrying Amount
Performing	2.60%	95.45%	2.16%	95.18%
High Grade	1.25%	76.39%	1.13%	76.06%
Standard Grade	4.83%	8.23%	4.52%	15.47%
Sub-Standard Grade	11.64%	10.83%	13.57%	3.65%
Past Due but not impaired	32.13%	2.84%	23.60%	2.95%
Non-Performing	100.00%	1.71%	100.00%	1.87%
Total		100.00%		100.00%

51.1.1.4. 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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.

51.1.1.5. 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.

The 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 workout 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.

51.1.1.6. Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. 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 ECL 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 is more than two categories.

BANCO MACRO SA AND ITS SUBSIDIARIES

All the customers subject to individual analysis are reviewed monthly in order to define the corresponding stage for each of them. The staging is agreed with Corporate Risk Management and Recovery Management and presented for the approval of the Senior Management.

In order to carry out the abovementioned evaluation, the Credit Risk Management has defined a series of objective data that help to analyze if there is a significant increase in credit risk, for the purpose of determine if it is appropriate to recategorize the debtor in Stage 2 due to the existence of a significant increase in credit risk, or in Stage 3 when a default has occurred or is projected, or if, on the contrary, it must remain in Stage 1.

As for the defined objective criteria, the following stand out:

- Maximum arrears.
- Number and amount of rejected checks recorded in the last quarter.
- Customers who register defaults in other financial entities of the Argentinian financial system.

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.

51.1.1.7. 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.

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 all of its financial instruments.
- 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 short 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.
- 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 51.1.1.6.
- Customers with forborne loans less than 90 days past due.

BANCO MACRO SA AND ITS SUBSIDIARIES

Stage 3

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in cases when the borrower becomes 90 days past due on its contractual payments.

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.
- The customer's cash flow analysis shows that it 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 or Stage 3 who improved their credit risk indicators, and therefore comply with the parameters defined for Stage 1.

Stage 2

This stage includes the customers who, based on the individual analysis of their payment capacity, suffer a significant increase in their risk, but not as severe to set default as defined for Stage 3.

Some elements considered upon defining the existence of a significant increase in risk are:

- 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.
- Significant changes in the value of the guarantees received.
- The arrears that the customer has with the Bank are due to current operational circumstances or for an extraordinary nature and a prompt resolution is expected.

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 who, 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

- 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.

51.1.2. Analysis of inputs to the ECL model under different economic scenarios

An overview of the approach to estimating ECL is set out in note 3.2.4. and in section "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, ECL based on the base case, plus the effect of the use of multiple economic scenarios, as of December 31, 2019.

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, 2019.

Key Drivers	ECL Scenario	Assigned Probabilities	2020 %	2021 %	2022 %
GDP growth %	Upside	10%	(1.71)%	1.96%	2.97%
	Base case	60%	(1.96)%	1.46%	2.47%
	Downside	30%	(2.99)%	(0.01)%	1.54%
Central Bank base rates %	Upside	10%	34.88%	27.91%	20.93%
	Base case	60%	34.20%	27.36%	20.52%
	Downside	30%	62.70%	60.19%	54.34%
CPI %	Upside	10%	47.98%	40.76%	32.65%
	Base case	60%	47.04%	39.97%	32.01%
	Downside	30%	94.96%	90.05%	84.95%

51.1.3. Impact on regulatory capital

The economic capital model is detailed in section "Economic Capital Calculation" of this note. 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 adopted the Impairment requirements included in IFRS 9 for the years beginning on January 1, 2020.

The Bank does not expect significant effects on regulatory capital from the adoption of ECL methodology.

51.1.4. 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.

BANCO MACRO SA AND ITS SUBSIDIARIES

The amortized cost of loans modified during 2019 and the associated net modification amounted to 2,305,012 and 43,147, respectively. Moreover, certain debt securities were modified during the fiscal year. The information related to this modification is disclosed in note 20. The amortized cost of loans modified during 2018 and the associated net modification amounted to 939,887 and 71,629, respectively.

51.1.5. 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., 10 and 18.

	Stage					12/31/2019
	1		2		3	
	Individual	Collective	Individual	Collective	Total	
Loans and other financing	94,035,693	112,048,827	3,147,415	12,862,531	3,873,074	225,967,540
Non-financial public sector	6,444,118	6,297		163	69	6,450,647
Other financial entities	3,979,622	181				3,979,803
Non-financial private sector and foreign resident	83,611,953	112,042,349	3,147,415	12,862,368	3,873,005	215,537,090
Individuals	375,960	86,582,704		6,737,316	1,454,564	95,150,544
Manufacturing Industry	34,052,729	3,468,513	619,855	913,838	1,193,370	40,248,305
Agricultural livestock, hunting, forestry and fishing	8,113,588	5,653,305	2,325,263	2,098,886	407,340	18,598,382
Services	9,678,046	9,699,815	52,916	1,520,139	254,393	21,205,309
Commercial activities	9,639,580	3,855,288	146,405	1,043,372	417,108	15,101,753
Exploration of mines and quarries	14,741,384	168,316		48,637	8,707	14,967,044
Financial intermediation and insurance services	2,821,135	683,294		61,215	13,404	3,579,048
Construction activities	1,646,660	1,017,816	2,976	335,072	112,139	3,114,663
Electricity supply, gas, steam and air conditioner	2,523,257	73,486		7,218	1,089	2,605,050
Public administration, defense and compulsory social security	19,614	810,758		94,139	10,812	935,323
Water supply, sewerage, waste management and recovery of materials, and public sanitation		29,054		2,536	79	31,669

	Stage					12/31/2018
	1		2		3	
	Individual	Collective	Individual	Collective	Total	
Loans and other financing	103,327,739	140,295,815	1,561,461	31,088,550	5,289,959	281,563,524
Non-financial Public Sector	2,718,752			12,465	45	2,731,262
Other Financial Entities	8,653,310	1,055				8,654,365
Non-financial Private Sector and Foreign Residents	91,955,677	140,294,760	1,561,461	31,076,085	5,289,914	270,177,897
Individuals	120,418	112,420,553		14,264,409	2,314,229	129,119,609
Manufacturing industry	43,343,434	4,316,873	320,304	2,820,757	1,119,762	51,921,130
Agricultural livestock, hunting, forestry and fishing	11,857,286	6,907,471	584,762	5,638,237	428,630	25,416,386
Commercial activities	10,195,071	4,591,998	275,836	3,469,366	872,699	19,404,970
Services	3,952,922	9,081,526	116,219	3,651,941	420,421	17,223,029
Exploration of mines and quarries	13,048,242	95,373		76,795	855	13,221,265
Construction activities	3,618,849	1,040,555	264,340	847,426	75,361	5,846,531
Electricity supply, gas, steam and air conditioner	4,186,471	96,399		13,842	1,383	4,298,095
Financial intermediation and insurance services	1,307,458	766,646		66,068	19,801	2,159,973
Public administration, defense and compulsory social security		876,036		192,872	25,694	1,094,602
Water supply, sewerage, waste management and recovery of materials, and public sanitation	325,526	101,330		34,372	11,079	472,307

BANCO MACRO SA AND ITS SUBSIDIARIES

The analysis of the calculation of ECL additionally includes the exposure to credit risk of contingent transactions as of December 31, 2019 and 2018 disclosed in note 10.

51.1.6. Collateral and other credit improvements

The table below shows the types of guarantees received as of December 31, 2019:

Class of financial instrument	Maximum exposure to credit risk	Fair value of collateral						Total collateral	Net exposure	Associated ECL
		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	225,967,540	376,892	2,692,107	21,976,849	4,032,701	1,076,615	24,720,494	54,875,658	171,091,882	5,069,726
Contingent transactions	94,567,785	2,047					662,858	664,905	93,902,880	17,273
Other debt securities at fair value through OCI	46,881,489								46,881,489	210
Other debt securities at amortized cost	17,631,926								17,631,926	46,734
Sundry debtors	1,616,781								1,616,781	1,654
TOTAL	386,665,521	378,939	2,692,107	21,976,849	4,032,701	1,076,615	25,383,352	55,540,563	331,124,958	5,135,597

The table below provides an analysis of the current fair values of collateral held for stage 3 assets as of December 31, 2019:

Class of financial instrument	Maximum exposure to credit risk	Fair value of collateral					Total collateral	Net exposure	Associated ECL
		Deferred payment checks	Mortgage on real property	Pledges on vehicles and machinery	Pledges on personal property	Other			
Loans and other financing	3,873,074	2,267	540,206	122,688	8,671	701,817	1,375,649	2,497,425	2,179,701
TOTAL	3,873,074	2,267	540,206	122,688	8,671	701,817	1,375,649	2,497,425	2,179,701

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 ECL
		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	281,563,524	624,925	5,290,304	28,298,890	6,669,946	1,140,508	27,876,497	69,901,070	211,662,454	5,951,735
Contingent transactions	148,988,857						160,731	160,731	148,828,126	16,506
Other debt securities at fair value through OCI	86,811,780								86,811,780	
Other debt securities at amortized cost	12,538,954								12,538,954	88
TOTAL	529,903,115	624,925	5,290,304	28,298,890	6,669,946	1,140,508	28,037,228	70,061,801	459,841,314	5,968,329

BANCO MACRO SA AND ITS SUBSIDIARIES

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 ECL
		Pledges on time deposits	Deferred payment checks	Mortgage on real property	Pledges on vehicles and machinery	Other			
Loans and other financing	5,289,959	6,007	107,944	753,106	218,820	713,019	1,798,896	3,491,063	2,349,145
TOTAL	5,289,959	6,007	107,944	753,106	218,820	713,019	1,798,896	3,491,063	2,349,145

51.2. Liquidity Risk

The liquidity risk is defined as the possibility that the Bank may not be able to comply with expected and unexpected current and future cash flows effectively, as well as guarantees, without affecting daily transactions or its financial position.

In addition, the market liquidity risk refers to the risk that the Bank may not be able to clear or delete a position at market price:

- because the assets involved have no sufficient secondary market; or
- due to market variations.

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, the Bank has been established a policy which the main aspects 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:

- Seeks the proper diversification of financing sources to enable the constant availability of funds and fulfill institutional obligations within a market variability environment.
- Gives priority to attracting retail deposits to have an atomized deposit portfolio and lower risks in relation to material withdrawals concentrated in a few depositors.
- Does not depend excessively on obtaining repo transactions and interfinancial loans as a permanent funding source.

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.

In the event of a liquidity crisis, the Bank has a contingency plan with the following actions:

- Financing through call banking and repo agreements with the BCRA.
- Spot sale of securities government portfolio.
- Limit credit assistance to private sector.
- Increase deposit rates in order to capture deposits.

The following table shows the liquidity ratios during the fiscal years 2019 and 2018, which arise from dividing net liquid assets, made up of cash and cash equivalents, by total deposits.

BANCO MACRO SA AND ITS SUBSIDIARIES

	2019	2018
December, 31	57.75%	55.40%
Average	61.24%	47.48%
Max	70.13%	57.08%
Min	51.73%	42.23%

The tables below summarize the maturity of the contractual cash flows of loans and other financing, before ECL, including interest and charges to be accrued until maturity of the contract as of December 31, 2019 and 2018:

Item	Past due	Remaining terms to maturity as of December 31, 2019						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	
Non-financial government sector		2,734,557	647,071	764,311	1,837,175	3,027,704	2,020,860	11,031,678
Financial sector		1,835,332	2,206,616	471,817	631,406	892,996	5,467	6,043,634
Non-financial private sector and foreign residents	3,625,771	90,697,310	27,012,879	24,246,954	30,283,464	43,673,909	67,383,281	286,923,568
Total	3,625,771	95,267,199	29,866,566	25,483,082	32,752,045	47,594,609	69,409,608	303,998,880

Item	Past due	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	
Non-financial government sector		240,398	620,878	668,533	1,146,170	1,489,870	498,077	4,663,926
Financial sector		1,687,830	2,667,040	1,854,102	2,613,172	920,073	34,063	9,776,280
Non-financial private sector and foreign residents	2,918,046	80,510,133	36,014,163	39,158,914	47,410,255	54,366,672	107,200,067	367,578,250
Total	2,918,046	82,438,361	39,302,081	41,681,549	51,169,597	56,776,615	107,732,207	382,018,456

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, 2019 and 2018:

Item	Remaining terms to maturity as of December 31, 2019						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	
Deposits	234,410,912	26,115,912	3,473,109	1,027,584	53,535	22,672	265,103,724
From the non-financial government sector	16,875,269	778,208	42,757	2,080			17,698,314
From the financial sector	314,162						314,162
From the non-financial private sector and foreign residents	217,221,481	25,337,704	3,430,352	1,025,504	53,535	22,672	247,091,248
Derivative instruments	293,136	341,147	134,449				768,732
Repo Transactions	1,002,612						1,002,612
Other financial institutions	1,002,612						1,002,612
Other financial liabilities	21,072,094	97,991	104,046	167,461	324,804	429,745	22,196,141
Financing received from the Central Bank of Argentina and other financial institutions	1,031,099	830,067	150,581	98,185	169,657	45,817	2,325,406
Issued corporate bonds	320,280		514,980	739,479	3,364,160	3,089,501	8,028,400
Subordinated corporate bonds			808,582	808,583	1,617,165	32,850,011	36,084,341
Total	258,130,133	27,385,117	5,185,747	2,841,292	5,529,321	36,437,746	335,509,356

BANCO MACRO SA AND ITS SUBSIDIARIES

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	
Deposits	305,290,441	52,020,713	11,527,796	2,015,347	99,236	24,590	370,978,123
From the non-financial government sector	26,642,399	2,570,441	984,134	70,902	317		30,268,193
From the financial sector	228,091						228,091
From the non-financial private sector and foreign residents	278,419,951	49,450,272	10,543,662	1,944,445	98,919	24,590	340,481,839
Derivative instruments	1,568		538				2,106
Repo Transactions	253,307						253,307
Other financial institutions	253,307						253,307
Other financial liabilities	23,290,568	28,682	14,185	20,096	30,896	216,139	23,600,566
Financing received from the Central Bank of Argentina and other financial entities	1,118,029	1,413,410	1,666,016	723,273	134,064	192,554	5,247,346
Issued corporate bonds	557,686		1,001,579	1,565,328	3,130,655	11,817,897	18,073,145
Subordinated corporate bonds			785,167	785,167	1,570,333	32,686,205	35,826,872
Total	330,511,599	53,462,805	14,995,281	5,109,211	4,965,184	44,937,385	453,981,465

51.3 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.

The method consists in creating return or price scenarios concerning an asset through the generation of random numbers. This is based on the selection of a stochastic model describing the performance of prices for each asset with the resulting specification of certain parameters required for calculation purposes. The model used is the geometric Brownian motion.

BANCO MACRO SA AND ITS SUBSIDIARIES

Once all “n” potential scenarios are obtained for valued positions, the P&L vector must be calculated as the difference between the estimated value of the future portfolio and its value upon calculation. Then profit and loss will be placed in order to obtain the value at risk according to the 99% percentage applied.

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.

51.4 **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 adverse interest rate fluctuations with a negative impact on the Shareholders’ equity and profit or loss.

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.

The Bank monitors of the net present value of its assets, liabilities and off balance sheet items, upon certain disturbance scenarios and interest rate stress through Montecarlo simulation techniques.

For this purpose, the maximum potential loss is determined considering a temporal line of three months and 99% confidence level interval.

The Economic Value Model (EVM) is determined as the net sum of cash flows (interest and principal losses) that the Bank can generate, discounted at market interest rate curve. If the market interest rate curve used for the discount is affected, the effect of such variation impacts directly on the 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, 2019 and 2018, the Bank’s VaR by type of risk is as follows:

Economic capital (EC – in millions)	12/31/2019	12/31/2018
Interest rate risk	8,745	9,633
Currency Exchange rate risk	2,759	265
Price risk	192	126

51.5 **Foreign Currency Exchange Rate Risk**

The Bank is exposed to fluctuations in foreign currencies 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 expressed 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.

The Bank’s open position, stated in Argentine pesos by currency, is disclosed in note 26 to these consolidated financial statements.

51.6 **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.

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.

BANCO MACRO SA AND ITS SUBSIDIARIES

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 “Manual 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 regular 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.

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.

BANCO MACRO SA AND ITS SUBSIDIARIES

- 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.

52. CHANGES IN THE ARGENTINE MACROECONOMIC ENVIRONMENT OF THE FINANCIAL AND CAPITAL MARKETS

The international and local macroeconomic context generates 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, including what is mentioned in note 53.

Specifically, in Argentina, as a step prior to general presidential elections, the PASO (open primary elections) were held on August 11, 2019. The results were adverse to the party running the Argentine government, which was confirmed with the results of the general presidential elections held on October 27, 2019, giving rise to a change in federal authorities on December 10, 2019. The market values of Argentine government and private financial instruments plummeted the day after the PASO, so the country risk and the value of the US dollar also skyrocketed. The Bank is unable to uphold, as of the date of issuance of these consolidated financial statements, that these situations have been redressed or stabilized to date.

Among other measures introduced by the PEN after the PASO, DNU No. 596/2019 was issued on August 28, 2019, whereby it was set forth that short-term Government securities (Letes, Lecaps, Lelinks and Lecer) will be paid according to the following schedule: 15% upon maturity according to the original terms and conditions of its issuance; 25% of the amount owed plus interest within 90 calendar days as from the previous payment; and the remaining 60% plus interest within 180 calendar days as from the first payment. The deferral did not affect natural persons or the Non-financial Public Administration for the Autonomous City of Buenos Aires that invested in these assets (see note 20).

Then, the new PEN issued Presidential Decree No. 49/2019 on December 19, 2019, to extend through August 31, 2020, the amortization of treasury bills (Letes) in US dollars. In addition, on January 20, 2020, the PEN voluntarily swapped Lecaps for about 60% of the stock for the new Lebad, which will pay BADLAR plus a spread with maturity date in 240 and 335 days. On February 11, 2020, through Presidential Decree No. 141/2020 it was decided to delay through September 30, 2020, the charge for the principal amortization of Federal Government bonds of dual currency (AF20, as its acronym in Spanish) to be made on February 13, 2020, without interrupting the payment of interest established in the original terms and conditions, barring natural persons with holdings as of December 20, 2019, up to a nominal value of USD 20,000. Finally, and combined with other operations of the administration of public debt, dated April 6, 2020, the payment of all public debt issued under Argentine legislation was deferred through Decree No. 346/2020 until December 31, 2020.

Between August 2019 and the date of issuance of these consolidated financial statements, the BCRA issued several regulations that, along with Presidential Decree No. 609/2019 of September 1, 2019, introduced certain restrictions with different scopes and specifications for natural and artificial persons, including the acquisition of foreign currency for hoarding purposes, transfers abroad and foreign exchange transactions, among other issues, effective as of the date of issuance of these consolidated financial statements according to BCRA Communiqué “A” 6844, as supplemented and amended. In addition, in the last few months the gap between the official price of the US dollar -used mainly for foreign trade- and the alternative values that arise through the stock market operation and also with respect to the unofficial value, has begun to widen around 60% as of the date of issuance of these consolidated financial statements.

Besides, on December 23, 2019, “Social Solidarity and Productive Reactivation” Law No. 27541 was published in the Official Bulletin. Furthermore, on December 28, 2019, Presidential Decree No. 99/2019 was published including several economic, financial, tax and other social security, administrative, fee, energy, sanitary and social reforms, and empowered the PEN to complete the formalities and acts needed to recover and secure the sustainability of the government debt as already mentioned and introduced minimum salary increases, among other issues.

Through Law No. 27541, among other provisions, redressing systems were added, amendments to employer contributions were made and a “tax for an inclusive and supportive Argentina” (PAIS tax, for its acronym in Spanish) was created for five fiscal years at a 30% rate on the acquisition of foreign currency for hoarding purposes, to purchase assets and services in foreign currency and international passenger transportation, among others. Finally, note 28 a) and b) explains the amendments introduced pursuant to Income Tax Law.

BANCO MACRO SA AND ITS SUBSIDIARIES

Finally, in addition to the aforementioned extension, the PEN is undergoing formalities to reach a debt restructuring with government debt under Argentine and foreign regulations, considering the powers granted by Law No. 27541. On February 12, 2020, Law No. 27544 “Restoration of the sustainability of government debt issued under foreign law” was published in the Official Bulletin which, among other issues, empowers the PEN to perform transactions to manage liabilities or swaps or restructuring of interest expiry and principal amortization of government securities issued under foreign law. In line with the above, on April 16, 2020, the National Government announced the offer of restructuring of public debt represented by 21 eligible bonds issued under foreign legislation totaling USD 66,238 million, which contemplates a withdrawal of approximately 62% of interest and 5% of capital, along with a three-year grace period, as expressed by the Minister of Economy of the Nation. As the date of these consolidated financial statements, there is uncertainty as to whether the Argentine government will be able to successfully carry out the exchange and restructure its foreign public indebtedness.

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 future consolidated financial statements.

53. EFFECTS OF THE CORONAVIRUS (COVID-19) OUTBREAK

In early March 2020, the World Health Organization recognized Coronavirus (Covid-19) as a pandemic that is severely affecting almost all countries around the world. The spread of this disease globally has forced the authorities to take drastic health and financial measures to contain and mitigate its effects on health and economic activity.

Particularly in the Argentine Republic, on March 19, 2020, through Decree No. 297/2020, the Government established the “social, preventive and compulsory isolation” measure until March 31, 2020, which was then extended until May 24, 2020.

Along with health protection rules, tax and financial measures were taken to mitigate the impact on the economy associated with the pandemic, including public direct financial assistance measures for part of the population, the establishment of financial and fiscal facilities for both individuals and companies. As regards measures related to the Entity’s business, the BCRA established maturities extensions, froze the mortgage loan installments and encouraged banks to lend to companies at reduced rates. In addition, as explained in note 50, the distribution of dividends of the finance institutions was suspended until June 30, 2020.

In addition, in the mandatory quarantine context, the BCRA ruled that financial institutions would not be able to open their branches for public service during that period and should continue to provide services to users remotely. They could also trade with each other and their clients in the exchange market remotely. During quarantine, remote trading of stock exchanges and capital markets authorized by the CNV, the custodians and capital market agents registered with the CNV was admitted.

In view of the extension of mandatory quarantine, the BCRA then decided that financial institutions would open their branches from Friday, April 3, 2020 for public attention through previous appointments obtained by the Bank’s website.

The Bank is developing its activities under the conditions detailed above, giving priority to the compliance of social isolation measures by its employees, with the primary objective of taking care of the public health and well-being of all its stakeholders (employees, suppliers, customers, among others). To this end, it has put in place contingency procedures and has enabled its staff to carry out their tasks remotely. From a commercial point of view, it has emphasized maintaining a close relationship with its customers, trying to respond to their needs at this difficult time, sustaining all virtual channels of care to ensure operability and a good response to requirements, monitoring compliance with their business obligations and monitoring the active portfolio in order to detect possible delays in collection and set new conditions for them.

Considering the size of the abovementioned situation, the Bank’s Management estimates that this situation could have an impact on its operations and the financial situation and the results of the Bank, which are under analysis, and will ultimately depend on the extent and duration of the health emergency and the success of the measures taken and taken in the future.

54. EVENTS AFTER REPORTING PERIOD

No other 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

<u>Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Principal Activity</u>
Argenay S.A.U	Republic of Argentina	Electronic payment services
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 15, 2020

/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 15, 2020

/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 15, 2020

/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 15, 2020

/s/ Jorge Francisco Scarinci

Name: **Jorge Francisco Scarinci**

Title: **Chief Financial Officer**