

Basis of preparation of our financial statements for the year ended December 31, 2018

Our financial statements filed quarterly with local regulators and the figures included in our quarterly earnings release, are in accordance with the accounting framework set by the Argentine Central Bank. For the year ended on December 31, 2018, the Central Bank adopted IFRS for the first time, excluding the impairment method of IFRS 9 (based on expected credit losses) and IAS 29.

For our annual report filed with the SEC, we are required to prepare our financial statements in accordance with IFRS, as issued by the IASB, or in accordance with US GAAP or provide a reconciliation with US GAAP. As the Central Bank is in the process of adopting the complete IFRS standards, we decided to adopt full IFRS for our SEC annual report.

In consequence, our financial statements filed with the SEC differ in certain material aspects related to the adoption of IFRS 9 and IAS 29.

A brief description of the inflation adjustment method of IAS 29, and a reconciliation between financial statements prepared in accordance with Central Bank rules, and with IFRS, is disclosed as follows:

IAS 29 Financial Reporting in Hyperinflationary Economies

IAS 29 establishes specific standards for entities reporting its financial statements in a functional currency that is the currency of a hyperinflationary economy.

In a hyperinflationary environment, financial statements, including comparative information, must be expressed in units of the functional currency current as at the end of the reporting period. Restatement to current units of currency is made using the change in a general price index.

Non-monetary items are restated using the change in the general price index between the date those items were acquired or incurred and the balance sheet date, while monetary items that are already stated at the measuring unit at the balance sheet date are not restated. The gain or loss on the net monetary position must be included in profit or loss for the period and must be disclosed separately.

Argentina met the criteria to be considered a hyperinflationary economy as provided by IAS 29 guidelines, which include, among other characteristics, a cumulative inflation rate over three years that approaches or exceeds 100%. Accordingly, IAS 29 must be applied for financial statements for fiscal years ending on or after July 1, 2018.

The general price index used to restate financial statements in units of the functional currency as at the end of the reporting period is the Consumer Price Index as published by the National Institute of Statistics (“INDEC”) on a monthly basis.

Restatement of financial statements in terms of currency current as of December 31, 2018:

Monetary items are already stated at the measuring unit at the balance sheet date, so they are not restated. Monetary items include cash, government and private securities, loans, other receivables, deposits, financial liabilities and other liabilities.

Non-monetary items are restated by applying the change in the CPI index since the date of acquisition (or latest revaluation) and the balance sheet date. Non-monetary items include fixed assets, goodwill, intangible assets, and shareholders’ equity.

Restatement of non-monetary assets increases their value and produces a gain, while restatement of non-monetary liabilities and shareholders’ equity increases its value producing a loss. The net gain or loss is disclosed separately in the income statement.

For financial institutions with mainly monetary assets and liabilities in their balance sheet, in most cases the inflation adjustment will produce a net loss, as assets exceed liabilities. It’s important to highlight that this loss is not tax deductible, so inflation losses impact directly the bottom line.

In addition, items of the income statement are also restated in units of the functional currency current as at the end of the reporting period, by applying the change in the CPI index from the date each income or expense was recorded.

Comparative information: Balance sheet and income statements from previous periods, shown as comparative information are also restated in units of the measuring currency at the end of the latest reporting period. Accordingly, figures from fiscal year 2017 are expressed in terms of functional currency current as at the end of December 31, 2018.

Income statement and balance sheet for the fiscal year ended December 31, 2018

Our financial statements filed with domestic regulators were prepared in accordance with Central Bank regulations, which adopted IFRS but excluded the adoption of IAS 29 and the impairment model of section 5.5 of IFRS 9

Instead, our 20F annual report include financial statements issued in accordance with IFRS as issued by the IASB.

The differences in our income statement and balance sheet for the fiscal year ended December 31, 2018 are summarized in the following charts (figures in million of pesos):

	Argentine banking GAAP	IFRS 9	IAS 29	full IFRS
Financial assets	135.652	-1.584	-17	134.051
Fixed assets	1.777	-	406	2.184
Intangible assets	1.962	-	749	2.711
Other assets	1.725	396	668	2.789
Total assets	141.116	-1.188	1.806	141.734
Financial liabilities	118.261	-	-2	118.259
Other liabilities	5.684	-	822	6.507
Total liabilities	123.945	-	821	124.766
Shareholders' equity	17.170	-1.188	986	16.968

	Argentine banking GAAP	IFRS 9	IAS 29	full IFRS
Net interest income	10.462	-	2.541	13.003
NIFFI & exchange rate diff.	6.421	-	1.017	7.437
Net financial income	16.883	-	3.557	20.440
Net service fee income	3.981	-	528	4.510
Income from insurance act.	658	-	191	849
Loan loss provisions	-4.221	-127	-832	-5.179
Personnel & Adm. expenses	-11.844	-	-2.535	-14.379
Other op. income and exp.	-2.050	-	-221	-2.271
Results from exposure to changes in the purchasing power of money	-	-	-6.015	-6.015
Profit before income tax	3.408	-127	-5.327	-2.046
Income tax	-815	32	-228	-1.011
Net income	2.593	-95	-5.555	-3.057