

Banco Hipotecario S.A.
Earnings Release - Fourth Quarter 2018

Banco Hipotecario cordially invites you to participate in its
Fourth Quarter 2018 conference call

Friday, Mar 8th, 2018, 11:00A EST

If you would like to participate, please call:

EEUU: (800) 288-8975
International: (612) 288-0329
PIN # 464701

Slideshow available at:

<https://www.webcaster4.com/Webcast/Page/970/29561>

Preferably 10 minutes before the call is due to begin.
The conference will be in English.

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Banco Hipotecario SA reports
Fourth Quarter 2018 consolidated results

Highlights

Executive Summary

- Net income for the year was Ps. 2,051.4 million, 81.5% higher than the Ps. 1,130.5 million of 2017. Net income for the last quarter was Ps. 508.2 million, compared to Ps. 542.2 million and Ps. 64.4 million of previous quarter and same quarter of last year, respectively.
- Net operating income for the year was Ps. 13,373.0 million, 18.9% higher than the Ps. 11,248.7 million of 2017. Net operating income for the quarter was Ps. 3,697.4 million, 9.4% higher than the Ps. 3,379.2 million of previous quarter and 6.3% higher than the Ps. 3,479.5 million of same quarter of last year.
- Operating income for the year was Ps. 2,812.4 million, 70.8% higher than the Ps. 1,646.1 million of 2017. Operating income for the quarter was Ps. 645.1 million, 6.8% lower than the Ps. 692.3 million of previous quarter and 193.5% higher than the Ps. 219.8 million of same quarter of last year.
- Loans to the non financial private sector decreased 7.7% QoQ and increased 12.5% YoY.
- Deposits increased 16.7% QoQ and 40.9% YoY, while corporate bonds decreased 6.2% QoQ and increased 19.1% YoY.
- On an individual basis, NPL increased from 1.7% in Q4 2017 to 3.8% in Q4 2018, while coverage ratio was 74.9% at the end of the year. On a consolidated basis, NPL increased from 3.8% in Q4 2017 to 6.0% in Q4 2018, while coverage ratio was 70.6% at the end of the year.
- Total capital ratio as a percentage of RWA as of December 31, 2018 was 12.71%, compared to 13.14% of same quarter of last year.
- After the end of the reported period, the Bank acquired IRSA Propiedades Comerciales S.A.'s stake in Tarshop S.A., and became the owner of the 100% of the capital stock. Additionally, pursuing the optimization of Tarshop's business by focusing on personal loans origination to improve its profitability, the Bank acquired the contractual position over Tarshop's credit card portfolio, and all contracts related to that operation.

Buenos Aires, Mar 6th, 2019

I. Banco Hipotecario Consolidation

Banco Hipotecario S.A. has consolidated line by line its balance sheet and income statement with the financial statements of its subsidiaries: BACS Banco de Crédito y Securitización S.A., BH Valores S.A., BHN Sociedad de Inversión S.A. and Tarshop S.A. The consolidated financial statements as of December 31th, 2018 were prepared under IFRS according to Central Bank's convergence plan (Communication "A" 5541 and its modifications). Provisions under IFRS 9 (5.5) and inflation adjustment will be implemented starting on January 1st, 2020 (Communications "A" 6430 and "A" 6651).

II. Q4 2018 consolidated results

Net income for the year was Ps. 2,051.4 million, compared to Ps. 1,130.5 million of last year, which represents an increase of 81.5%.

Regarding profitability ratios, the ROAA for 2018 was 2.71% compared to 1.92% for 2017, while ROAE for the same periods were 23.12% and 15.76%, respectively.

Income statement (in millions of pesos)	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Interest Income	14,897.2	10,250.7	45.3%
Interest Expense	(12,733.0)	(6,252.4)	103.6%
Net Interest Income	2,164.2	3,998.3	(45.9)%
Fee Income	4,152.6	3,599.4	15.4%
Fee Expense	(684.9)	(599.5)	14.2%
Net Fee Income	3,467.8	2,999.9	15.6%
Net Income from financial instruments at Fair Value through profit & Loss	5,930.0	1,800.3	229.4%
Difference in quoted prices of gold and foreign currency	(710.9)	(96.1)	N/A
Other operating income	4,350.7	3,708.9	17.3%
Provision for loan losses	(1,828.9)	(1,162.6)	57.3%
Net Operating Income	13,373.0	11,248.7	18.9%
Personnel expenses	(3,800.4)	(3,838.0)	(1.0)%
Administrative expenses	(3,050.6)	(2,611.7)	16.8%
Depreciation and impairment of assets	(444.2)	(145.0)	206.4%
Other operating expenses	(3,265.4)	(3,007.9)	8.6%
Operating Income	2,812.4	1,646.1	70.8%
Income tax from continuing operations	(754.3)	(518.2)	45.5%
Net income of the period attributable to non-controlling interests	(6.7)	2.6	N/A
Net Income	2,051.4	1,130.5	81.5%

Net interest income for the year was Ps. 2,164.2 million; representing a 45.9% decrease YoY.

Interest income for the year was Ps. 14,897.2 million; representing a 45.3% increase YoY. This was mainly due to the increase in interest from public and corporate securities and interest from the loan portfolio.

Interest Income

(in millions of pesos)

	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Interest on cash and due from banks	16.2	0.4	N/A
Interest from loans to the financial sector	133.4	105.1	27.0%
Interest from public and corporate securities	516.4	242.4	113.0%
Interest on overdrafts	308.2	155.0	98.8%
Interest on documents	171.1	186.5	(8.3)%
Interest on pledge loans	88.7	113.0	(21.5)%
Interest on financial leases	38.6	38.3	0.6%
Interest on other loans	1,705.5	935.8	82.3%
Income from adjustments	91.0	-	N/A
Interest from commercial loans	2,403.0	1,428.6	68.2%
Interest on personal loans	3,291.7	2,324.7	41.6%
Interest on credit card loans	7,064.7	5,041.2	40.1%
Interest from consumer loans	10,356.3	7,365.9	40.6%
Interest on mortgage loans	571.3	597.5	(4.4)%
Interest on other receivables from financial operations	15.5	17.8	(12.9)%
Income from adjustments	754.8	118.9	N/A
Interest from mortgage loans	1,341.6	734.2	82.7%
Others	130.2	374.0	(65.2)%
Total	14,897.2	10,250.7	45.3%

Interest expense for the year was Ps. 12,733.0 million; representing a 103.6% increase YoY. This was mainly due to the increase in interest from deposits and interest from corporate bonds.

Interest Expense

(in millions of pesos)

	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Interest on checking accounts	(1,015.6)	(122.2)	N/A
Interest on saving accounts	(9.0)	(5.0)	82.7%
Interest on time deposits	(3,444.6)	(2,179.8)	58.0%
Expense from adjustments	(288.7)	(43.9)	N/A
Interest from deposits	(4,758.0)	(2,350.8)	102.4%
Interest from other liabilities from financial operations	(6,934.9)	(3,569.6)	94.3%
Expense from adjustments	(741.2)	(136.0)	N/A
Interest from corporate bonds	(7,676.1)	(3,705.5)	107.2%
Interest on interfinancial loans	(44.0)	(15.7)	180.0%
Interest on other financing from financial institutions	(138.0)	(104.9)	31.6%
Others	(116.8)	(75.5)	54.8%
Total	(12,733.0)	(6,252.4)	103.6%

Net fee income for the year was Ps. 3,467.8 million; representing a 15.6% increase YoY.

Net Fee Income

(in millions of pesos)

	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Fee Income			
Fee charged on consumer clients	4,017.9	3,246.9	23.7%
Fee charged on SME clients	3.4	12.9	(73.7)%
Fee charged on corporate clients	0.0	56.6	(100.0)%
Insurance fee	38.8	212.2	(81.7)%
Fee charged on liability transactions	63.0	38.6	63.3%
Others	29.5	32.2	(8.3)%
Total	4,152.6	3,599.4	15.4%
Fee Expense			
Credit related fees	(609.9)	(482.3)	26.5%
Debt placement charges	(69.4)	(113.3)	(38.8)%
Others	(5.6)	(3.9)	43.2%
Total	(684.9)	(599.5)	14.2%
Net Fee Income	3,467.8	2,999.9	15.6%

Net income from financial instruments at fair value through profit and loss for the year was Ps. 5,930.0 million, representing a 229.4% increase YoY.

Net Income from financial instruments at Fair Value through profit & Loss

(in millions of pesos)

	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Income from public securities	5,702.0	1,786.2	219.2%
Income from private securities	198.2	284.4	(30.3)%
Income from FX forward transactions	26.2	(273.5)	(109.6)%
Income from corporate bonds	24.5	7.7	216.5%
Income from interest rate swaps	-	3.4	(100.0)%
Income from financial trusts	(20.9)	(7.9)	163.6%
Total	5,930.0	1,800.3	229.4%

Other operating income for the year was Ps. 4,350.7 million, representing a 17.3% increase YoY.

Other operating income

(in millions of pesos)

	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Loan related services	2,883.1	2,702.3	6.7%
Fee charged on liability transactions	138.0	104.4	32.1%
Other income from services	389.2	375.0	3.8%
Penalty interest	182.6	116.6	56.6%
Recovered loans	174.0	168.5	3.2%
Others	583.8	242.1	141.2%
Total	4,350.7	3,708.9	17.3%

Provision for loan losses for the year was Ps. 1,828.9 million, representing a 57.3% YoY.

Personnel expenses for the year were Ps. 3,800.4 million, representing a 1.0% decrease YoY.

Administrative expenses for the year were Ps. 3,050.6 million, representing a 16.8% increase YoY.

Administrative expenses

(in millions of pesos)

	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Directors fees	(201.2)	(149.7)	34.4%
Other fees	(1,133.8)	(924.6)	22.6%
Advertising and publicity	(139.4)	(123.8)	12.6%
Taxes	(416.3)	(377.5)	10.3%
Maintenance and conservation fees	(225.1)	(221.8)	1.5%
Electricity, gas and communications	(275.8)	(220.6)	25.0%
Others	(658.9)	(593.8)	11.0%
Total	(3,050.6)	(2,611.7)	16.8%

Other operating expenses for the year were Ps. 3,265.4 million, representing a 8.6% increase YoY.

Other operating expenses

(in millions of pesos)

	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Turnover tax and others	(1,778.5)	(1,309.6)	35.8%
Deposit Guarantee Fund contributions	(44.3)	(33.9)	30.4%
Loan related services	(1,056.8)	(1,227.3)	(13.9)%
Other provision charges	(95.1)	(215.9)	(55.9)%
Discounts	(80.7)	(80.0)	0.9%
Others	(210.0)	(141.1)	48.8%
Total	(3,265.4)	(3,007.9)	8.6%

Non financial private sector loan portfolio totaled Ps. 45,161.8 million at the end of 2018; representing a 12.5% increase YoY.

Loans to the non-financial private sector

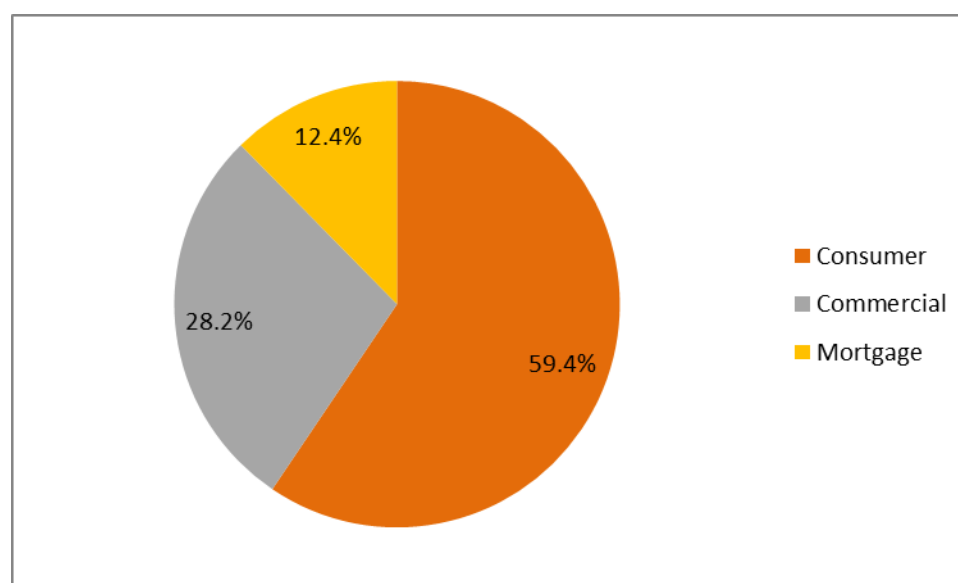
(in millions of pesos)

	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Overdrafts	595.1	1,221.5	(51.3)%
Documents	303.5	846.4	(64.1)%
Mortgage loans	5,375.7	4,088.2	31.5%
Pledge loans	201.3	271.7	(25.9)%
Personal loans	8,536.2	7,574.9	12.7%
Credit card loans	18,241.9	17,263.2	5.7%
Financial leases	122.3	159.9	(23.5)%
Loans to the personnel	285.7	208.2	37.3%
Unallocated collections	(6.3)	(41.6)	(84.9)%
Other	10,951.6	8,264.9	32.5%
Accrued interest and quotation differences receivable	626.4	367.5	70.4%
Documented interest	(71.8)	(68.6)	4.6%
Total	45,161.8	40,156.2	12.5%

BH's non financial private sector loan portfolio composition as of December 31, 2018 was 71.8% of retail financing and housing loans (59.4% consumer and 12.4% housing) and 28.2% of corporate loans, providing a highly diversified client base.

Loan Portfolio Diversification

(Non-financial Private Sector Loans)
Q4 2018



On an individual basis, NPL increased from 1.7% in Q4 2017 to 3.8% in Q4 2018, while coverage ratio was 74.9% at the end of the year. On a consolidated basis, NPL increased from 3.8% in Q4 2017 to 6.0% in Q4 2018, while coverage ratio was 70.6% at the end of the year.

On Feb 28th, 2019, the Central Bank required the Bank to reclassify certain commercial portfolio debtors. As of the date of this release, the Bank is analyzing this request.

Notwithstanding what has been said above, the Bank's Board considers that the loan loss provisions related to those debtors as of Dec 31, 2018, were determined in accordance with the Central Bank's debt classification system and reflect the conclusions of the analysis of each debtor's available information as of that date.

Non-performing loans (in millions of pesos)	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Non-performing loans*	1,569.7	596.8	163.0%
Total portfolio*	41,696.5	34,685.3	20.2%
Allowances*	1,175.3	638.9	83.9%
Non-performing loans**	2,934.2	1,618.1	81.3%
Total portfolio**	48,583.4	42,771.9	13.6%
Allowances**	2,071.5	1,383.4	49.7%
Ratios (%)	-		
Non-performing portfolio / Total portfolio*	3.8%	1.7%	
Allowances / Non-performing portfolio*	74.9%	107.1%	
Non-performing portfolio / Total portfolio**	6.0%	3.8%	
Allowances / Non-performing portfolio**	70.6%	85.5%	

* Individual level

** Consolidated level

Deposits totaled Ps. 29,307.6 million, representing a 40.9% increase YoY, while corporate bonds totaled Ps. 31,660.5 million, representing a 19.1% increase YoY.

Funding (in millions of pesos)	For the year ended				Variation (%)
	31/12/18		31/12/17		YoY
	Ps.	%	Ps.	%	
Deposits	29,307.6	48.1%	20,803.8	43.9%	40.9%
Local corporate bonds	9,054.2	14.9%	8,040.5	17.0%	12.6%
International corporate bonds	22,606.3	37.1%	18,549.3	39.1%	21.9%
Corporate bonds	31,660.5	51.9%	26,589.8	56.1%	19.1%
Total	60,968.0	100.0%	47,393.6	100.0%	28.6%

Comparative consolidated balance sheet

(in millions of pesos)

	As of		Variation (%)
	31/12/18	31/12/17	YoY
Assets			
Cash and deposits in banks	8,832.8	3,951.5	123.5%
Debt securities at fair value through profit and loss	19,287.9	14,867.8	29.7%
Derivatives	69.5	46.2	50.3%
Repo transactions	589.5	115.2	N/A
Loans and other receivables	2,311.1	1,735.7	33.1%
Non financial public sector	29.1	89.6	(67.5)%
Financial sector	415.9	456.3	(8.8)%
Non financial private sector and foreign	45,161.8	40,156.2	12.5%
Allow ances	(2,040.2)	(1,357.5)	50.3%
Loans, net of allow ances	43,566.7	39,344.6	10.7%
Other debt securities	1,700.0	618.2	175.0%
Financial assets in guarantee	2,007.1	2,187.8	(8.3)%
Investment in other companies, subsidiaries and joint ventures	13.4	10.9	23.1%
Property, plant and equipment	1,497.4	2,819.2	(46.9)%
Others	4,686.3	868.2	N/A
Total Assets	84,561.6	66,565.3	27.0%
Liabilities			
Deposits	29,307.6	20,803.8	40.9%
Liabilities at fair value through profit and loss	751.5	-	N/A
Derivatives	136.3	65.8	107.3%
Repo transactions	65.2	1,061.6	(93.9)%
Other financial liabilities	7,547.8	5,809.1	29.9%
Financing received from Central Bank and other financial institutions	657.7	496.0	32.6%
Issued corporate bonds	31,660.5	26,589.8	19.1%
Current income tax liabilities	434.0	168.1	158.2%
Subordinated corporate bonds	-	-	N/A
Provisions	306.9	397.6	(22.8)%
Deferred income tax liabilities	-	-	N/A
Other non financial liabilities	3,603.0	2,938.4	22.6%
Total Liabilities	74,470.4	58,330.2	27.7%
Shareholders' Equity attributable to non controlling interest	292.4	287.9	1.6%
Shareholders' Equity attributable to controlling interest	9,798.8	7,947.2	23.3%
Total Shareholders' Equity	10,091.2	8,235.1	22.5%

Comparative consolidated income statement (in millions of pesos)	For the year ended		Variation (%)
	31/12/18	31/12/17	YoY
Interest Income	14,051.4	10,131.8	38.7%
Income from adjustments	845.9	118.9	N/A
Interest Expense	(11,703.1)	(6,072.6)	92.7%
Expenses from adjustments	(1,029.9)	(179.9)	N/A
Net Interest Income	2,164.2	3,998.3	(45.9)%
Fee Income	4,152.6	3,599.4	15.4%
Fee Expense	(684.9)	(599.5)	14.2%
Net Fee Income	3,467.8	2,999.9	15.6%
Net Income from financial instruments at Fair Value through profit & Loss	5,930.0	1,800.3	229.4%
Difference in quoted prices of gold and foreign currency	(710.9)	(96.1)	N/A
Other operating income	4,350.7	3,708.9	17.3%
Provision for loan losses	(1,828.9)	(1,162.6)	57.3%
Net Operating Income	13,373.0	11,248.7	18.9%
Personnel expenses	(3,800.4)	(3,838.0)	(1.0)%
Administrative expenses	(3,050.6)	(2,611.7)	16.8%
Depreciation and impairment of assets	(444.2)	(145.0)	206.4%
Other operating expenses	(3,265.4)	(3,007.9)	8.6%
Operating Income	2,812.4	1,646.1	70.8%
Income before income tax from continuing operations	2,812.4	1,646.1	70.8%
Income tax from continuing operations	(754.3)	(518.2)	45.5%
Net income of the period attributable to non-controlling interests	(6.7)	2.6	N/A
Net Income	2,051.4	1,130.5	81.5%

Statistic data and comparative ratios	For the year ended	
	31/12/18	31/12/17
Profitability		
ROAA (return on average assets)	2.71%	1.92%
ROAE (return on average equity)	23.12%	15.76%
Net financial margin*	9.77%	9.70%
Efficiency**	62.97%	69.5%
Capital		
Shareholders' Equity / Total Assets	11.59%	11.94%
CET I Ratio	12.10%	12.45%
Tier 1 Ratio	12.13%	12.50%
Total Capital Ratio	12.71%	13.14%
Liquidity		
Liquid Assets / Deposits	101.8%	93.4%
Loans / Deposits	148.7%	189.1%

* (Annualized net interest income + annualized Net Income from financial instruments at Fair Value through profit and loss + annualized Difference in quoted prices of gold and foreign currency) / Average Assets

** (Personnel expenses + administrative expenses + depreciation and impairment of assets) /

(Net Interest Income + Net Fee Income + Net Income from financial instruments at Fair Value through profit and loss + difference in quoted prices of gold and foreign currency + other items included in income and operating expenses)

III. Fourth quarter Consolidated Statement of Income

Net income for the fourth quarter was Ps. 508.2 million, compared to Ps. 542.2 million and Ps. 64.4 million of previous quarter and same quarter last year, respectively.

Regarding profitability ratios, the annualized ROAA for the 4Q2018 was 2.71% compared to 2.74% for the previous quarter and 1.92% for the 4Q2017. While annualized ROAE for the same periods were 23.12%, 23.87% and 15.76%, respectively.

Income statement (in millions of pesos)	For the 3 month period ended			Variation (%)	
	31/12/18	30/09/18	31/12/17	QoQ	YoY
Interest Income	4,605.8	3,898.0	2,897.1	18.2%	59.0%
Interest Expense	(4,495.9)	(3,350.5)	(1,920.1)	34.2%	134.2%
Net Interest Income	109.9	547.5	977.0	(79.9)%	(88.8)%
Fee Income	921.8	1,134.1	1,006.4	(18.7)%	(8.4)%
Fee Expense	(147.5)	(185.1)	(184.2)	(20.3)%	(19.9)%
Net Fee Income	774.3	949.1	822.2	(18.4)%	(5.8)%
Net Income from financial instruments at Fair Value through profit & Loss	2,485.6	1,212.5	843.8	105.0%	194.6%
Difference in quoted prices of gold and foreign currency	(616.0)	393.7	(55.5)	(256.5)%	N/A
Other operating income	1,492.4	756.9	1,258.7	97.2%	18.6%
Provision for loan losses	(548.8)	(480.4)	(366.7)	14.2%	49.7%
Net Operating Income	3,697.4	3,379.2	3,479.5	9.4%	6.3%
Personnel expenses	(1,130.1)	(953.3)	(1,448.3)	18.5%	(22.0)%
Administrative expenses	(764.5)	(834.9)	(689.4)	(8.4)%	10.9%
Depreciation and impairment of assets	(332.3)	(37.1)	(34.3)	N/A	N/A
Other operating expenses	(825.4)	(861.6)	(1,087.7)	(4.2)%	(24.1)%
Operating Income	645.1	692.3	219.8	(6.8)%	193.5%
Income tax from continuing operations	(155.4)	(146.9)	(173.2)	5.7%	(10.3)%
Net income of the period attributable to non-controlling interests	18.5	(3.2)	17.8	N/A	3.6%
Net Income	508.2	542.2	64.4	(6.3)%	N/A

IV. Next quarter and 2019 perspectives

The next quarter and 2019 perspectives for the Bank are based on:

- ✓ Continue with the development of sustainable housing solutions.
- ✓ Increase the corporate business, while maintaining the presence in the consumer business.
- ✓ Increase the profitability of the client base and enhance the distribution capacity through the implementation of the digital strategy.
- ✓ Sustain a balanced asset and liability structure in order to hedge the different tenors and currencies.
- ✓ Increase efficiency and continue with the rationalization of expenses.

Saúl Zang
2° Vice-Chairman

Assets and liabilities denominated in foreign currency as of December 31, 2018 were converted to pesos at the exchange rate of Ps. 37.8083/USD1.00 and Ps. 43.11749/EUR1.00, which was the reference exchange rate published by the Central Bank on such date.

Unless otherwise indicated, all figures are stated in millions of pesos.

Disclaimer

Any comment made in this release in relation to future events is subject to many conditions and risks detailed and described in our Offering Memorandums and financial statements available at our website (www.hipotecario.com.ar / Institutional / Financial Information and Bonds). The words "believe," "may," "will," "aim," "estimate," "continue," "anticipate," "intend," "expect" 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 regulation and the effects of competition. This release is a summary analysis of Banco Hipotecario's financial condition and results of operations as of and for the period indicated, which might have certain reclassification from the Financial Statements. For a correct interpretation, this release must be read in conjunction with all other material periodically filed with the Comisión Nacional de Valores (www.cnv.gov.ar) and the Bolsa de Comercio de Buenos Aires (www.bolsar.com). In addition, the Central Bank (www.bcra.gov.ar) may publish information related to Banco Hipotecario as of a date subsequent to the last date for which the Bank has published information.