

# BBVA Argentina's 2Q20 Conference Call Script

## ***Operator's speech***

Good Morning, ladies and gentlemen and thank you for waiting. At this time, we would like to welcome everyone to BBVA Argentina's 2Q20 Results Conference Call.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during company presentation. After company remarks are completed, there will be a question and answer section. At that time further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach the operator.

First of all, let me stress that some of the statements made during this conference call may be forward-looking statements, within the meaning of the Safe Harbor provisions found in Section 27A of the Securities Act of 1933 under US Federal Securities Law. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Additional information concerning these factors is contained in BBVA Argentina's Annual report on Form 20-F for the Fiscal Year 2019, filed with the US Securities and Exchange Commission.

Today with us we have Mr. Ernesto Gallardo, CFO, Mrs. Ines Lanusse, IRO and Mr. Javier Kelly, Investor Relations Manager.

Mr. Kelly, you may begin your conference.

## ***Javier Kelly***

Hello everyone, and welcome to the BBVA Argentina earnings conference call for the discussion of our second quarter 2020 results.

Before we begin our formal remarks, allow me to remind you that certain statements made during the course of the discussion may constitute forward-looking statements, which are based on management's current expectations and beliefs and are subject to a number of risks and uncertainties that could cause actual results to materially differ, including factors that may be beyond the company's control. For a description of these risks, please refer to our filings with the SEC and our earnings release, which are available at our investor relations website [ir.bbva.com.ar](http://ir.bbva.com.ar).

Speaking during today's will be Inés Lanusse, also joining us today is Ernesto Gallardo our Chief Financial Officer, who will be available for the Q&A session.

Please note that starting January first 2020, as per Central Bank regulation, we have begun reporting results applying hyperinflation accounting in accordance with IFRS Rule IAS 29. For ease of comparability, figures for all quarters of 2019 have been restated applying IAS 29 to reflect the accumulated effect of the inflation adjustment for each period through June 30, 2020.

Now, let me turn the call over to Inés...

**Inés Lanusse**

Thanks you Javier, and thank all of you for joining us on our second quarter 2020 earnings conference call.

We hope you and your beloved ones are healthy and safe on this challenging times.

From the beginning of the pandemic, BBVA Argentina has prioritized its clients' and employees' safety, both in central offices as in the branch network. In particular, branches have applied the necessary protection measures, in line with the highest security standards, to minimize risk in interaction.

The Bank has shown great adaptive capacity; on the one hand, by the agile incorporation of all Covid-19 support measures, and on the other hand, by making them available to clients through different channels, thus providing an efficient service to clients during the pandemic. All this has been possible thanks to the investment in digitalization done during the last years, providing all its services through digital channels, both to retail and corporate clients.

The penetration of digital clients reached 69.3% from 67.7% and the penetration of mobile clients reached 57.4% from 56.1% in the prior quarter.

In this unprecedented times, the Bank has once again demonstrated its resilience, maintaining a sound liquidity, solid levels of capital, well above regulatory requirements, and has also been able to improve its loans portfolio quality.

On the other hand, through the efficiency plan implemented during the fourth quarter of last year, the Bank has been able to reduce its expenses in a sustained manner for two quarters in-a-row.

Now I will comment on the bank's second quarter 2020 financial results. All figures mentioned hereinafter are measured in current currency at the end of the reporting period, including the corresponding financial figures for previous periods provided for comparative purposes, unless otherwise noted.

BBVA Argentina's second quarter 2020 net income; including inflation adjustments effects; totaled 2.6 billion pesos, 21.9% lower than the 3.3 billion pesos posted a quarter ago, and 70.1% lower than the 8.6 billion pesos posted a year ago. The Quarter-over-Quarter decrease is mainly explained by the fall in the economic activity as a consequence of the mandatory lockdown due to the Covid-19 pandemic, and the sharp decline in interest rates, derived from changes in the country's monetary policy set by the Central Bank, among other regulations also conducted by the Central Bank.

The year-over-year decrease is partially explained by the \$1.1 billion peso dividend we received as a consequence of our participation in Prisma during the 2Q19.

In the quarter, net interest income totaled 15.9 billion pesos, 13.9% lower than the result posted in the 1Q20 and 17.1% lower than the result posted during the 2Q19.

These variations were mainly explained by the decrease in the average yield of the central bank Leliq, which was partially offset by the decrease in peso cost of funds following the trend of decreasing market interest rates and an increase in sight deposits.

The quarter-over-quarter performance can be traced to the decline in active interest rates, driven by the credit support measures promoted by the Government to counteract the effects of the pandemic,

and by the contraction in government securities as a consequence of the monetary policy implemented by the government.

Income from government securities fell by 10.2% or 673 million pesos compared to 1Q20, and 52.7% or 6.6 billion pesos compared to 1Q19. This is explained by the decrease in monetary policy rate promoted by the BCRA. This contraction was offset by an increase in the position in LELIQ, derived from the new regulation that enables a higher position in LELIQ in line with what was granted in time deposits at minimum rate.

Interest income from loans and other financing totaled \$14.2 billion pesos, decreasing 10.7% or \$1.7 billion pesos QoQ. This is mainly explained by the implementation of credit lines to SMEs at 24%, zero rate credit lines and the lower credit card financing rate.

In 2Q20, interest from time deposits represented 79.1% of the Bank's total interest expense, decreasing 24.8% in the quarter and 56% in the year.

Net fee income amounted to 3.1 billion pesos, 57.3% or 1.1 billion pesos higher quarter-over-quarter as result of a commercial reward received during the quarter, plus the savings generated by the lower expenses related to credit card benefits as a result of the lower activity due to the extension of the mandatory lockdown. These effects more than offset the fall in activity due to the effects of the pandemic.

Net income from financial instruments at fair value decreased sequentially, totaling \$1.0 billion pesos vis-à-vis 1.3 billion pesos in the prior quarter. This is explained by the lower volume in forward transactions, as a consequence of the lower activity driven by the regulation and the broad spread between the blue-chip swap and the official dollar rate.

In 2Q20, FX gains, including foreign currency forward transaction, totaled 1.5 billion pesos decreasing 3.2% quarter over quarter. This is a consequence of the lower activity due to the regulatory changes implemented to the exchange market, partially offset by an increase in the income generated from the purchase and sale of foreign currency.

Moving on to expenses. For the second quarter in a row, we experienced a sequential contraction in the personnel and administration expenses line. During 2Q20, personnel and administrative expenses totaled 7.8 billion pesos, decreasing 7.8% quarter-over-quarter and 6% year-over-year.

Personnel benefits contracted 15.2% in the quarter, reaching 4.0 billion pesos, generating saving for over 700 million pesos. This is a consequence of the efficiency plan we put in place during the fourth quarter of last year.

Administrative expenses grew 1.3% in the quarter, this increase is a consequence of the adjustments we had to make in order to continue operating during the pandemic.

As of June 2020, the quarterly efficiency ratio remained stable sequentially, reaching 47.4%, and worsening from the 36.1% posted in 2Q19. This is consequence of a steeper contraction in the income, which is not offset by the savings generated in expenses.

In 2Q20, Other Operational Expenses contracted 26.7% or 939 million pesos, this decrease in explained by the decline in Other allowances, due to unused checking accounts' overdrafts.

In terms of activity, the bank's financing to the private sector totaled 250.4 billion pesos, increasing 5.4% quarter-over-quarter in real terms and decreasing 5.0% year-over-year also in real terms. BBVA Argentina consolidated market share over the private sector loans as of June 2020 increased for second quarter in a row reaching 8.54%.

Private loans denominated in pesos grew 11.1% quarter-over-quarter in real terms, and 30.2% in the year, also in real terms. Dollar-denominated loans, decreased 19.6% quarter-over-quarter measured in pesos and 26.4% measured in dollars.

Regarding the retail portfolio (including mortgage loans, pledge loans, personal loans and credit cards), these have decreased 0.2% sequentially and grew 0.9% Year-over-Year. In the quarter, the steepest decline can be seen in the pledge and consumer loans, both declining 15.2% and 5.5% respectively. This decline was partially offset by the increase in credit card consumption boosted by zero rate credit lines and Ahora 12 programs.

Commercial loans, including overdrafts, discounted instruments, leasing, Comex other loans, grew 11.6% QoQ and fell 10.3% YoY.

The quarterly increase is mainly explained by the strong growth of the other loans line, especially past-due-interest corporate loans, which grew 63.2% or \$18.5 billion pesos in the quarter, followed by discounted instruments that grew 9.0% or 2.0 billion pesos in the quarter.

As of June 30, the Bank has disbursed more than 20.5 billion pesos in loans to more than 9,000 SMEs, to be allocated in payroll payments, discounted documents and working capital at a 24 nominal annual rate.

As of June of this year, BBVA Argentina has disbursed 1.8 billion pesos of FoGAr guaranteed loans and 7 million pesos in loans for self-employed individuals at 0% rate

In the 2Q20 gross loans-to-deposits ratio was 68% compare to 67.5% a year ago.

As of June 2019, asset quality, measured as total non-performing portfolio over total portfolio, reached 1.56%, the lowest in the last 12 months, the ratio was positively affected by the temporary flexibility the BCRA implemented as a consequence of the COVID-19 pandemic, in which extends grace periods in 60 days. But the greatest impact was that during the second quarter of the year the bank proceeded to perform Molinos Cañuelas debt write-off, which at the moment of the write-off amounted to 2.7 billion pesos.

Coverage ratio reached 268.38%. This is explained by a decrease in non-performing loans, mainly as a consequence of Molinos Cañuela's write-off.

Allowances in 2Q20 reflect expected losses driven by the adoption of the IFRS 9 standards as of January 1, 2020, excluding subsidiaries (PSA and VWFS) which will start implementing IFRS 9 as of 2021 pursuant to BCRA regulation. Additionally, application of the IFRS 9 impairment model is temporarily excluded for non-financial public sector debt instruments.

Regarding exposure to the public sector (excluding Central Bank Instruments), this quarter BBVA Argentina decreased its exposure – measured as percentage of total assets - reaching 3.3%.

In the quarter, our total exposure to the public sector excluding Central Bank notes was \$17.8 billion pesos, down from \$19.3 billion pesos in the prior quarter. This exposure is all denominated in pesos or in US dollar linked securities, since the bank swapped all of its Lete's position in the May voluntary swap.

After the end of the quarter, on July 17, 2020, the Bank participated in the voluntary swap offered by the National Treasury, and swapped 100% of its remaining position in LELINK in exchange of BONCER maturing in 2023 and 2024.

On the funding side, private sector deposits in the second quarter of 2020 totaled \$367 billion pesos, up 7.6% sequentially and down 8.5% when compared with the 1Q19 in real terms.

Private sector deposits in local currency were \$254 billion pesos, increasing 14.6% QoQ and 20.1% YoY. This is mainly explained by the strong growth in time deposits, savings accounts and checking accounts, which offsets the quarterly fall in interest-bearing checking accounts.

Private sector deposits in foreign currency decreased both measured in pesos and in dollars. During 2Q19, U.S. dollar deposit withdrawal continued, but at a slower pace than that observed during the last months of 2019.

As of June 2020, BBVA's transactional accounts (including checking and saving accounts) represented 66.4% of total deposits from 64.5% a year ago, evidencing the ability of the bank to improve the funding mix.

BBVA Argentina consolidated market share over the private sector deposits as of June 2020 reached 6.5%.

In terms of capitalization, BBVA Argentina accounted an excess capital of ARS 53.2 billion pesos, which represented a total regulatory capital ratio of 21.9% and a Tier 1 ratio of 21.2%.

The bank's aim is to make the best use of this excess capital. The bank's liquidity ratio in pesos and dollars remained healthy at 56.5% and 80.3% of total deposit as of June 30 respectively.

This concludes our prepared remarks. We will now take your questions. Operator, please open the line for questions.

## **[Q&A]**

Thank you operator and thank you all for joining us today. We appreciate your interest in our company. We look forward to meeting more of you over the upcoming months and providing financial and business updates next quarter. As usual, if you have any further questions, please do not hesitate to reach us and we'll be happy to follow-up. Thank you, and enjoy the rest of your day.