

BBVA Argentina's second quarter 2023 fiscal year results 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 second quarter 2023 fiscal year 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 point out 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 2022, filed with the US Securities and Exchange Commission.

Today with us we have Mrs. Carmen Morillo Arroyo, CFO, Mrs. Ines Lanusse, IRO and Ms. Belen Fourcade, Investor Relations.

Ms. Fourcade, you may begin your conference.

Belen Fourcade

Good morning and welcome to BBVA Argentina's second quarter 2023 fiscal year result Conference Call. Today's webinar will be supported by a slide presentation available on our investor relations website on the Financial Information section.

Speaking during today's call will be Inés Lanusse, our Investor Relations Officer, and Carmen Morillo Arroyo, 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 pursuant to IFRS Rule IAS 29. For ease of comparability, 2022 and 2023 figures have been restated to reflect the accumulated effect of the inflation adjustment for each period through June 30th, 2023.

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

Inés Lanusse

Thank you Belen, and thank you all for joining us today.

As we are all aware, on Sunday August 13, Javier Milei, the candidate for "La Libertad Avanza", was the most voted in the primary presidential elections, quite above from what surveys were estimating. This implies a higher uncertainty scenario facing the general elections of October and it is expectable that high volatility will persist.

At the same time, the unfavorable macroeconomic conditions have continued to deteriorate, increasing the risk of economic and financial turbulence ahead of the presidential elections scheduled for the last quarter of the year. GDP is expected to fall by around 3.5% this year according to BBVA Research, due to the impact of the negative weather shock on the production and export of agricultural goods, coupled with increasing exchange rate restrictions and political uncertainty. In this context, its impact on the external and fiscal accounts has contributed to accelerate the exchange rate depreciation and inflation, which in annual terms reached 113.4% as of July 2023.

Referring to BBVA Argentina's general performance, a better operating income as of June 2023 was a product of an improvement in interest income, boosted especially by government securities and liquidity instruments, and better fee income.

[Slide 3]

Now...moving into business dynamics, as you can see on slide 3 of our webcast presentation, our service offering has evolved in such way that by the end of June 2023, retail digital client penetration reached 62% remaining stable from a year back, while that of retail mobile clients reached 56% from 54% as of the same period of last year. The response on the side of customers has been satisfactory, and we are convinced this is the path to pursue, in the aim of sustaining and expanding our competitive position in the financial system.

Retail digital sales, measured in units, have increased from 90.8% in 2Q22 to 93.9% in 2Q23, and represent 71.8% of the Banks total sales measured in monetary value, vs 57.1% in 2Q22.

New customer acquisition through digital channels reached 75% in 2Q23, from 70% in 2Q22.

The Bank actively monitors its business, financial conditions and operating results, in the aim of keeping a competitive position to face contextual challenges.

[Slide 4]

Moving to slide 4, I will now comment on the bank's 2Q23 financial results.

BBVA Argentina 2Q23 net income was 30.4 billion pesos, increasing 63.3% quarter-over-quarter. This implied a quarterly ROE of 21.3% and a quarterly ROA of 3.9%.

Operating income in 2Q23 was 125.3 billion pesos, 28.6% above the 97.5 billion pesos recorded in 1Q23.

Quarterly operating results are mainly explained by (1) better interest income results through public securities and liquidity instruments, (2) better fee income, and (3) higher net income from write-down of assets at fair value through OCI, mainly due to the voluntary bond swap offered in June by the National Treasury.

This effect was partially offset by (1) an increase in other operating expenses, pushed by greater turnover tax due to a higher LELIQ position, (2) an increase in personnel expenses, and (3) an increase in administrative expenses.

Net Income for the period was highly impacted by income from net monetary position, as inflation increased from 21.7% in 1Q23 to 23.8% in 2Q23.

[Slide 5 & 6]

Turning into the P&L lines in slide 5 & 6, net interest income for the 2Q23 was 185.5 billion pesos, increasing 14.2% QoQ.

In 2Q23, interest income, in monetary terms, increased more than interest expense, mainly due to (1) an increase in income from CER/UVA adjustments, driven by public securities with this adjustment, and (2) a higher position and yield of public securities, in particular of LELIQ. Additionally, there is a positive effect from income from loans, mainly discounted instruments, and from REPO operations.

In 2Q23, interest income totaled 371.2 billion pesos, increasing 20.3% compared to 1Q23. , In the quarter, monetary policy rate gradually increased from 78% at the beginning of the quarter up to 97% at quarter end.

Interest expenses totaled 185.7 billion pesos, denoting a 27.1% increase QoQ. Quarterly increase is described by higher time deposit expenses.

Interests from time deposits (including investment accounts) explain 77.7% of interest expenses, versus 82.8% the previous quarter.

Net fee income as of 2Q23 totaled 23.7 billion pesos, increasing 69.3% QoQ, in real terms.

In 2Q23, fee income totaled 33.4 billion pesos, growing 22.6% QoQ. The quarterly increase is mainly explained by an increment of fees from credit cards, considering that this line includes Puntos BBVA royalty program.

Regarding fee expenses, these totaled 9.6 billion pesos, falling 27%

In 2Q23, loan loss allowances increased only 9.6%, due to the good performance of our portfolio.

During 2Q23, total operating expenses were 92.6 billion pesos, increasing 8.4% QoQ, of which 31% were personnel benefits costs.

Personnel benefits increased 6.3% QoQ. The quarterly increase is mainly explained by the inflation adjustment of vacation stock provisions. Quarterly increases were also affected by the 25.8% collective agreement on wages, which implies a 56% accumulated increase as of 2Q23.

As of 2Q23, administrative expenses increased 5% QoQ. The quarterly increase is mainly explained by (1) outsourced administrative expenses, (2) greater rent expenses and (3) increase in software services, all of them related to services contracted with the Parent company.

Being that said, the quarterly efficiency ratio as of 2Q23 was 52%, improving compared to the 62.4% reported in 1Q23. The quarterly improvement is explained by a higher increase in income than expenses, especially due to a significant increase in interest and fee income.

The accumulated efficiency ratio as of 2Q23 was 56.6%, improving compared to the 62.4% reported in 1Q23, and versus the 71.3% reported in 2Q22.

[Slide 7]

In terms of activity, on slide 7, private sector loans as of 2Q23 totaled 1.1 trillion pesos, slightly decreasing 0.3%, and 3.5% YoY.

Loans to the private sector in pesos fell 1.1% in 2Q23. During the quarter, the decrease was especially driven by a 37.5% decline in overdrafts, followed by a 6.8% fall in consumer loans. The fall was partially offset by a 17.8% increase in discounted instruments and a 10.4% increase in other loans, the latter pushed by floorplanning.

Loans to the private sector denominated in foreign currency increased 12.1%. Quarterly increase is mainly explained by a 13.9% growth in financing and prefinancing of exports. Loans to the private sector in foreign currency measured in U.S. dollars increased 13% QoQ.

During the quarter, both the retail and the commercial portfolio, remained practically flat.

As observed in previous quarters, loan portfolios were impacted by the effect of inflation during the second quarter of 2023, which reached 23.8%. In nominal terms, BBVA Argentina managed to increase the retail, commercial and total loan portfolio by 23%, 23.8% and 23.4% respectively during the quarter, practically reaching quarterly inflation levels.

BBVA Argentina's consolidated market share of private sector loans reached 9.01% as of the 2Q23 improving from 8.35% a year ago.

In 2Q23, asset quality ratio was 1.38%, compared to the 1.31% recorded in 1Q23. The slight increase is mainly explained by an increase in the retail non-performing portfolio.

[Slide 8]

On the funding side, as seen on slide 8, private non-financial sector deposits in 2Q23 totaled 2 trillion pesos, increasing 3.5% QoQ.

The Bank's consolidated market share of private deposits reached 7.03% as of 2Q23.

Private non-financial sector deposits in pesos increased 6.7% compared to 1Q23. The quarterly change is mainly affected by (1) a 19.7% increase in savings accounts, which were partially pushed by exporters' and agricultural producers' deposits linked to the "dolar soja III" program, (2) a 14.8% increase in checking accounts and (3) a fall in investment accounts by 18.9% which offsets the growth in peso funding.

Private non-financial sector deposits in foreign currency expressed in pesos fell 8.5%.

In terms of capitalization, BBVA Argentina continues to show strong solvency indicators on 2Q23. Capital ratio reached 28.4%.

Exposure to the public sector in 2Q23, excluding central bank instruments, represented 11% of total assets, above the 9.1% in 1Q23, and below the 17.3% reported by the System as of June 2023.

It is worth mentioning, that as of the date of this report, BBVA Argentina has distributed 3 of the 6 installments scheduled on dividend payments, from the 50.4 billion pesos total to be paid, according to the plan published on June 7, 2023, and based on the terms agreed with the Central Bank.

The bank's total liquidity ratio remained healthy at 84.1% of total deposits as of June 30th 2023.

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

[Q&A]

Thank you very much for your time and let us know if you have further questions. Thank you, and enjoy the rest of your day.