BBVA Argentina's fourth quarter and fiscal year 2023 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 fourth quarter and fiscal year 2023 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 fourth quarter and fiscal year 2023 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 December 31th, 2023.

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

Inés Lanusse

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

2023 ends with a new elect governing party, which has announced an adjustment plan to start correcting the strong macroeconomic distortions, which, among other measures, includes a significant reduction of fiscal deficit and a depreciation of the local currency to ease FX restrictions.

In a context where uncertainty remains high, BBVA Research estimates an annual inflation near 175% by the end of 2024 and expects GDP to fall 4% this year, as of the date of this report. It is expected that the most intense recession and inflationary acceleration should happen in the first semester, while expectations improve for the second part of the year. In spite of its impact in the short term, and high associated risks, these adjustments could state the basis for a sustained reduction in inflation and a recovery in a potential growth for the economy from the second half of 2024 onwards.

[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 December 2023, retail digital client penetration reached 62%, while retail mobile clients reached 57%. 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, reached 93.2% in 4Q23 and represent 69.8% of the Banks total sales measured in monetary value.

New customer acquisition through digital channels reached 75% in 4Q23, from 72% in 4Q22.

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 4Q23 and fiscal year 2023 financial results.

BBVA Argentina's inflation adjusted net income in 4Q23 was 48.6 billion pesos, 220.8% higher than net income in 3Q23. This implied a quarterly ROE of 15.3% and a quarterly ROA of 3.2%.

BBVA Argentina's inflation adjusted net income for the twelve months of 2023 totaled 164.9 billion pesos, 8.6% lower than the twelve months of 2022. In 2023, BBVA Argentina posted an inflation adjusted ROA of 2.7% and an inflation adjusted ROE of 13%.

Operating income in 4Q23 was 477.9 billion pesos, 86.4% higher than in 3Q23, while in the year, the accumulated operating income reached 1.19 trillion pesos, 86.4% above the one recorded in 2022.

Quarterly operating results are mainly explained by (1) better foreign exchange income, specially due to a greater position in Dual National Treasury bonds, (2) better net interest income results, (3) better net income from write-down of assets at amortized cost and at Fair Value through OCI, mainly due to the sale of inflation linked bonds, and (4) lower administrative expenses.

Net Income for the period was highly impacted by income from net monetary position, as inflation on 3Q23 was lower than 4Q23's, reaching 53.9% in 4Q23 compared to 34.8% in 3Q23.

On an annual basis, the 86.4% increment in real terms of the Bank's operating income is mainly explained by an increase in interest income, mostly due to an increase in the position and yield of Central Bank instruments and CER bonds, as well as interests from loans.

In 2023, what also stands out is the increase in the foreign exchange income due to a higher position in dollarized assets and net income from write-down of assets at FV through OCI, mainly due to the sale of corporate bonds in 3Q23 and the exercise of a put option on inflation linked bonds in 4Q23.

Another factor to consider in the annual comparison, is the income tax line, which represented only a 12.2 million pesos loss in 2022, explained by the implications of fiscal inflation adjustments in the determination of payable taxes and tax deferrals

Last, but not least, net income in 2023 is affected by income from net monetary position in a context of higher inflation which reached 211.4% in 2023 versus 94.8% in 2022.

[Slide 5, 6 & 7]

Turning into the P&L lines, in slide 5, 6 & 7, net interest income for the 4Q23 was 495.7 billion pesos, increasing 19.7% QoQ. In 4Q23, interest income, in monetary terms, decreased more than interest expense, mainly due to lower income from government securities.

In 4Q23, the decrease in interest income is mainly driven by a fall in income from government securities, especially LELIQ, which issuance was terminated by the Central Bank in December 2023, reducing its volume on year end. This was partially offset by a better income from REPO premiums, and more income from inflation linked bonds and loans.

Interest expenses totaled 383.9 billion pesos, denoting a 20.9% decrease QoQ. Quarterly decline is described by lower time deposit and checking accounts expenses, in particular interest-bearing checking accounts.

Interests from time deposits, including investment accounts, explain 71.2% of interest expenses, versus 70.5% the previous quarter.

Net fee income as of 4Q23 totaled 35.6 billion pesos, increasing 36.9%.

In 4Q23, fee income totaled 70.7 billion pesos, increasing 18.8% QoQ. The quarterly increase is mainly explained by a 41.9% growth in fees from credit cards, due to a lower expense related to Puntos BBVA loyalty program, and higher activity, combined with an increase in prices.

Regarding fee expenses, these totaled 35.2 billion pesos, increasing 4.7% QoQ. Greater expenses are explained by fees paid in foreign exchange, related to royalties affected by the devaluation of the local currency and payroll marketing campaigns.

In 4Q23, loan loss allowances increased 74.9%.The increase is explained by the accounting re-expression of loan loss allowances in the foreign currency portfolios.

During 4Q23, total operating expenses were 211.7 billion pesos, increasing 0.6% QoQ, of which 32% were personnel benefits costs.

Personnel benefits increased 2.6% QoQ. The quarterly change is mainly explained by the inflation adjustment of vacation stock provisions and variable compensations. This adjustment is applied retroactively to the last twelve months.

As of 4Q23, administrative expenses fell 29.5% QoQ. These were explained by an increase in the amount of services contracted with the Parent company, offset by the update of the provision on these expenses in line with the FX rate depreciation estimates at quarter-end.

Being this said, the quarterly efficiency ratio as of 4Q23 was 46.4%, improving compared to the 82.4% reported in 3Q23. The quarterly decrease is explained by a decrease in expenses and an increase in net income, especially due to an increase in results from income from foreign exchange, as well as income from write-down of assets at amortized cost and OCI.

The accumulated efficiency ratio as of 4Q23 was 58.6%, improving compared to the 63.8% reported in 3Q23. The improvement in this ratio is due to a lower increase in expenses versus net income. This positive variation in the ratio is also due mainly to better income from write-down of assets at amortized cost and OCI, and income from foreign exchange.

[Slide 8]

In terms of activity, on slide 8, private sector loans as of 4Q23 totaled 2 trillion pesos, decreasing 5.7% QoQ and 12.3% YoY.

Loans to the private sector in pesos fell 9% in 4Q23. During the quarter, the decrease was especially driven by a general decline in loans. The decrease was partially offset by a 1.6% increase in overdrafts, driven by greater activity.

Loans to the private sector denominated in foreign currency increased 41.1% QoQ. Quarterly increase is mainly explained by a 54.7% growth in financing and prefinancing of exports. Loans to the private sector in foreign currency measured in U.S. dollars decreased 6.1% QoQ

During the quarter, the retail portfolio fell 11.7% and the commercial portfolio, increased 0.9%.

As observed in previous quarters, loan portfolios were impacted by the effect of inflation during the fourth quarter of 2023, which reached 53.3%. In nominal terms, BBVA Argentina managed to increase the retail, commercial and total loan portfolio by 35.3%, 54.7% and 45.2% respectively, only surpassing quarterly inflation levels in the case of commercial loans.

BBVA Argentina's consolidated market share of private sector loans reached 9.85% as of the 4Q23 improving from 9.10% a year ago.

As of 4Q23, asset quality ratio keeps a very good performance at 1.29%, in line with the good behavior of both retail and commercial portfolios. The lower decrease of the total loan portfolio versus that of the non-performing portfolio is explained by a growth in commercial loans, driven by a devaluation of the FX rate, without significantly affecting client's credit behavior.

[Slide 9]

On the funding side, as seen on slide 9, private non-financial sector deposits in 4Q23 totaled 3.1 trillion pesos, decreasing 8.6% QoQ.

The Bank's consolidated market share of private deposits reached 6.79% as of 4Q23.

Private non-financial sector deposits in pesos decreased 26.1% compared to 3Q23. The quarterly change is mainly affected by a 40.9% decline in time deposits, a 37.1% fall in investment accounts, and a 22.0% fall in checking accounts, the latter driven by the Bank's strategy of reducing interest-bearing checking accounts.

Private non-financial sector deposits in foreign currency expressed in pesos increased 63.4% QoQ. This is mainly explained by seasonal factors.

In terms of capitalization, BBVA Argentina continues to show strong solvency indicators on 4Q23. Capital ratio reached 32.8%. Growth in the ratio was mainly driven by an increase in capital mainly due to better OCI results in 4Q23.

Exposure to the public sector in 4Q23, excluding central bank instruments, represented 15.9% of total assets, above the 12.7% in 3Q23, and below the 22.4% reported by the System as of December 2023.

The bank's total liquidity ratio remained healthy at 91.2% of total deposits as of December 31st 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.