

Argentine banks on lethargy

Argentine banks show solid liquidity and solvency levels and healthy asset quality ratios. However, a regime change should not lead to seeing the Argentine banking sector through rose-tinted glasses. Profitability has been in contraction since 1Q20, we expect some relief in the 2Q-3Q sustained by financial instruments from the public sector. Even so, we cannot turn a blind eye to the acceleration of inflation that puts a hamper on individuals' lending growth, with disposable income the most affected. The new president will assume with at least double inflation than in Dec-2015 and Dec-2019. Therefore, even if there is a positive change in expectations, the economic variables will remain difficult to be tamed.

In our opinion, banks' growth prospects will be first on the loan book enlargement and in second stance on client base expansion. We expect individual lending, which represents the highest share of banks' loan portfolios, to be the first mover with the improvement in consumer sentiment. Then it should be followed by automobile loans, mortgages, and SME loans. We could see banks growing inorganically by acquiring FinTech. As we will discuss later, Argentina remains to have a low banking penetration, explained by a high informal economy. In the past years, there was a surge of FinTech companies that aimed to capture clients from this segment. In 2021, the number of FinTech's rose to 276 from 72 in 2017, according to the IDB.

In this report, we analyze Banco Galicia, BBVA Argentina, Banco Macro, Supervielle and Hipotecario as well as, the banking system as of 1Q22. In terms of assets, Banco Galicia accounts for the second largest market share of 8.8%, after Banco Nacion with the 21% as of FY21. BBVA Argentina and Banco Macro rank 5th and 6th with a market share of 6.0% and 5.9%, respectively.

On the corporate fixed income side, there are only 3 global bonds: GALIAR 7.962 2026s, BMAAR 6.643 2026s and BHIP 9.750 2025s. The first two are bullet bonds with an amount outstanding of USD250mn and USD400mn, respectively. While Banco Hipotecario bond amortize in 5 installments of 20%, the first one was already paid and the next one is on October 14th, 2022. However, the amount outstanding of this bond is tiny at USD78mn, as it is the result of a bond restructured. On the equity side, Grupo Financiero Galicia (GGAL US), BBVA Argentina (BBAR US) and Banco Supervielle (SUPV US) trade in NASDAQ while Banco Hipotecario (BHIP AR) in BYMA.

Although banks' bonds and equity currently look attractive, as banks' global bonds' total return are negative 21-22% YTD, while equities prices have dropped by 30-35% YTD, we believe that if there is a price increase, it will be hardly supported fundamentally. Even so, in 2021, bank bonds were more resilient to sell-offs than YPFs or the power generation sector bonds, partly explained by banks' access to the FX market depending on their global net position.

From our perspective, it is not the time to buy banks' equity, given the current weak macroeconomic scenario and that there is still time until the presidential elections. However, for the time being, bonds might be an attractive option given their high current yield at 8.75%. We prefer BBMAR 6.643 26s because Banco Macro has been reporting one of the most solid metrics. In addition, the bonds are the cheapest within the industry and also among bullet bonds maturing in 2026s. As we go to print, the bond ask price is at USD79 (yield: 13.2%), -USD12 lower than GALIAR 26s and -USD22.5 than BHIP 25s. What also counts is it shows one of the highest liquidities.

Figure 1: Summary financials

Selected information on Argentine Banks in 1Q22

	Galicia	BBVA	Macro	Supervielle	Hipotecario
Equity ticker	GGAL US	BBAR US	BMA US	SUPV US	BHIP AR
Price in USD	6.24	2.19	10.30	1.96	0.03
Mkt Cap in USD	920.2	447.3	661.2	179.0	40.6
Corporate bonds	GALIAR 7.962 26s		BMAAR 6.643 26s		BHIP 9.75 25s
Ask Price in USD / YTM	91.00 / 10.8%		79.00 / 13.2%		101.50 / 8.8%
Summary financials (in ARSmn)					
Income Statement Items					
Net Interest Income	15,808.0	39,229.0	41,911.0	12,209.4	36.5
Chg qoq	-42%	1%	1%	-2%	-99%
Net Fee Income	8,907.0	6,634.0	10,216.0	3,798.8	1,637.3
Chg qoq	-3%	-2%	0%	0%	-5%
Loan Loss Provision	2,202.0	2,269.0	745.0	1,977.7	(299.2)
Chg qoq	-66%	-341%	-67%	5%	-253%
Net Operating Income	69,995.0	52,731.0	64,177.0	16,246.7	13,558.1
Chg qoq	11%	7%	11%	-6%	27%
Staff & Administrative Expenses	18,404.0	18,580.0	15,325.0	12,014.3	4,581.6
Chg qoq	-5%	-1%	-15%	1%	-11%
Net Income	4,740.0	4,034.0	6,008.0	(377.6)	1,168.4
Chg qoq	-45%	-27%	-51%	n.m.	85%
Net financial margin	19.3%	19.2%	22.8%	19.2%	9.8%
Efficiency ratio (C/I)	78.6%	72.2%	29.6%	74.2%	41.4%
Return on Avg. Equity (ROAE)	6.6%	9.0%	9.0%	-2.5%	17.0%
Balance Sheet Items					
Total Assets	1,607,949.0	1,169,081.0	1,140,634.0	446,239.3	264,774.2
Chg qoq	-6%	-2%	-2%	-2%	21%
Cash and due from banks deposits	285,140.0	198,969.0	175,531.0	29,430.9	16,074.7
Chg qoq	6%	-21%	-12%	-22%	16%
Debt securities at FVTPL	304,915.0	10,382.0	32,244.0	24,550.6	108,621.1
Chg qoq	11%	n.m.	-14%	7%	133%
Loans (net)	640,488.0	402,887.1	369,677.0	152,831.1	54,896.4
Chg qoq	-6%	-8%	-8%	-11%	-24%
Commercial: NPLs / Loans	n.a.	0.8%	2.8%	3.0%	13.5%
Consumer: NPLs / Loans	n.a.	1.5%	1.3%	5.3%	2.7%
NPLs / Gross Loans	3.2%	1.3%	1.6%	4.3%	6.6%
Reserves / NPLs	157%	220%	163%	107%	79%
Deposits	1,134,371.0	797,313.9	677,545.0	341,298.3	192,808.1
in % foreign currency (FC)	19%	21%	15%	9%	n.a.
Corporate bonds issued	40,199.0	449.0	3,096.0	-	12,930.9
Total Shareholders' Equity	277,170.0	194,151.0	282,360.0	61,494.5	27,635.9
Loans (net) / Deposits	56%	51%	55%	49%	28%
Loans in FC / Total Loans	19%	6%	4%	1%	n.a.
Liquid Assets / Total Deposits	49%	80%	93%	55%	89%
Leverage	5.8x	6.0x	4.0x	7.3x	9.6x
Tier I	21.4%	23.3%	33.7%	13.8%	16.6%
CAR	24.1%	23.5%	38.5%	14.4%	17.1%

Source: TPCG based on the banks' reports and Bloomberg

Monetary policy turns supportive

The financial system ROAE decreased from 14.3% in 1Q20 to 6.2% in 1Q22. Among the banks analyzed, Banco Macro, one of the most profitable banks, showed a substantial drop in its ROAE; it was 9% in 1Q22, down from 59% in 4Q19. And still, it stood above the financial system average. The main reasons behind this were the Central Bank of the Republic of Argentina (BCRA) establishing a floor on time deposits interest rates and subsidized rates on credit cards and SME loans. Due to the loan-deposit spread compression, banks responded by reducing their lending portfolio. Therefore, the net interest income not only decreased due to loan yields but also because there were lower loans generating interest income. On top of that, the City of Buenos Aires imposed a new turnover tax of 8% on LELIQs (which are Argentina's Central Bank discount instruments only offered to financial institutions) in 2021.

As of January 2022, the Central Bank gradually increased the LELIQs rate. On January 6th, 2022, the LELIQs rate increased by +2pp to 40% after more than 2 years standing at 38%. Then it rose to 42.5% in February, 44.5% in March, 47% in April, 49% in May, and 52% in June. Credit cards annualized nominal rate to finance amounts of up to ARS200,000 increased to 53% as of June from 51% in March, 49% in January 2022, 43% in 2021. The productive investment funding line (known as LFIP) rate to finance working capital requirements increased to 52.5% from 43%, while productive investments rose to 37% from 35%. Meanwhile, time deposits' nominal annual interest rate currently stands at 53% up from 46% in April.

The performance of fees charged on deposit accounts and credit cards has been weak. In the case of credit card fees is partly due to the loss of Argentines' purchasing power. This is reflected in Argentina's consumer confidence index, which was 36.30 in May, while 45.33 the 2001-YTD average. Except for Banco Macro, the other analyzed banks showed qoq drops in fee income from credit card commissions. In 2021, the 2Q and 3Q showed the most robust results for most banks.

With inflation ramping up, real interest rates turning increasingly negative, and the rollover over ratio of the Treasury debt on freefall, the Central Bank changed its strategy to give banks a break. In 2Q-3Q22, we should see an improvement in NIMs because of seasonality (1Q is usually the weakest) and the increase of CER bonds holdings, which will positively impact interest income. In July, there was a sell-off of CER bonds for fear of the government restructuring the bonds. Argentine mutual funds were the most affected, with clients withdrawing their positions from CER funds. From June 1st to July 12th, 2022, mutual funds AUM dropped by -ARS325,743mn (c.USD2,553mn). Some of them entered into money market funds. In the time period analyzed, it increased by +ARS93,980mn (c.USD737mn).

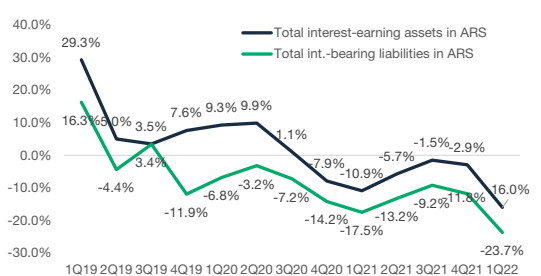
Given this, banks took advantage of the incredibly low prices of CER bonds in the secondary market. What drove banks to increase their exposure to the Treasury is that the Central Bank has been active in the secondary market of these bonds, standing behind the government. When the bonds approach maturity the Central Bank buys them so that banks can purchase the new bonds. It is worth mentioning, that the Central Bank only does this transactions with banks, leaving mutual funds out. This is attractive for banks because of the low funding rate, with deposits' annual nominal interest rate at 53%, allocating most of the funds to these bonds, which offer attractive interest rates (we expect the annual nominal rate to be 80.5%, considering July's inflation at 5.6%). For this reason, in the past month, CER bonds have migrated from mutual funds to banks. Thus, we are in the face of a crowding out effect, in which incentives were set so that banks prefer to purchase government bonds instead of lending to the private sector.

Figure 2: Credit wanes, diminishing interest and fee income

Argentina's financial system Return on Equity (ROAE)



Banco Macro's annualized interest rates in real terms



Source: TPCG Research based on Bloomberg

Banks' C/I ratio improvement is partly constrained by low digital literacy

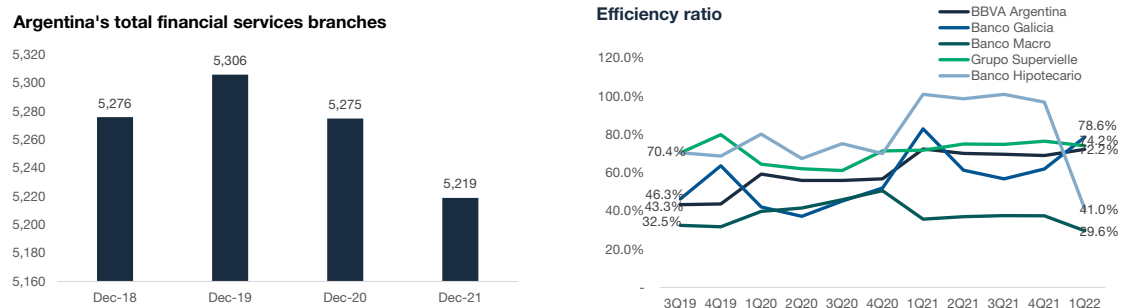
Digital transformation remains one of the banks' main challenges to reduce the number of branches following the international trend to reduce costs. According to the Global Findex database from the World Bank, the share of Argentina's adult population that said to use a bank account was 49% and that owned a debit card was 41% in 2017. This contrasts with the figure reported by the BCRA that 78% of the Argentine population owned at least one bank account. The pandemic accelerated financial inclusion. In 2021, the % of the Argentine population owning at least one bank account was up to 91%. Mobile banking transfers have been increasing faster than home-banking transfers, partly because 42% of Argentina's population use a computer while 88% use mobile phones (as of 4Q21, Indec).

According to the ENACOM, 70.6% of households owned a fixed wireless internet connection as of Sept-21, of which 50% are in City of Buenos Aires and Province of Buenos Aires, which evince a high disparity among provinces. This is important because the decrease of branches may be at a slower pace for banks with a higher number of branches outside Buenos Aires. In 2021, mobile banking transfers increased +123% yoy vs. +32% yoy home-banking transfers. In contrast, ATM transfers contracted -21% yoy. BBVA Argentina, which 32% of its branches are in City of Buenos Aires and 34% in the Province of Buenos Aires, mobile client penetration is 54% (+2pp yoy) and digital client penetration 62% (flat yoy) in 1Q22. Supervielle, which 39% of its branches are in the Province of Buenos Aires, 29% in the Cuyo region, and 23% in City of Buenos Aires, digitized clients represented 45% in 1Q22, excluding senior citizens, it was 68%.

In 2021, 56 financial services' branches closed in Argentina, of which 14 were from Banco Galicia, 4 were from BBVA Argentina, 3 from Banco Macro and 1 from Banco Supervielle. Although Banco Galicia was the bank that reduced the most its number of branches last year, it showed the highest efficiency ratio (or C/I ratio) at 78.6%. It is worth mentioning that the efficiency ratio reflects the impact of inflation. The ratio remains high partly because of the weight of compensations for dismissal as the number of employees contracted by 504 from 4Q20 to 1Q22. Similarly, BBVA Argentina and Grupo Supervielle efficiency ratios stood at 72.2% and 74.2%, respectively, while they reduced the number of employees by 167 and 275, respectively.

In contrast, Banco Macro number of employees decreased by 579 since 4Q20 while it added 3 more branches. Banco Macro owns 466 branches, the bank with the highest number of branches in Argentina. It is followed by Banco Santander Argentina (413), Banco Galicia (310) and BBVA Argentina (243). Despite this, Banco Macro showed the lowest efficiency ratio at 29.6% among the banks analyzed. However, Banco Hipotecario showed the highest improvement with its efficiency ratio coming down to 41.0% in 1Q22 after four consecutive quarters standing above 97%.

Figure 3: Banco Macro has historically shown the lowest efficiency ratio



Source: TPCG Research based on the BCRA and banks' FFSS.

FinTechs currently underestimated, but making great strides

We believe, banks' growth perspectives may not only be limited by technological barriers and regulatory constraints but also by the rise and consolidation of fintech institutions, which may increase competition for new clients. The number of people with a bank account that also have a payment account has increased from 1mn in 1Q19 to 14.9mn in 4Q21.

Fintech institutions will compete with banks in the retail and SME segments. In the context where banks find it increasingly less attractive to lend, fintech institutions took advantage and advanced on the sector of the population without a bank account by offering wallet payments, P2P (peer-to-peer) transfers, and financing. Wallet payments have been one of the services that most rapidly expanded because it requires a less thorough analysis than lending, which implies credit scoring. However, companies such as Mercado Libre expanded with Mercado Pago and Mercado Credito, positioning as a financial service provider, offering

payment solutions, credit card issuance, debit, and credit card payments, facilitating loans and cash advances. Another potential challenge is retaining cash in checking and savings accounts from being transferred to the fintech accounts.

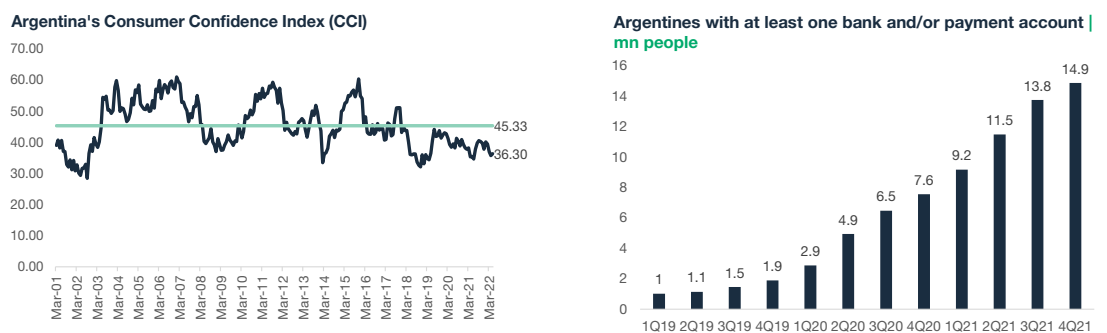
Given this, in 2020, BBVA Argentina, Banco Galicia, Banco Macro, Banco Supervielle together with other 32 banks set up Play Digital S.A. to launch MODO, a digital wallet that integrates all the users' banks' credit cards and accounts into a single software application to make transfers and payment with a QR code through the mobile phone. Among the banks analyzed, Banco Galicia accounts for the highest ownership of 13.061%, followed by BBVA Argentina (10.832%), Banco Macro (10.02%) and Banco Supervielle (3.5%).

Before the launch of MODO, some of the banks mentioned above were involved in Prisma Medio de Pago, Argentina's leading payment company. However, in 2019, the National Antitrust Commission obliged the banks to sell their participation in the company because it had a dominant position over the payment system. For this reason, BBVA Argentina, Banco Galicia and Banco Macro exercised the option to sell their shares to Advent International Global Private Equity. The banks agreed to be paid (i) 30% in Argentine Pesos adjusted by UVA plus a 15% nominal annual rate and (ii) 70% in US dollars at a 10% nominal annual rate within 6 years.

Currently, FinTech companies that offer wallet payments are working on allowing their clients to withdraw cash from stores through a QR code. Mercado Pago has already agreed with Carrefour supermarket to offer cash withdrawals. In this way, it will compete not only with banks, but with ATMs companies: Banelco and Link, and utilities payment providers, such as Rapipago. Even so, banks do not see FinTech companies as a threat at present. Firstly, banks do not have incentives to launch fierce competition campaigns to increase their client base and even less if it is to increase the low-income segment, which could imply a rise in NPLs. Secondly, they point out as one of the FinTech companies' weaknesses is that some of them remain to be loss-making, and thus, need capital injections. Interestingly, Tarjeta Naranja, a Grupo Financiero Galicia subsidiary, focused on mid-low-income segments, began to remunerate cash deposits following Mercado Pago.

Although the share of FinTech in lending may be low according to banks, as FinTech' clients fidelity consolidates, it will be more difficult for banks to attract those clients when the economic conditions and consumer confidence improve. Banks may not be able to sustain a price war for an extended period, as the FinTech companies have a lower-cost structure, with no branches and a small staff, and thus, can adjust more rapidly. Said this, the advance of FinTech should not be underestimated.

Figure 4: Mercado Pago makes its way through steadfast

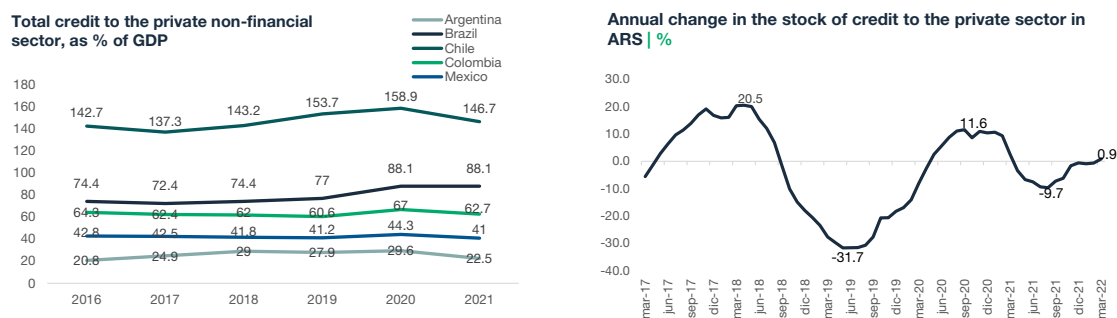


Source: TPCG Research estimates based on Subsecretaría de Programación Macroeconómica and BCRA

Argentine banks' lending is mainly concentrated on credit cards

To put things in perspective, Argentina has historically shown the lowest total credit to the private non-financial sector over GDP ratio compared to Brazil, Chile, Colombia, and Mexico. In 2021, it stood at 22.5% down from 29.6% in 2020 and 27.9% in 2019 (Source: BIS). Lending in Argentina is mainly focused on individuals: personal loans, credit card loans and overdrafts this differentiate from Brazil and Chile in which mortgages weight more. In addition, in Argentina, loans to individuals account for the highest share of the loan portfolio while in Brazil and Chile are loans to companies. For instance, Itau Unibanco loan book breakdown is comprised by 47% of loans to companies, 17% consumer loans, 16% mortgage loans and 15% of credit cards. In the case of Banco Santander Chile, commercial loans account for 48% of total loans, followed by mortgage loans (39%) and lastly by consumer loans (14%).

Figure 4: Argentina ranks poorly in terms of private loans over GDP



Source: TPCG Research estimates based on TPCG Research based on BIS and BCRA

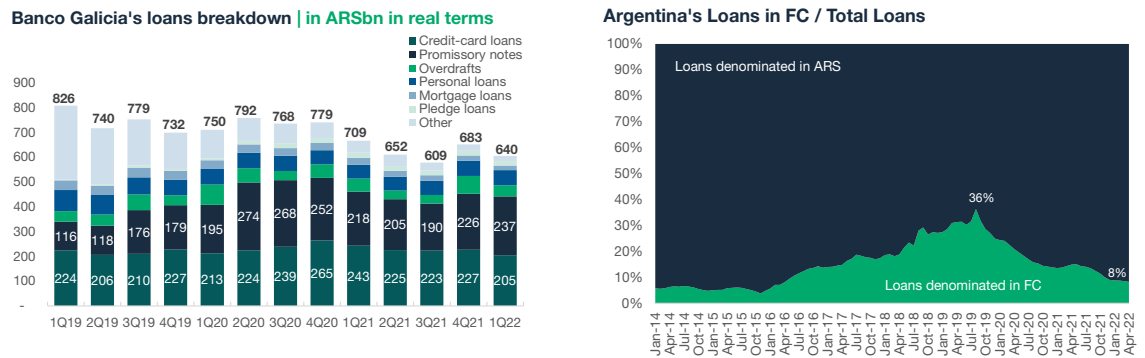
Although the stock of credit to the private sector in Argentina has been on declined month over month since January 2022, March's annual change was positive at +0.9% yoy, after 11 months showing negative annual changes. Analyzing historical data, lending in Argentina increased the most in April 2017 until August 2018. The main drivers were UVA-denominated mortgage loans, though credit card loan performance was also strong. Then, with the currency crisis, lending plummeted. In May 2020, loan growth turned positive due to the *Ahora 12* and *Ahora 18* programs that boosted credit card loans as well as the 60-day grace period to pay credit card bills. However, with the loan-deposit spread compression loan growth slowed down and turned negative.

In the past quarters, credit card loans have been decreasing in all the banks analyzed. Even so, it remains to account for the largest share of Banco Macro, BBVA Argentina and Banco Hipotecario loan portfolio, at 29%, 41% and 38%, respectively. In the case of Banco Galicia, it used to account for the largest share of total lending, averaging 31% in 2021-2020. However, in 1Q22, it was displaced by discounted documents, that accounted for 37% of total. In contrast, promissory notes represent the largest share of Banco Supervielle loan portfolio at 31%.

Argentine foreign currency (FC) loan book has been decreasing since September 2019, after the PASO. The share of FC loans came down from 36% in August 2019, after reaching a peak, to 8% in April 2022. Loans for the prefinancing and financing of exports shrank. First, it was due to the decrease in FC deposits caused by the 2019 PASO. Then, it was exacerbated by the export/import restrictions and in response to managing risk in the face of the weakened economic environment. BBVA Argentina reported a drop of 55% yoy in 1Q22 to USD111mn. Even though this account is not disclosed in Banco Galicia and Banco Macro, FC loans decreased by 40% and 56% yoy, respectively.

In addition, large companies have deleveraged in hard currency and changed their source of financing. The ones that had loans denominated in US dollars, rolled over them but reduced their amount outstanding while changing the currency denomination to ARS. This is partly explained by some companies that have found it more attractive to issue dollar-linked, UVA, or BADLAR bonds in the local market than to increase bank loans, as interest rates are lower. For example, Generacion Mediterranea had a USD3mn 3-year tenor loan with an interest rate of 9% maturing in January 2021 with Banco Macro. In FY21, the company's debt with Banco Macro was only a ARS96mn 2-year loan (USD960k) denominated in ARS at BADLAR+10%. The company has been active on the local market. For example, on May 23rd, 2022, GEMSA issued two dollar-linked bonds, one of USD24mn with a 3.5% coupon maturing in 2027 and the second one of USD86mn with a 6.5% coupon maturing in 2032. The coupon rates are much lower in the local market than in the international. The company's global bonds ALBAAR 2023s and 2027s coupon is 9.875%.

Figure 5: Loans in FC only represent 8% of total lending in Argentina



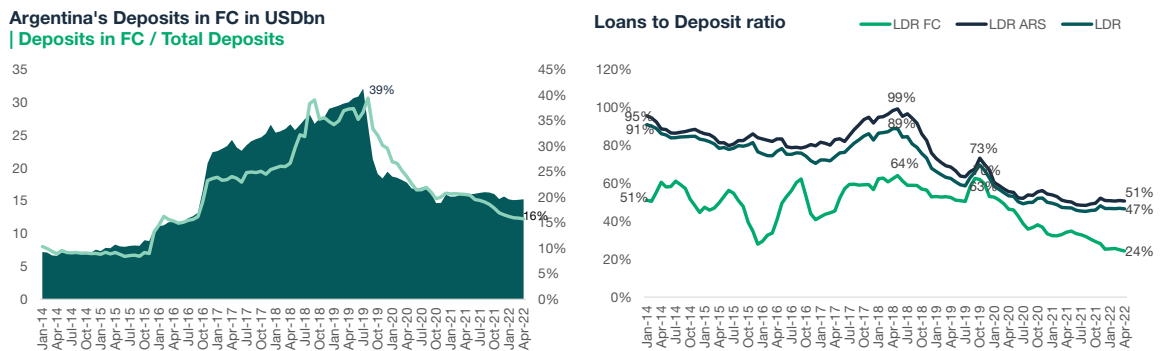
Source: TPCG Research estimates based on BCRA and Banco Galicia's FFSS.

The banks liquidity has increased strongly with deposits growing sustainedly and lending barely showing a recovery sign. However, the other side of the coin is an increase in the banks' exposure to the Central Bank and government securities. According to the last data published by the Central Bank which goes up to April-22, deposits in ARS were up to ARS9,388bn in Apr-22 (USD81.4bn) from ARS8,263bn (USD78.7bn) in Jan-22. In contrast, deposits in FC remained almost flat at USD15.3bn.

In the past 8 years, the LDR tendency is mainly negative. The LDR reached a peak of 89% in May-18 and of 70% in Oct-19. Since then, it came down to 47% as of Apr-22. The LDR FC at 24% is even lower than the LDR ARS at 51%. In the case of deposits in FC, the cash that is not used for lending is allocated to the Central Bank and correspondent banks. In the case of deposits in ARS, banks mainly purchase LELIQs. However, government securities showed a material increase since 3Q21. In order to partly offset the effects of inflation, banks increased their position on LECER and BONCER bonds while they decrease repo transactions with the Central Bank. Supervielle share of government securities on total cash reserve requirements increased to 10% in 1Q22 from 1% in 3Q21.

In 1Q22, the financial system exposure to the public sector (net of LEBAC/NOBAC/LELIQS, in other words, BCRA securities) as a % of total assets was 16%, while BBVA Argentina was 8.9%, Banco Supervielle 9%, Banco Galicia 19% and Banco Macro 22.1%. It is worth noting that Banco Supervielle showed the lowest Liquid assets to Total deposits ratio at 54.9%. It contrasts with BBVA Argentina of 79.6%, Banco Hipotecario of 88.9%, and Banco Macro of 93%. This is explained by Banco Supervielle owning a higher share of BONCER bonds maturing in 2026s (TX26) compared to its peers.

Figure 6: The downside of banks' high liquidity is the increase in exposure to the public sector



Source: TPCG Research estimates based on BCRA and Banco Galicia's FFSS.

Banks' asset quality is at adequate levels, and capital buffers are robust

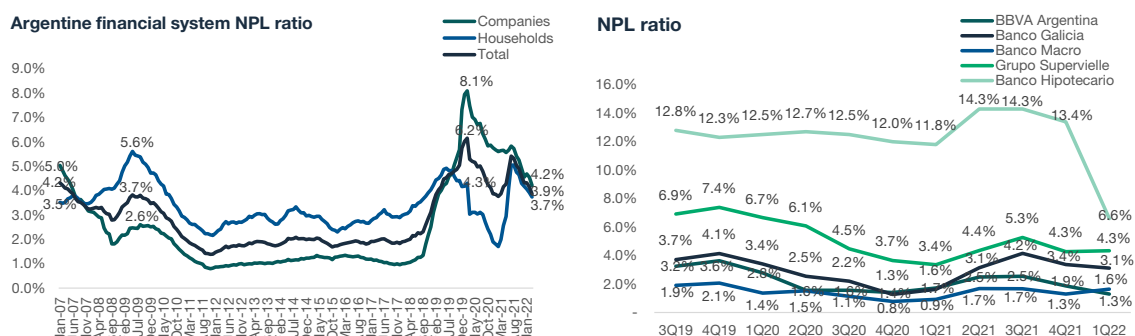
As lending went down, NPLs did it as well. The Central Bank reported the financial system NPL ratio was 3.9% in March-22, -0.8pp below the 2019 average of 4.5%. In the past two years, the ratio reached a peak in July-21 of 5.4% and in Feb-20 of 6.2%. Another reason why banks are favoring credit cards lending over personal loan, and even more to corporate loans, is that it shows a lower NPL ratio at 2.6% vs. 5.3% and 4.2%, respectively. Within lending to companies, the manufacturing sector showed the highest NPL ratio at 7.3%. The construction followed it with 6.7%, primary production at 2.7%, and services at 1.6%.

In some cases, NPLs went down partly because defaulted loans in 2020 from the agribusiness sector were classified as bad debt. Molino Cañuelas S.A.C.I.F.I.A. and Vicentin S.A.I.C., one of the largest wheat milling and exporters companies in Argentina, defaulted several loans. In the first case, the main public banks affected were: Banco de la Nación Argentina, Banco de la Provincia de Buenos Aires and Banco de la Ciudad de Buenos Aires, and among the private banks were: HSBC Bank Argentina, BBVA Argentina, Banco Hipotecario, Galicia, Macro and Supervielle. In the case of Vicentin, the main implicated banks were Banco de la Nación Argentina, Banco de la Provincia de Buenos Aires and Banco de la Ciudad de Buenos Aires and the private banks: Banco Hipotecario and Banco Macro among others.

However, the negative impact on Banco Hipotecario NPL ratio was more noticeable than in Banco Macro's, given its small size. In 1Q22, Banco Hipotecario commercial portfolio was ARS22,167mn while Banco Supervielle and Macro's ARS53,465mn and ARS81,125mn, respectively. This partly explains why public banks showed the highest NPL ratio at 6.0% vs. domestic private banks at 2.7% and foreign private banks at 2.1%.

Among the banks analyzed, Banco Hipotecario showed the highest NPL ratio at 6.6% in 1Q22, down from 13.4% in 4Q21 and 14.3% in 3Q21. As we stated before, the NPL ratio improved due to Molino Cañuelas and Vicentin's loans of USD41mn and USD12mn were classified as bad debt. Consequently, the commercial NPL ratio was down to 13.5% in 1Q22 from 28.5% in 4Q21 and 30.9% in 3Q21. What differentiates Banco Hipotecario from the other banks analyzed is its high share of mortgage loans at 21% vs. peers' at between 11%-3%. It is because Banco Hipotecario is the trustee of PROCREAR, a program of subsidized mortgage loans launched by the government in 2012. The consumer NPL ratio was slightly above peers at 2.7%.

Figure 7: Although Banco Hipotecario NPL ratio remains high, it improved 6.8pp qoq



Source: TPCG Research estimates based on BCRA and banks' FFSS.

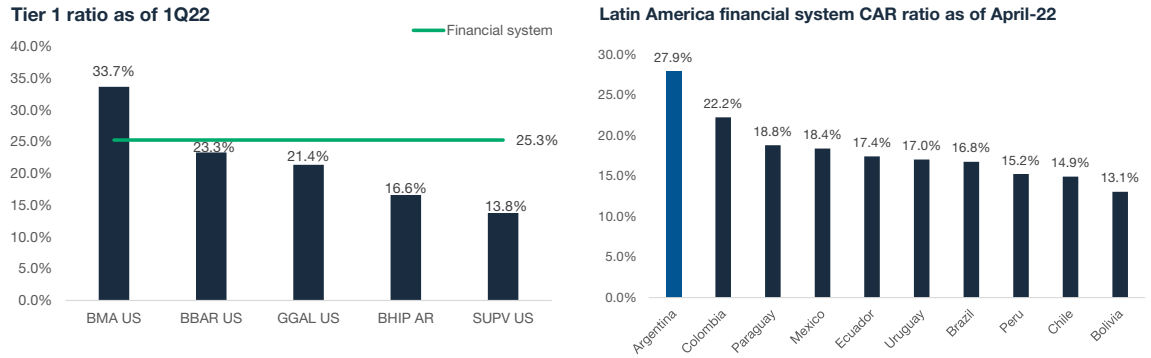
Banco Supervielle NPL ratio was 4.3%, the second highest ratio after the one of Banco Hipotecario. It is explained by the deterioration of credit card loans, mainly from IUDÚ, which was set up after the acquisition of General Electric's financial service division in 2011. IUDÚ credit card is mainly offered in Chango Más supermarkets, thus, the client base is mainly composed of lower middle-income population. For this reason, the consumer finance (IUDÚ) credit card loan NPL ratio was 21.4%, while the NPL ratio of the credit cards issued by Banco Supervielle was 2.5%. Another key point is that Banco Supervielle's client base accounts for a higher share of senior citizens that get paid ANSES retirement, pensions, and social plans than the other banks. For this reason, the consumer NPL ratio is lower in Banco Galicia, Macro and BBVA Argentina, standing at 3.2%, 1.6% and 1.3%, respectively. In these banks, the commercial NPL ratio is usually higher than the consumer one. For instance, Banco Macro's commercial portfolio NPL ratio deteriorated to 2.8% in 1Q22 from 1.0% in 4Q21 and 0.6% in 3Q21, driven by SME clients.

The banks with the lowest NPLs ratio show the highest coverage ratios. In 4Q20, their coverage ratio reached a peak partly explained by the change in the calculation of the parameters of IFRS 9. Galicia showed the highest coverage ratio among Argentine banks in the past 3 years at 502%. It was followed by Banco Macro with 479% and Banco BBVA Argentina with 312%. Despite the coverage ratio has declined in all three cases, they are still among the highest among the banks analyzed. BBVA Argentina coverage ratio was 220% despite of showing one of the lowest NPL ratios at 1.3%. The CoR declined sustainedly to 211bps in 1Q22 from 354bps in 2Q-3Q20 and 734bps in 4Q19. It was followed by Galicia 180%, Banco Macro 163%, Banco Supervielle 107% and Banco Hipotecario 78%.

Regarding the capital buffers, the banks' capital ratios tendency is positive since 2018 driven by internal cash generation and the decrease in lending. Argentina ranks first among the selected 10 Latin American countries. In April 2022, Argentina's financial system capital ratio stood at 27.9% while the average for Latin American group was 18.2%. Within the banks analyzed, Banco Macro remains to show the highest Tier 1 and CAR

ratios at 33.7% and 38.5%, respectively. The rest of the banks were below the financial system ratio of 25.3%. Although Banco Supervielle Tier 1 and CAR ratios improved +108bps and +106bps qoq to 13.8% and 14.4%, respectively, it remains to screen poorly among the banks analyzed. Even so, they are well above the minimum requirements. BBVA Argentina showed the highest increase in its capital buffers, with the Tier 1 and CAR ratios increasing by +304bps and +274bps yoy, respectively, to 23.3% and 23.5%, respectively, on lower credit risk.

Figure 8: Banco Macro CAR & Tier I ratio above peers' and LatAm financial system



Source: TPCG Research estimates based on BCRA, IMF and banks' financials

TPCG Analysts & Staff

Research

Juan Manuel Pazos	Chief Economist	jmpazos@tpcgco.com	+54 11 4898-6606
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Victoria Faynbloch	LATAM Strategist	vfaynbloch@tpcgco.com	+54 11 4898-6635
Santiago Resico	LATAM Strategist	sresico@tpcgco.com	+54 11 4898-6615
Marcos Pereyra Iraola	Quantitative Analyst	mpereyrairaola@tpcgco.com	+54 11 4898-6602

Sales & Trading

Juan Manuel Truppia	Head of Sales & Trading	jmtruppia@tpcgco.com	+54 11 4898-6659
Juan Martin Longhi	S&T Director	jlonghi@tpcgco.com	+54 11 4898-6656
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Sebastian Salvay	Sales	ssalvay@tpcgco.com	+54 11 4898-6663
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruidecastroviejo@tpcgco.com	+54 11 4898-6643
Santiago Barros Moss	Sales	sbarros@tpcgco.com	+54 11 4898-6629
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693

Corporate Banking

José Ramos	Head of Corporate Banking	jramos@tpcgco.com	+54 11 4898-6645
Camila Martinez	Corporate Sales	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641

Capital Markets

Fernando Lanus	Head of Capital Markets	flanus@tpcgco.com	+54 11 4898-6632
Nicolás Alperín	Investment Banking Analyst	nalperin@tpcgco.com	+54 11 4898-6604

Asset Management

Ileana Aiello	Portfolio Manager	iaiello@tpcgco.com	+54 11 4898-6611
Claudio Achaerandio	Portfolio Manager	cachaerandio@tpcgco.com	+54 11 4898-6618

Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valores SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU. accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU. and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of the document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted without the prior written consent of TPCG Valores SAU. No part of the report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

Transactions with US Institutional Investors and Major US Institutional Investors, as these terms defined by the SEC Rule 15a-6, are chaperoned by Global Alliance Securities, LLC ("GAS"), SEC-registered broker-dealer and FINRA member (web: www.globalalliancesecurities.com) in accordance with the agreement between TPCG Financial Services Agente de Valores SAU. and Global Alliance.