Capital Markets Argentina

Financial

Argentine Banking Industry

First Half 2019

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Argentine Banking Industry – First Half 2019

August 19

EXECUTIVE SUMMARY

1. The banking industry maintains record-high earnings, but with Leliq dependence

The Argentine banking industry posted a net gain of ARS 130.8 billion, 86% more than the profit obtained in the same period of 2018 (ARS 70.5 billion). The industry earned only 70% of FY18 net income in the first six months of the year. Such a result stemmed primarily from a 78% increment in the financial margin. However, this hides a heterogeneous behavior among the different concepts that compose the financial margin, in a context of a strong increase in interest rates fostered by the Central Bank to curb inflation.

2. The financial intermediation business continued to lose weight; securities income saved the year

In terms of financial intermediation, financial expenses growth (199% YoY) greatly outpaced that of financial income (56% YoY), translating into a negative net interest income of over ARS 88 billion.

In contrast, profit from the banks' holdings of securities (mainly Leliq securities issued by the Central Bank) quadrupled in the last twelve months, climbing to more than ARS 378 billion. FX result (ARS 16.5 billion) declined 14% YoY.

If we were to eliminate securities income and FX result, 2019 first-half earnings would turn into a loss of over ARS 158 billion, while the same period of 2018 would lead to a loss of little more than ARS 17 billion. This helps understand the relative importance that both concepts had in 1H 2019.

3. Private-sector credit grew below inflation, with a material increment in NPL

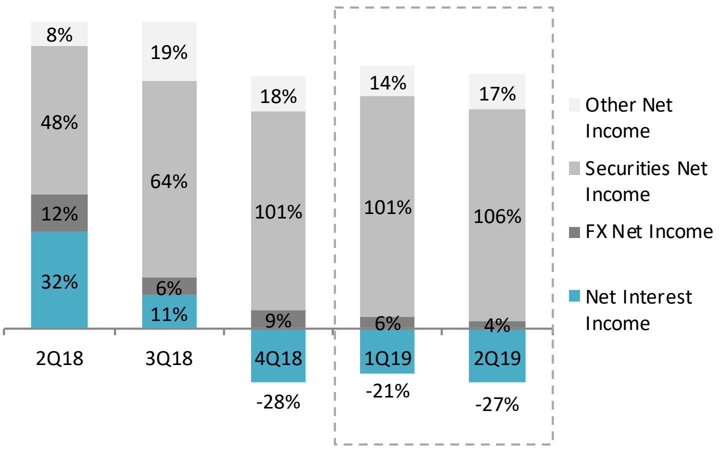
In a context of economic stagnation, private-sector grew only 15% y-o-y, below inflation rate. Private deposits rose 56% in the same period.

In addition, there was a material worsening in terms of asset quality: the ratio of non-performing loans stood at 4.6% as of June 2019, compared to a ratio of 2.0% in the same month of 2018. The coverage of NPL with loan-loss reserves also dropped to 92% by June 2019, from a previous mark of 127% a year before.

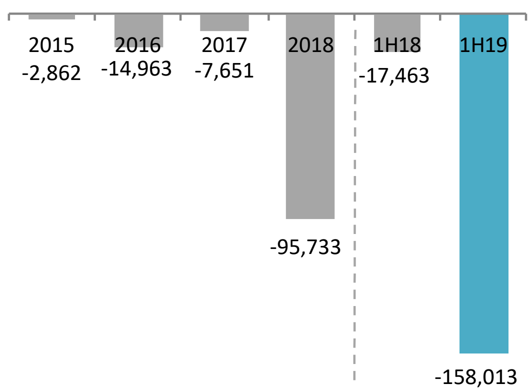
4. The efficiency ratio worsens

Net fee income rose 39% YoY, while administration expenses increased 51% YoY. This way, the efficiency ratio (defined as coverage of administration expenses with net fee income) declined from 34% to 31.5% between mid-2018 and mid-2019.

Composition of Financial Margin



Net Income without Securities Income and FX Result (ARS Million)



Source: Own elaboration based on data from the Argentine Central Bank.

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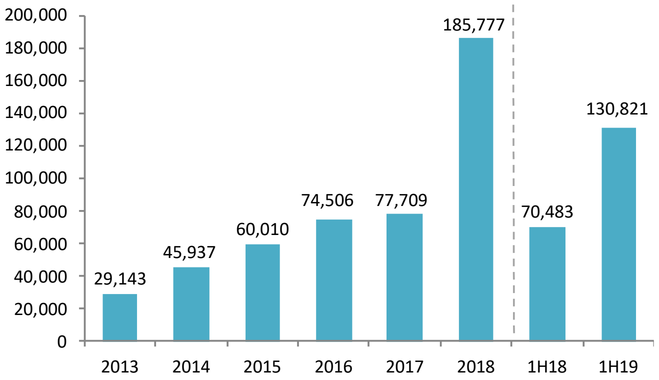
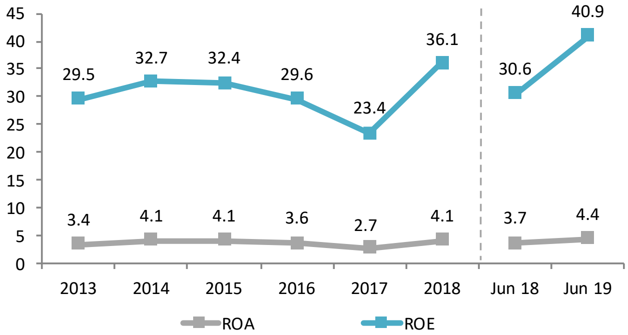
RESULTS

Earnings (ARS Million)

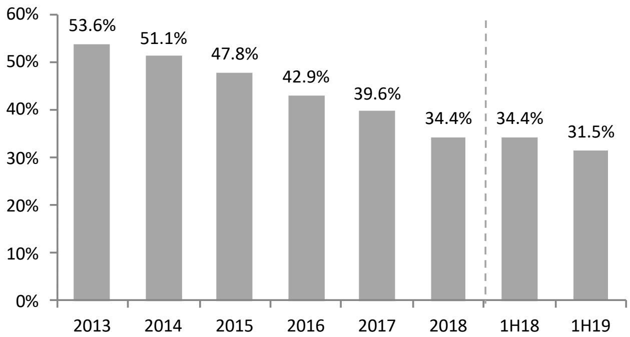


ROA and ROE Ratios (%)

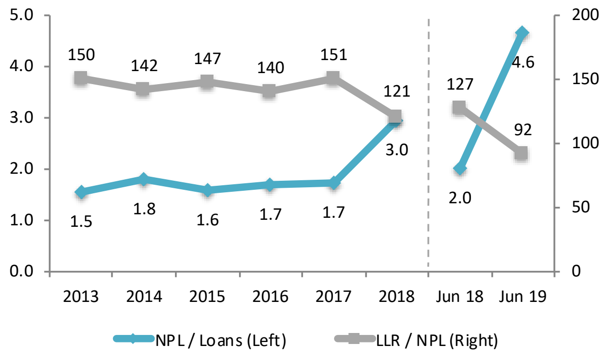


EFICIENCY AND ASSET QUALITY

Efficiency Ratio



Asset Quality (%)



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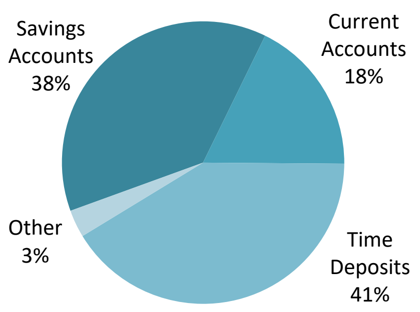
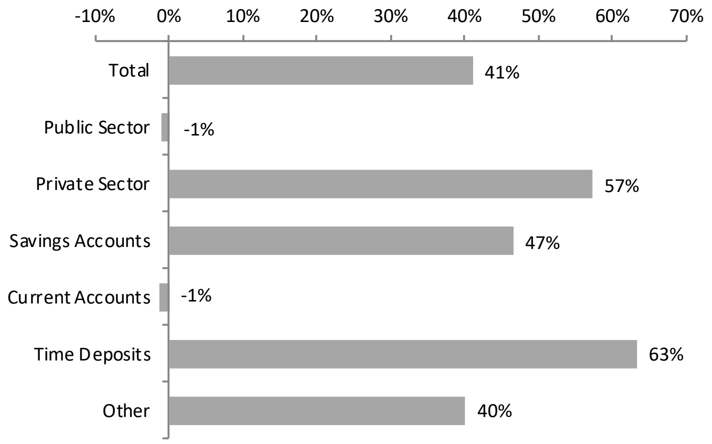
DEPOSITS

Composition as of June 2019

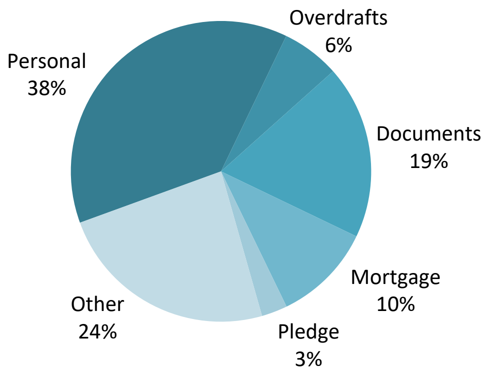


YoY Growth

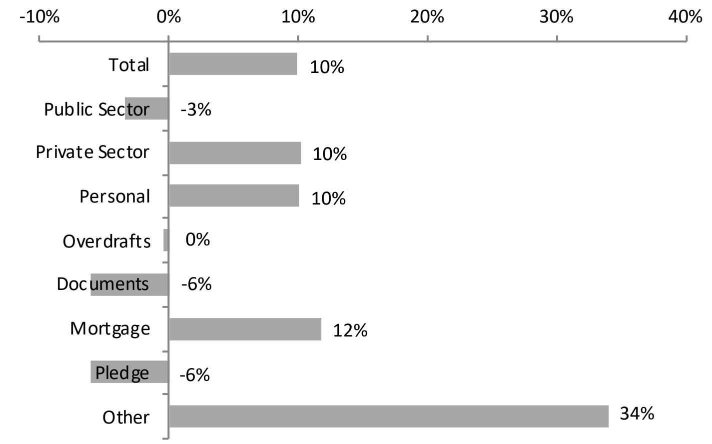


LOANS

Composition as of June 2019



YoY Growth



Source: Own elaboration based on data from the Argentine Central Bank.

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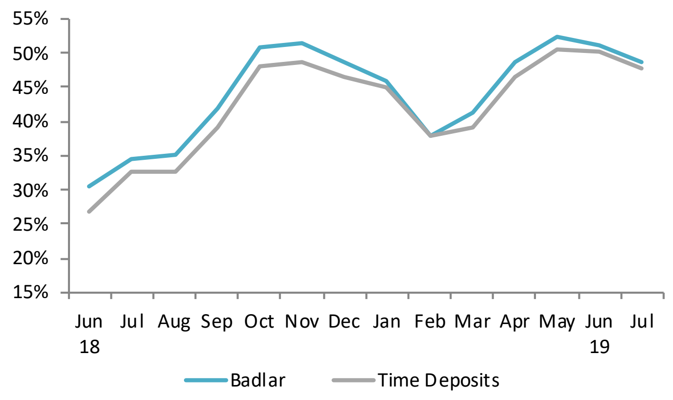
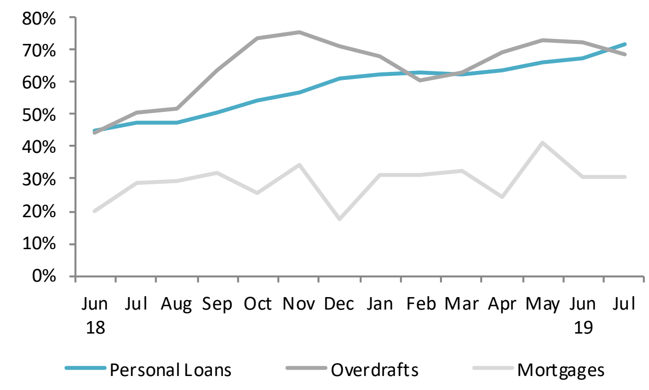
INTEREST RATES

Interest Rates on Deposits



Lending Interest Rates



RANKING

Loans (ARS Mill.)

Ranking	Bank	Amount	Market Share
1	Nación	381,911	16%
2	Galicia	246,996	10%
3	Santander	234,072	10%
4	Pcia. Bs. As.	208,613	9%
5	BBVA Argentina	185,070	8%
6	Macro	163,373	7%
7	HSBC	97,029	4%
8	Ciudad Bs. As.	96,660	4%
9	ICBC	89,036	4%
10	Supervielle	71,393	3%
11	Patagonia	70,960	3%
12	Pcia. Córdoba	47,797	2%
13	Credicoop	41,610	2%
14	Hipotecario	39,392	2%
15	BICE	36,994	2%
Top 15		**2,010,907**	**84%**

Deposits (ARS Mill.)

Ranking	Bank	Amount	Market Share
1	Nación	970,154	21%
2	Santander	476,160	10%
3	Pcia. Bs. As.	430,074	9%
4	Galicia	413,997	9%
5	BBVA Argentina	288,054	6%
6	Macro	259,818	6%
7	HSBC	207,467	5%
8	Credicoop	166,764	4%
9	Ciudad Bs. As.	161,610	4%
10	ICBC	127,815	3%
11	Patagonia	119,925	3%
12	Supervielle	110,592	2%
13	Pcia. Córdoba	108,942	2%
14	Citibank	69,521	2%
15	Nuevo Santa Fe	60,376	1%
Top 15		**3,971,269**	**87%**

Equity (ARS Mill.)

Ranking	Bank	Amount	Market Share
1	Nación	106,307	16%
2	Macro	61,914	9%
3	Galicia	56,529	8%
4	Santander	52,906	8%
5	Pcia. Bs. As.	49,328	7%
6	BBVA Argentina	47,100	7%
7	ICBC	25,408	4%
8	Patagonia	21,398	3%
9	Citibank	21,148	3%
10	Credicoop	20,301	3%
11	HSBC	20,007	3%
12	Ciudad Bs. As.	19,840	3%
13	San Juan	14,313	2%
14	Supervielle	14,285	2%
15	BICE	13,382	2%
Top 15		**544,165**	**81%**

Source: Own elaboration based on data from the Argentine Central Bank.

MAIN FIGURES

Balance Sheet

(ARS M)	2013	2014	2015	2016	2017	2018	Jun 18	Jun 19
Assets	**1,004,892**	**1,340,548**	**1,847,314**	**2,503,804**	**3,468,783**	**5,531,805**	**4,372,735**	**6,106,535**
Liquid Assets	200,925	234,283	372,396	575,496	615,806	1,467,075	870,412	1,473,435
Public Bonds	**141,494**	**291,483**	**388,288**	**549,310**	**732,208**	**1,237,441**	**827,373**	**1,629,741**
Lebac/Nobac/Leliq	89,641	215,141	265,188	361,413	441,262	710,475	410,511	1,098,344
Portfolio	88,091	187,973	250,269	307,895	343,963	710,475	410,511	1,098,344
Repo	1,550	27,168	14,919	53,518	97,299	0	0	0
Private Bonds	434	1,602	1,897	950	1,037	41,287	38,761	51,767
Loans	**563,344**	**666,260**	**907,627**	**1,121,148**	**1,737,093**	**2,365,404**	**2,164,006**	**2,471,247**
Public Sector	48,438	51,470	75,254	60,089	37,738	49,351	46,634	50,173
Private Sector	501,857	604,062	819,174	1,038,650	1,655,049	2,254,399	2,060,045	2,370,318
Financial Sector	13,049	10,729	13,199	22,408	44,306	61,653	57,327	50,757
Loan Loss Provisions	-13,117	-17,054	-21,581	-27,286	-45,879	-87,016	-56,948	-108,167
Other Credits Fin. Intermediation	**42,435**	**74,383**	**73,964**	**134,120**	**222,393**	**115,105**	**219,827**	**147,771**
Corporate Bonds and Subordinated Debt	5,421	5,853	6,647	6,654	6,099	0	0	0
Unquoted Trusts	12,656	12,759	18,794	20,763	24,155	0	0	0
Compensation Receivable	0	0	0	0	0	0	0	0
Other	24,358	55,771	48,523	106,703	192,138	115,105	219,827	147,771
Leasing	9,460	10,578	12,665	13,624	19,389	22,524	21,853	20,831
Shares in Other Companies	15,117	20,770	26,874	33,531	49,093	61,031	51,811	70,983
Fixed Assets and Miscellaneous	14,231	19,505	26,402	34,326	45,580	151,602	114,012	174,976
Foreign Branches	5,627	7,243	10,633	13,123	15,735	26,850	22,986	30,421
Other Assets	24,941	31,495	48,149	55,462	76,328	130,502	98,642	143,530
Liabilities	**883,091**	**1,172,335**	**1,620,451**	**2,212,318**	**3,067,587**	**4,921,168**	**3,865,549**	**5,414,271**
Deposits	**752,422**	**979,388**	**1,355,353**	**1,847,281**	**2,445,998**	**4,085,244**	**3,191,087**	**4,500,375**
Public Sector	202,434	255,914	289,591	402,395	455,748	854,398	751,492	668,119
Private Sector	**544,331**	**714,878**	**1,053,121**	**1,425,834**	**1,969,399**	**3,163,482**	**2,407,905**	**3,755,351**
Current Accounts	125,237	166,663	207,909	246,407	321,105	396,692	329,859	439,574
Savigns Accounts	158,523	215,132	316,762	447,750	874,467	1,437,845	1,134,490	1,709,787
Time Deposits	241,281	309,353	496,649	579,810	709,719	1,256,944	880,689	1,508,193
CEDRO	0	0	0	0	0	0	0	0
Other Liabilities Fin. Intermediation	**92,634**	**138,058**	**191,335**	**276,752**	**502,847**	**595,647**	**511,798**	**618,833**
Interbanking Obligations	10,596	7,639	9,162	17,974	37,985	51,719	46,056	40,399
BCRA Lines	4,693	4,209	2,958	1,599	616	267	386	223
Outstanding Bonds	14,198	18,961	24,466	41,614	91,813	137,565	138,458	145,332
Foreign Lines of Credit	6,328	10,106	21,354	26,432	47,829	104,398	97,289	104,359
Other	56,820	97,143	133,395	189,133	324,604	301,697	229,609	328,519
Subordinated Debt	3,425	4,445	7,024	14,966	20,641	37,208	28,390	41,834
Other Liabilities	34,610	50,444	66,739	73,319	98,101	203,069	134,272	253,230
Net Worth	**121,800**	**168,213**	**226,863**	**291,485**	**401,196**	**610,637**	**507,186**	**692,264**

Source: Own elaboration based on data from the Argentine Central Bank.

Income Statement

(ARS M)	2013	2014	2015	2016	2017	2018	1H18	1H19
Financial Margin	**88,509**	**130,405**	**173,870**	**232,918**	**285,576**	**484,122**	**204,241**	**362,930**
Net Interest Income	47,950	80,467	107,617	161,354	160,625	453,392	136,776	408,920
CER and CVS Adjustments	2,153	4,402	2,877	6,922	8,189	64,807	17,160	53,131
FX Adjustments	11,287	13,812	11,342	18,949	23,057	40,094	19,499	16,725
Gains on Securities	22,280	44,198	82,739	112,125	107,656	327,314	95,216	378,044
Returns on Repo	1,435	1,374	2,161	3,886	15,445	8,963	6,767	2,408
Other Financial Income	2,454	2,786	-2,896	-2,202	-6,258	-2,288	-3,564	1,039
Net Fee Income	32,557	42,497	54,063	67,165	80,290	96,534	42,859	59,406
Loan Loss Provision	9,349	10,857	13,663	17,062	29,544	59,457	24,213	51,596
Administrative Expenses	60,722	83,117	113,145	156,633	202,650	280,828	124,704	188,845
Taxes	9,970	14,111	18,005	26,252	32,372	55,844	23,242	34,198
Adjust. Valuation of Gov. Securities	-377	-906	-624	-1,965	-1,647	12	7	0
Amortization Court-Ordered Releases	-128	-81	-57	-87	-68	0	0	0
Other	2,576	4,473	7,358	11,069	19,413	20,739	8,586	28,176
Monetary Results	0	0	0	0	0	0	0	0
Other Integral Results	0	0	0	0	0	37,186	8,404	2,930
Pretax Profit	**43,094**	**68,302**	**89,798**	**109,153**	**118,996**	**242,464**	**91,937**	**178,802**
Income Tax	13,951	22,365	29,788	34,646	41,288	56,687	21,454	47,981
Net Income	**29,143**	**45,937**	**60,010**	**74,506**	**77,709**	**185,777**	**70,483**	**130,821**
Adjusted Net Income	**29,649**	**46,925**	**60,691**	**76,559**	**79,424**	**185,765**	**70,483**	**130,821**

Asset Quality (%)

(As Percentage)	2012	2013	2014	2015	2016	2017	2018	Jun 18	Jun 19
Non-Performing Loans (NPL)	1.5	1.5	1.8	1.6	1.7	1.7	3.0	2.0	4.6
Provisions / NPL	144.4	150.5	141.5	147.3	139.8	150.6	121.2	127.0	91.7
(NPL - Provisions) / Overall Financing	-0.7	-0.8	-0.7	-0.7	-0.7	-0.9	-0.6	-0.5	0.4
(NPL - Provisions) / Net Worth	-3.4	-3.7	-3.1	-3.1	-2.7	-3.9	-2.5	-2.4	1.4

Solvency (%)

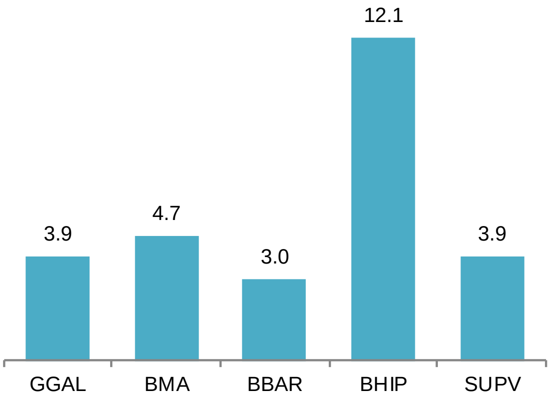
(As Percentage)	2013	2014	2015	2016	2017	2018	Jun 18	Jun 19
Liquidity	26.8	26.2	28.2	34.7	28.5	52.6	32.6	51.9
Credit to the Public Sector	9.4	9.1	10.1	8.9	8.4	10.4	10.5	9.4
Credit to the Private Sector	50.9	45.8	45.5	41.6	48.3	41.2	47.6	39.2
Private Non-Performing Loans	1.7	2.0	1.7	1.8	1.8	3.1	2.1	4.5
Net Worth Exposure to Private Sector	-3.5	-2.9	-2.9	-2.5	-3.0	-2.4	-2.3	0.4
ROA	3.4	4.1	4.1	3.6	2.7	4.1	3.7	4.4
ROE	29.5	32.7	32.4	29.6	23.4	36.1	30.6	40.9
Efficiency	205.9	215.6	208.4	191.4	180.5	206.5	198.1	223.6
Capital Compliance	13.6	14.7	13.1	16.7	15.6	16.0	14.9	16.1
Excess Capital Compliance	76.3	90.1	76.7	93.0	80.2	84.5	73.3	85.3

Source: Own elaboration based on data from the Argentine Central Bank.

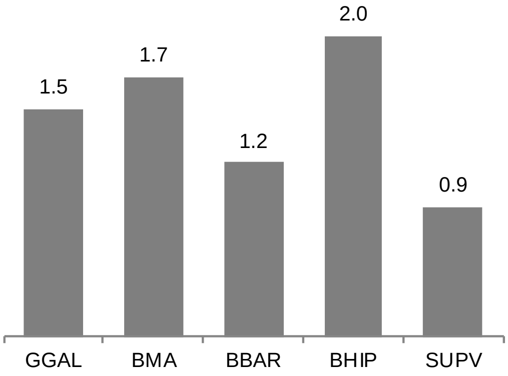
COMPARABLES

We present next a comparables analysis in terms of earnings (P/E ratio) and equity (P/BV ratio). The P/E ratio was compute don a trailing-twelve-months (or “ttm”) basis, while the P/BV ratio was compute don a most-recent-quarter (or “mrq”) basis.

P/E (ttm)



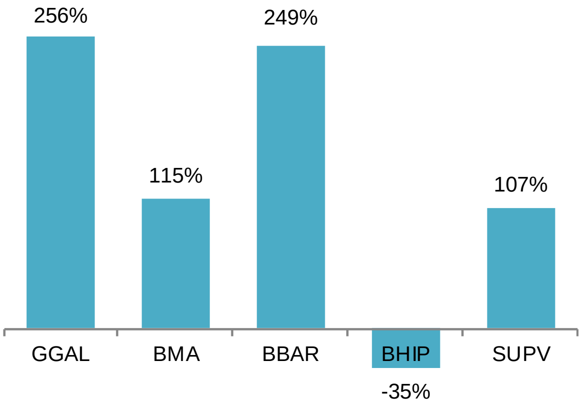
P/BV (mrq)



Source: Own elaboration based on market data and information provided by the companies.

The following graph shows the five banks’ earnings growth rate, comparing 2019 first-half figures with those of 2018. In addition, the chart below shows a comparison in terms of loans and deposits growth.

Earnings, YoY Growth – 1H19 vs. 1H18



Loans and Deposits, YoY Growth – 1H19 vs. 1H18

Annual Growth		
Bank	**Loans**	**Deposits**
GGAL	21%	57%
BMA	15%	58%
BBAR	15%	48%
BHIP	-13%	10%
SUPV	6%	49%

Source: Own elaboration based on market data and information provided by the companies.

Comparables

(ARS)	GGAL	BMA	BBAR	BHIP	SUPV
Market					
Price Local Share	80.80	170.70	92.85	13.75	37.05
Shares Outstanding (M)	1,427	639	613	1,500	457
Market Cap (M)	115,283	109,145	56,885	20,625	16,922
52w Average Daily Volume (M)	1.6	0.3	0.1	0.2	1.0
52w Return (%)	-6.5	19.0	-6.7	13.6	-32.9
YTD Return (%)	-21.8	4.1	-31.9	17.0	-41.5
52w High	174.55	350.85	183.45	19.00	84.60
52w Low	74.45	130.35	89.00	8.85	36.30
Valuation Ratios					
P/E (ttm)	3.9	4.7	3.0	12.1	3.9
P/BV (mrq)	1.5	1.7	1.2	2.0	0.9
Dividend Yield (%)	1.7	5.9	1.7	1.2	1.8
Balance Sheet (mrq)					
Total Assets (M)	586,567	401,032	392,892	83,822	166,145
Total Loans (M)	262,174	178,851	186,616	39,414	74,082
Total Liabilities (M)	526,323	338,296	344,082	73,328	146,750
Total Deposits (M)	409,171	284,259	285,202	29,617	112,638
Shareholder's Equity (M)	60,244	62,736	48,776	10,271	19,394
BV per Share	52.9	98.1	79.6	6.8	42.5
Loans YoY Growth (%)	21	15	33	-13	6
Deposits YoY Growth (%)	57	58	48	10	49
Asset Quality (mrq)					
NPL / Total Loans (%)	4.6	2.1	2.7	13.3	5.1
LLR / NPL (%)	108.0	116.1	112.9	52.2	107.7
Public-Sector / Total Assets (%)	27.2	24.2	20.6	22.7	27.1
Total Loans / Total Deposits (%)	64.1	62.9	65.4	133.1	65.8
Results (ttm)					
Net Interest Income (M)	13,051	52,327	37,815	990	7,335
Net Fee Income (M)	12,085	12,738	6,799	3,933	5,346
Administrative Expenses (M)	22,148	22,171	19,516	4,642	14,630
Net Income (M)	25,559	23,451	18,732	1,703	4,334
EPS	20.51	36.68	30.58	1.14	9.49
Efficiency (ttm)					
Net Fee Income / Adm. Expense (%)	54.6	57.5	34.8	84.7	36.5
ROA (%)	4.4	5.8	4.8	2.0	2.6
ROE (%)	42.4	37.4	38.4	16.6	22.3

Source: Own elaboration based on market data and information provided by the companies.

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August 19

Date: 08/20/2019

ARS 84.85 / USD 15.14

Target Price: ARS 142.00

Rating

Market Performer

Price Range (ARS)

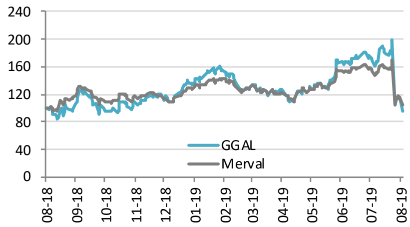
52 wk. Min.	**52 wk. Max.**
74.45	174.55

Variation %

Min.	**Max.**
13.3	-51.7

Price GGAL vs. Merval

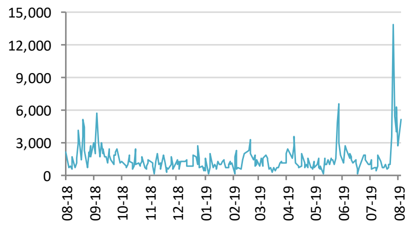
Last Year (100=Beginning of Period)



Source: Bloomberg

Daily Volume

Last Year



Source: Bloomberg

	Financial Margin (M)	Net Income (M)	EV/EBIT (x)	EPS ($)	P/E (x)	P/BV (x)
2018	19,247	11,537	7.3	8.1	10.4	2.9
2019e	11,593	27,416	3.3	19.2	4.4	1.6
2020e	13,912	30,807	2.9	21.6	3.9	1.3

Share Outstanding (million)	1,427	52-week Return	-3.8%
ADRs Outstanding (million)	143	EPS (TTM)	20.5
Market Cap. (million)	120,348	P/E (TTM)	4.1
Loans / Deposits (%)	72%	P/BV (MRQ)	1.6
Enterprise Value (million)	260,593	Dividend Yield	1.7%

Source: Company's financial statements; Bloomberg.

Good EPS Growth, but based on Securities Income

Grupo Financiero Galicia (BYMA/NASDAQ:GGAL) posted a net gain of ARS 11.6 billion in 2Q19, 316% y/y and 28% higher q/q. As it is usually the case, such result is mostly attributable to its stake in Banco Galicia, which obtained a profit of ARS 10.1 billion (415% YoY; 29% QoQ).

Turning to Banco Galicia's result, net financial income dropped 83% (-55% QoQ) in 2Q19, due to a stagnant credit market and higher funding costs, especially in the case of certificates of deposits. This way, the financial margin from the commercial banking business remains on a negative trend.

Securities income, in contrast, continued its upward trend, and today accounts for nearly half of the bank's financial income, amounting to over ARS 17.5 billion (+ARS 16.1 billion YoY; 15% QoQ). This was the result of a larger position in Central Bank Leliqs and higher yields on these securities.

The above-mentioned performance reflects a credit market that remains stagnant. While deposits showed no growth in the last quarter, private-sector credit fell 2%. In terms of asset quality, the ratio of non-performing loans to total credit stood at 4.6% as of June 2019 (2.3% in 2Q18; 3.9% in 1Q19), with loan-loss coverage of 108%.

Outlook

The Good: Long-Term Prospects

The Argentine banking industry in general presents a relatively small size in terms of GDP, when compared to other Latin American and developing countries. From this point of view, the long-term potential of the domestic banking industry remains intact. Moreover, in terms of solvency, the domestic banking industry presents healthy capitalization figures.

In addition, in the case of Grupo Financiero Galicia, its strength in consumer-oriented financial products and services, both through Banco Galicia as well as through Tarjetas Regionales (a non-banking credit card subsidiary), provides the company with a strategic market position that could turn very profitable if and when the so-desired economic recovery arrives.

The Bad: High Exposure to Economic Cycle and Leliq-Dependence

However, it is this same exposure to the domestic economic cycle that in times of recession means lower gains and lower growth for Grupo Financiero Galicia. As mentioned above, today, a great share of the company's profit does not stem from the traditional commercial banking activity, but from holdings of Central Bank Leliqs with unusually high yields. Any government decision that could change the current scheme would have a strong impact.

Opinion: High-Risk Scenario Means Lower Valuation and Increased Volatility

The current combination of economic stagnation and political and economic uncertainty in Argentina has triggered an unprecedented escalation of discount rates applied on local assets, especially in the case of banks and financial companies with an extra risk stemming from their Leliq-dependence. This reflects on a lower intrinsic valuation and increased volatility of the share price.

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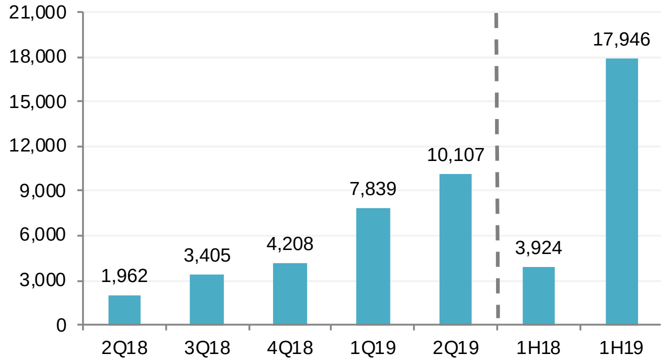
Argentine Banking Industry – First Half 2019

August 19

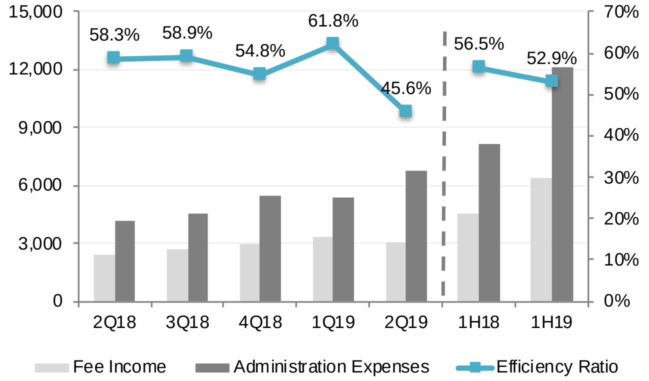
GGAL

RESULTS

Earnings (ARS Million)

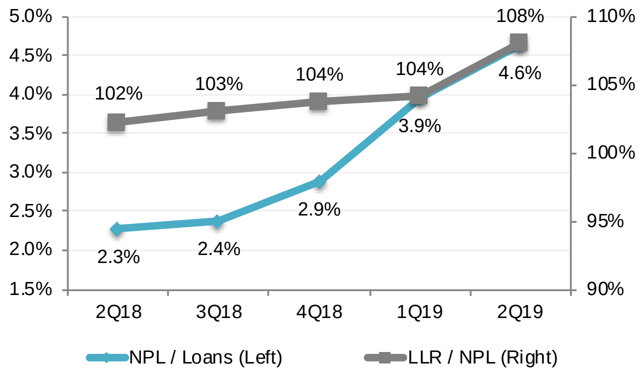


Efficiency (ARS Million)



ASSET QUALITY

NPL and LLR Coverage

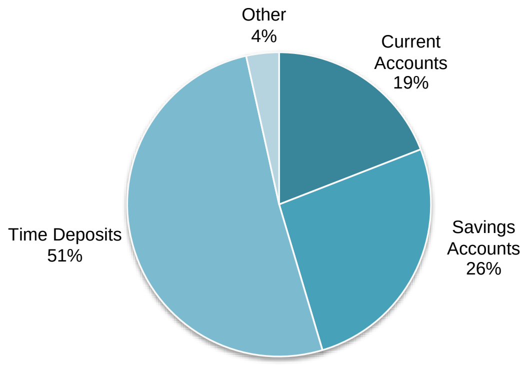


Source: Own elaboration based on company financial statements.

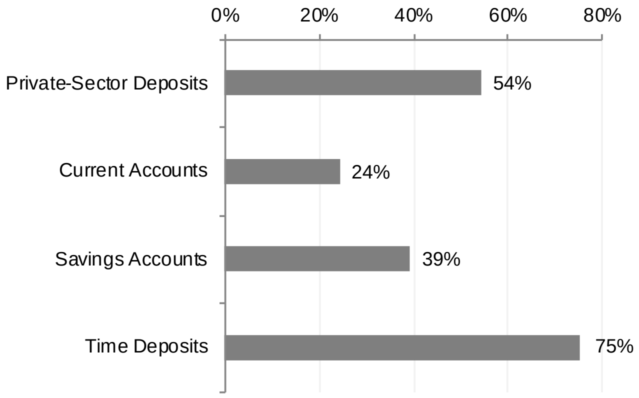
GGAL

DEPOSITS

Composition as of June 2019

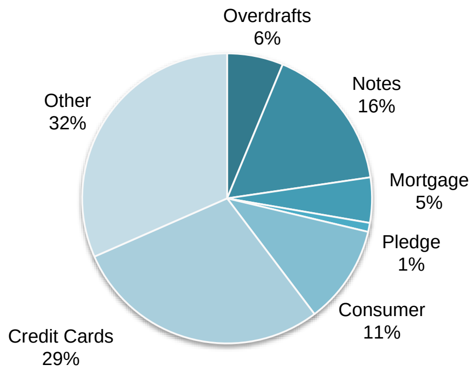


YoY Growth

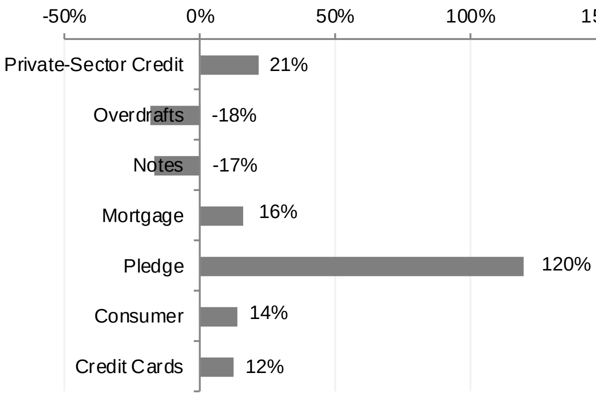


LOANS

Composition as of June 2019



YoY Growth



Source: Own elaboration based on company financial statements.

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GGAL

MAIN FINANCIALS

(ARS M)	2Q19	1Q19	2Q18	QoQ	YoY
Income Statement					
Net Interest Income	820	1,838	4,699	-55%	-83%
Net Fee Income	3,066	3,350	2,460	-8%	25%
Administrative Expenses	6,721	5,417	4,216	24%	59%
Net Income	**10,107**	**7,839**	**1,962**	**29%**	**415%**
ROA	4.4%	3.1%	2.1%	129 bps	230 bps
ROE	42.4%	33.7%	21.3%	868 bps	2116 bps
Efficiency Ratio	45.6%	61.8%	58.3%	-1622 bps	-1273 bps
Balance Sheet					
Cash	127,019	130,542	91,103	-3%	39%
Securities	148,049	109,013	30,650	36%	383%
Loans	262,174	267,178	217,506	-2%	21%
Total Assets	**586,567**	**567,477**	**376,771**	**3%**	**56%**
Deposits	409,171	410,170	261,270	0%	57%
Financial Liabilities	100,214	89,985	70,283	11%	43%
Total Liabilities	**526,323**	**515,875**	**340,329**	**2%**	**55%**
Shareholder's Equity	**60,244**	**51,602**	**36,442**	**17%**	**65%**
Equity / Total Liabilities	11.4%	10.0%	10.7%	144 bps	74 bps
NPL / Total Loans	4.6%	3.9%	2.3%	69 bps	236 bps
LLR / NPL	108.0%	104.1%	102.3%	388 bps	573 bps
Public-Sector Exposure	27.2%	21.9%	8.9%	536 bps	1836 bps

Source: Own elaboration based on company financial statements.

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BMA 2Q19

research-financiero@capitalmarkets.com.ar

August 19

Date: 08/20/2019

ARS 178.80 / USD 32.32

Target Price: ARS 278.50

Rating

Market Performer

Price Range (ARS)

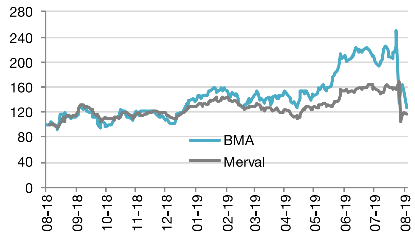
52 wk. Min.	52 wk. Max.
130.35	350.85

Variation %

Min.	Max.
37.2	-49.0

Price BMA vs. Merval

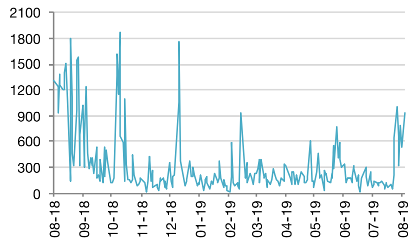
Last Year (100=Beginning of Period)



Source: Bloomberg

Daily Volume

Last Year



Source: Bloomberg

	Financial Margin (M)	Net Income (M)	EV/EBIT (x)	EPS ($)	P/E (x)	P/BV (x)
2018	39,645	15,777	17.9	24.7	7.2	2.1
2019e	52,058	23,016	15.0	36.0	5.0	2.1
2020e	62,469	29,143	15.1	45.6	3.9	2.5

Share Outstanding (million)	639	52-week Return	27.6%
ADRs Outstanding (million)	64	EPS (TTM)	36.7
Market Cap. (million)	114,324	P/E (TTM)	4.9
Loans / Deposits (%)	63%	P/BV (MRQ)	1.8
Enterprise Value (million)	154,740	Dividend Yield	5.6%

Source: Company's financial statements; Bloomberg.

Mixed Results that Confirm Leliq-Dependence

Banco Macro (Buenos Aires/NYSE:BMA) posted mixed results in 2Q19.

Although earnings lie 124% on top of 2Q18 figures, they lie 4% below the previous quarter's profit, which included the effect of the Prisma transaction.

Excluding such one-off result, QoQ earnings growth stood at 37%.

As it has been the case in recent quarters, a relevant portion of 2Q18 profit stemmed from the interest obtained from Central Bank Leliqs, while the financial margin from the commercial banking side remains on a negative trend.

This way, securities income (+376% YoY; 57% QoQ) accounts today for 48% of the bank's financial income, while loan interest income (41% YoY; 2% QoQ) accounts for just 46%, with a growth pace well below inflation.

The above-mentioned performance reflects a credit market that remains stagnant.

While deposits rose 4% between quarters, private-sector credit showed no growth.

In terms of asset quality, the ratio of non-performing loans to total credit stood at 2.1% as of June 2019 (1.4% in 2Q18; 2% in 1Q19), with loan-loss coverage of 116%.

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Outlook

The Good: Long-Term Prospects

As discussed in previous reports, the Argentine banking industry in general presents a relatively small size in terms of GDP, when compared to other Latin American and developing countries. From this point of view, the long-term potential remains intact.

Moreover, in the case of Banco Macro, its wide branch network throughout the whole country, and the fact that the bank is the financial agent of some provincial governments, provides a double exposure to regional economies, something positive in periods of a strong agro sector.

The Bad: Dependent on High-Yield Central Bank Leliqs

However, this does not escape the fact that the current political and economic uncertainty in Argentina has translated into a lower intrinsic valuation of Banco Macro's share price. Recent events have triggered an unprecedented escalation in discount rates applied on local assets, especially in the case of bank shares.

As mentioned, a great share of 2018 and 2019 profit does not stem from the traditional commercial banking activity, but from holdings of Central Bank Leliqs with unusually high yields. Any government decision that could change the current scheme would have a strong impact on results.

Opinion: High-Risk Scenario Means Lower Valuation and Increased Volatility

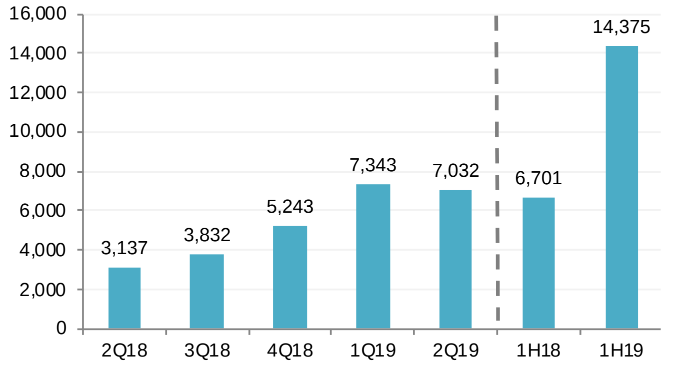
Economic stagnation, on the one hand, and extraordinarily high yields on Central Bank Leliqs, on the other, have created a dependency of the Argentine banking industry on this type of securities in terms of profitability.

In addition, current political and economic uncertainty reflects on a lower intrinsic valuation and increased volatility of the share price.

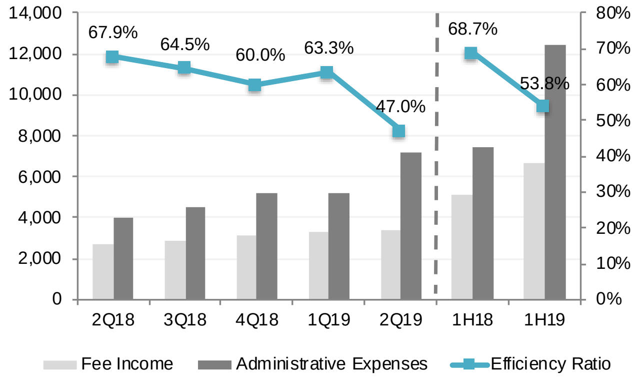
BMA

RESULTS

Earnings (ARS Million)

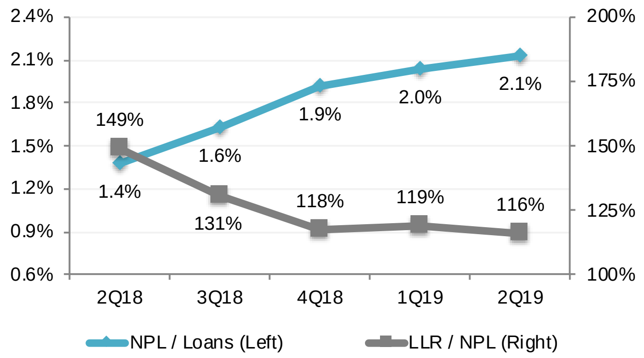


Efficiency (ARS Million)



ASSET QUALITY

NPL and LLR Coverage

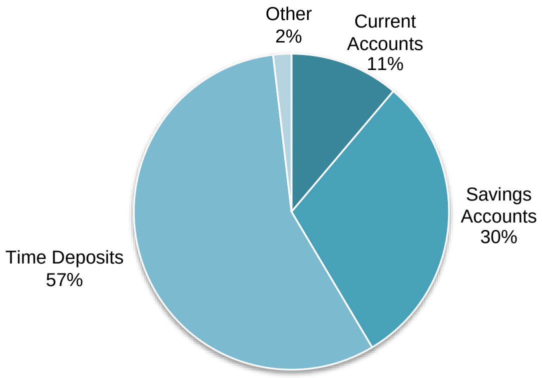


Source: Own elaboration based on company financial statements.

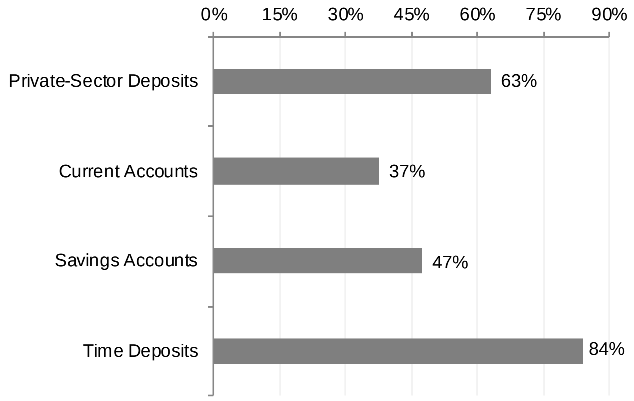
BMA

DEPOSITS

Composition as of June 2019

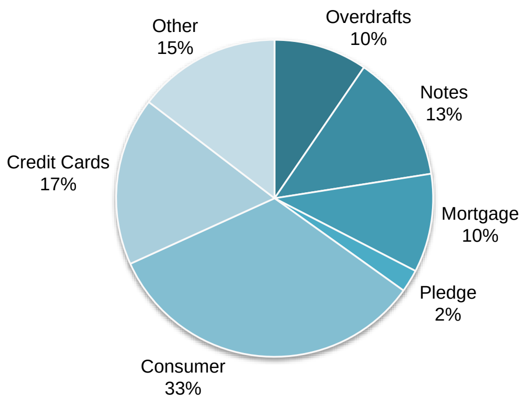


YoY Growth

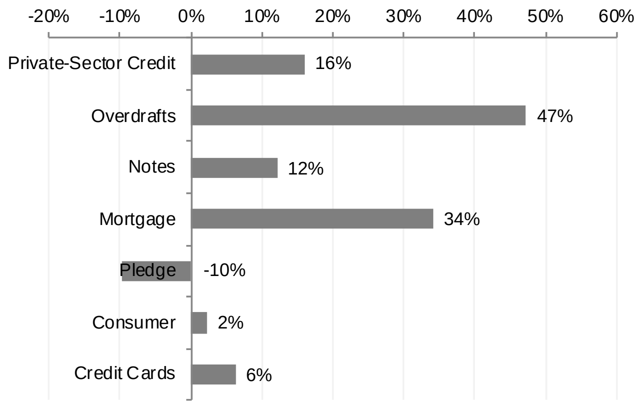


LOANS

Composition as of June 2019



YoY Growth



Source: Own elaboration based on company financial statements.

BMA

MAIN FINANCIALS

(ARS M)	2Q19	1Q19	2Q18	QoQ	YoY
Income Statement					
Net Interest Income	16,785	12,931	9,093	30%	85%
Net Fee Income	3,391	3,310	2,711	2%	25%
Administrative Expenses	7,217	5,229	3,993	38%	81%
Net Income	**7,032**	**7,343**	**3,137**	**-4%**	**124%**
ROA (ttm)	5.8%	5.0%	4.6%	84 bps	122 bps
ROE (ttm)	37.4%	31.5%	25.0%	588 bps	1240 bps
Efficiency Ratio	47.0%	63.3%	67.9%	-1631 bps	-2091 bps
Balance Sheet					
Cash and Due from Banks	96,427	75,309	50,310	28%	92%
Securities	1,980	2,964	1,340	-33%	48%
Loans	178,851	177,717	155,621	1%	15%
Total Assets	**401,032**	**390,298**	**271,735**	**3%**	**48%**
Deposits	284,259	272,611	179,473	4%	58%
Financial Liabilities	40,416	43,883	32,796	-8%	23%
Total Liabilities	**338,296**	**328,208**	**221,345**	**3%**	**53%**
Shareholder's Equity	**62,736**	**62,090**	**50,390**	**1%**	**25%**
Equity / Total Liabilities	18.5%	18.9%	22.8%	-37 bps	-422 bps
NPL / Total Loans	2.1%	2.0%	1.4%	9 bps	74 bps
LLR / NPL	116.1%	119.2%	149.3%	-309 bps	-3316 bps
Exposure to Public Sector	24.2%	28.6%	17.7%	-445 bps	649 bps

Source: Own elaboration based on company financial statements.

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BBAR 2Q19

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August 19

Date: 08/20/2019

ARS 95.05 / USD 5.08

Target Price: ARS 172.40

Rating

Market Performer

Price Range (ARS)

52 wk. Min.	52 wk. Max.
89.00	183.45

Variation %

Min.	Max.
6.8	-48.2

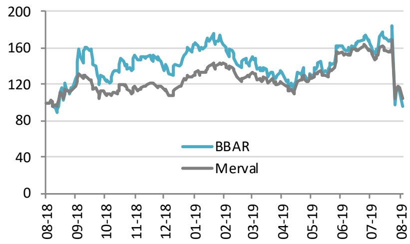
	Financial Margin (M)	Net Income (M)	EV/EBIT (x)	EPS ($)	P/E (x)	P/BV (x)
2018	26,129	9,614	7.3	15.7	6.1	1.5
2019e	39,434	19,217	3.4	31.4	3.0	1.1
2020e	48,792	22,599	3.0	36.9	2.6	0.9

Share Outstanding (million)	613	52-week Return	-4.5%
ADRs Outstanding (million)	204	EPS (TTM)	30.6
Market Cap. (million)	58,233	P/E (TTM)	3.1
Loans / Deposits (%)	65.4	P/BV (MRQ)	1.2
Enterprise Value (million)	114,825	Dividend Yield	1.7%

Source: Company's financial statements; Bloomberg.

Price BBAR vs. Merval

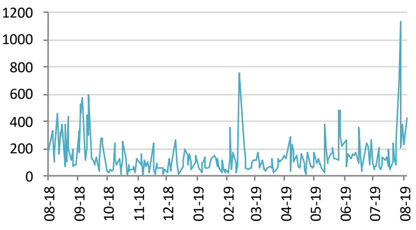
Last Year (100=Beginning of Period)



Source: Bloomberg

Daily Volume

Last Year



Source: Bloomberg

Interesting Relative Valuation

BBVA Argentina (BYMA/NYSE:BMA) posted a net gain of ARS 6.8 billion in 2Q19, almost 220% higher y-o-y, and 13% q-o-q. It is worth recalling that the net income of 1Q19 included a one-off profit from the sale of 51% of the bank's stake in Prisma and the market valuation of the remaining 49%; excluding such impact, the growth in the quarter would have been 74%.

Net interest margin rose 117% in the last 12 months and 26% in the quarter. In terms of its composition, and as it has been the case in recent quarters, a relevant portion of 2Q19 profit stemmed securities income (616% YoY; 80% QoQ), which today accounts for 37% of the bank's total financial income. On the contrary, in the commercial banking business, loan interest income grew only 3% in the quarter (53% YoY) and accounts for 49% of total financial income.

Such performance is in part the result of a stagnant credit market. While deposits rose only 2% between quarters (48% YoY), private-sector credit showed almost no growth (0.7% QoQ) and grew below inflation in annual terms (15% YoY). The ratio of non-performing loans to total credit stood at 2.7% as of June 2019 (0.9% in 2Q18; 2.2% in 1Q19), with loan-loss coverage of 113%; although there is a clear worsening of asset quality figures, they remain within the lowest levels among its domestic peers.

Outlook

The Good: Relative Valuation

The Argentine banking industry in general presents a relatively small size in terms of GDP, when compared to other Latin American and developing countries. From this point of view, the long-term potential remains intact. Moreover, in terms of solvency, the domestic banking industry presents healthy capitalization figures.

In the case of BBVA Argentina, its stock presents a lower valuation in terms of P/E ratios than other Argentine banks and financial companies.

Something similar occurs in terms of P/BV ratios. BBVA Argentina, together with Grupo Financiero Supervielle (BYMA: SUPV), are among the banking stocks that have suffered the most in terms of valuation in the recent past. For further details, see the Relative Valuation chart later in this report.

The Bad: Dependent on High-Yield Central Bank Leliqs

Recent events in Argentina and the current scenario of political and economic uncertainty have triggered an unprecedented escalation of discount rates applied on local assets, with particular impact on banking stocks. As mentioned above, a great share of the bank's profit does not stem from the traditional commercial banking business, but from holdings of Central Bank Leliqs with unusually high yields. Any government decision that could change the current scheme would have a strong impact on results.

High-Risk Scenario Means Lower Valuation and Increased Volatility

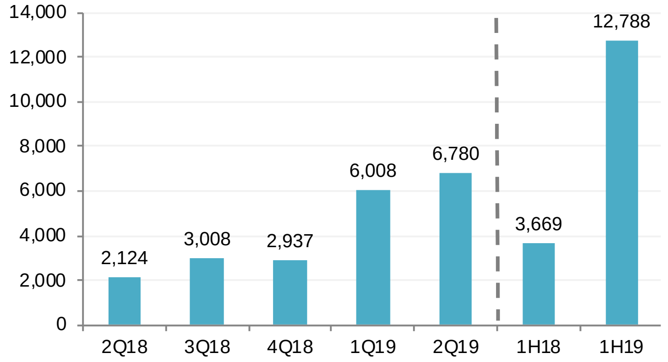
Economic stagnation, on the one hand, and extraordinarily high yields on Central Bank Leliqs, on the other, have created a dependency of the Argentine banking industry on this type of securities in terms of profitability.

In addition, current's political and economic uncertainty reflects on a lower intrinsic valuation and increased volatility of the stock price.

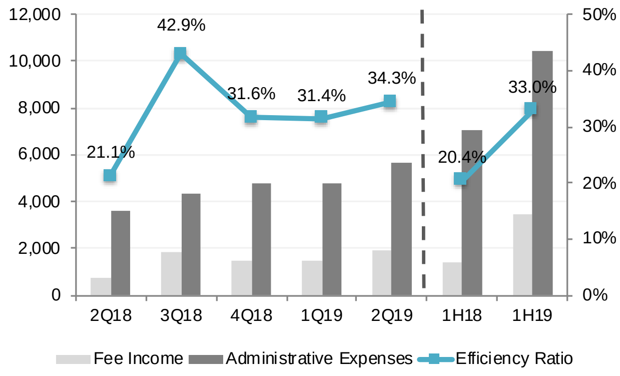
BBAR

RESULTS

Earnings (ARS Million)

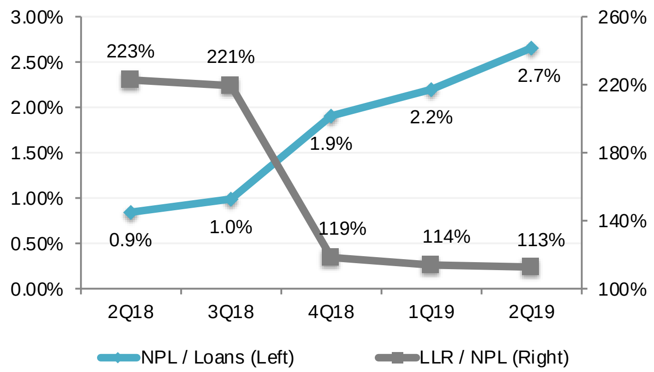


Efficiency (ARS Million)



ASSET QUALITY

NPL and LLR Coverage



Source: Own elaboration based on company financial statements.

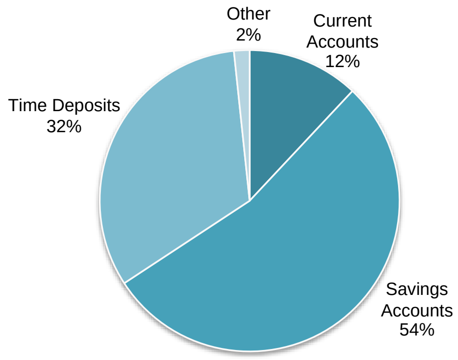
Argentine Banking Industry – First Half 2019

August 19

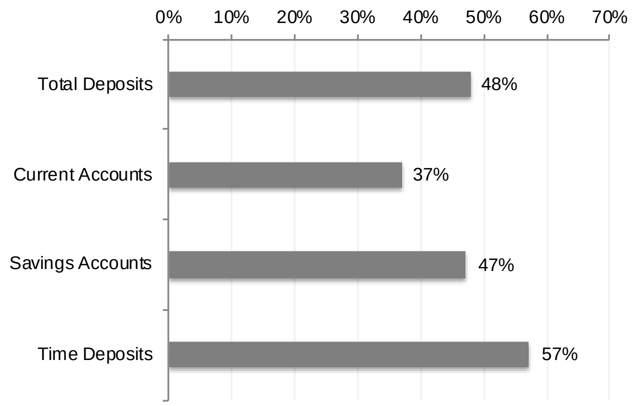
BBAR

DEPOSITS

Composition as of June 2019

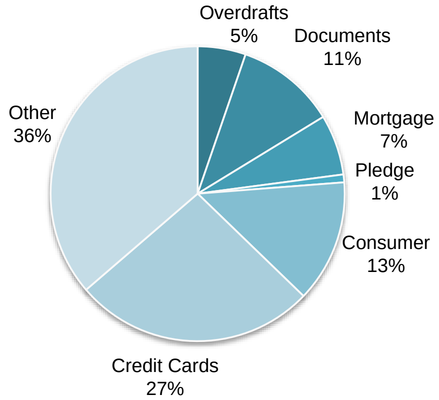


YoY Growth

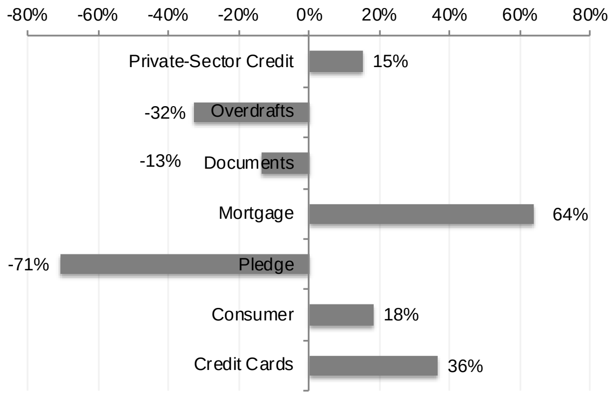


LOANS

Composition as of June 2019



YoY Growth



Source: Own elaboration based on company financial statements.

BBAR

MAIN FINANCIALS

(ARS M)	2Q19	1Q19	2Q18	QoQ	YoY
Income Statement					
Net Interest Income	20,239	16,024	9,307	26%	117%
Net Fee Income	1,944	1,495	756	30%	157%
Administrative Expenses	5,663	4,757	3,577	19%	58%
Net Income	**6,780**	**6,008**	**2,124**	**13%**	**219%**
ROA	4.8%	3.6%	2.4%	114 bps	239 bps
ROE	38.4%	31.7%	19.4%	668 bps	1896 bps
Fee Income / Adm. Expenses	34.3%	31.4%	21.1%	290 bps	1318 bps
Balance Sheet					
Cash and Due from Banks	90,955	103,990	54,531	-13%	67%
Securities	6,591	2,050	2,736	222%	141%
Loans	186,616	185,306	162,123	1%	15%
Total Assets	**392,892**	**387,742**	**268,228**	**1%**	**46%**
Deposits	285,202	278,707	192,857	2%	48%
Financial Liabilities	56,592	63,014	46,595	-10%	21%
Total Liabilities	**344,082**	**343,333**	**234,813**	**0%**	**47%**
Shareholder's Equity	**48,776**	**44,375**	**32,862**	**10%**	**48%**
Equity / Total Liabilities	14.2%	12.9%	14.0%	125 bps	18 bps
NPL / Total Loans	2.7%	2.2%	0.9%	44 bps	180 bps
LLR / NPL	112.9%	114.4%	223.4%	-155 bps	-11057 bps
Exposure to Public Sector	20.6%	14.0%	10.8%	662 bps	979 bps

Source: Own elaboration based on company financial statements.

BHIP 2Q19

research-financiero@capitalmarkets.com.ar

August 19

Date: 08/23/2019

ARS 13.75

Target Price: ARS 17.20

Rating

Market Performer

Price Range (ARS)

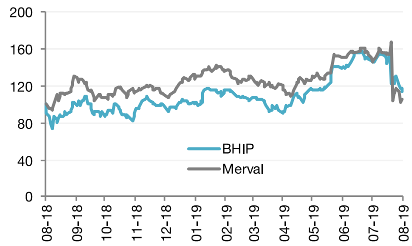
52 wk. Min.	52 wk. Max.
8.85	19.00

Variation %

Min.	Max.
55.4	-27.6

Price BHIP vs. Merval

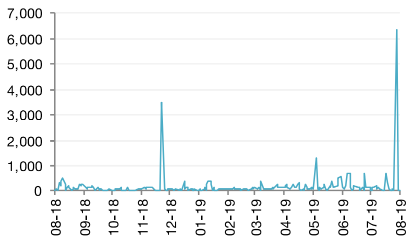
Last Year (100=Beginning of Period)



Source: Bloomberg

Daily Volume

Last Year



Source: Bloomberg

	Financial Margin (M)	Net Income (M)	EV/EBIT (x)	EPS ($)	P/E (x)	P/BV (x)
2018	2,164	2,051	21.5	1.4	10.1	2.0
2019e	622	1,759	25.4	1.2	11.7	2.1
2020e	1,444	1,823	26.2	1.2	11.3	1.8

Share Outstanding (million)	1,500	52-week Return	13.6%
ADRs Outstanding (million)	N/A	EPS (TTM)	1.1
Market Cap. (million)	20,625	P/E (TTM)	12.1
Loans / Deposits	133%	P/BV (MRQ)	2.0
Enterprise Value (million)	58,980	Dividend Yield	1.2%

Source: Company's financial statements; Bloomberg.

BHIP: High Relative Valuation and Poor Results

Banco Hipotecario's (BYMA:BHIP) 2Q 2019 result confirmed a declining profitability trend and lower activity, initiated in previous quarters. Although the period's net income (ARS 616 million) lies above 1Q19 figures (ARS 36.5 million), it is only 20% higher than the profit obtained in 2Q18, well below the annual inflation rate.

Net interest income plummeted 77% in annual terms, and grew only 5% over the previous three months, which had already been a bad quarter. In a context of a stagnant commercial banking business, loan interest income showed no growth in the quarter (2% QoQ) and rose only 27% in the year, again below inflation.

Different was the case with securities income, which, due to a larger position in Central Bank Leliqs and higher yields paid by these bonds, rose 35% between quarters and 141% in the last 12 months. Similar to what has been the case in recent quarters, the bank posted a material loss of close to ARS 1 billion in terms of FX result.

Deposits grew only 2% in the last quarter and 10% year-on-year. Private-sector credit, in turn, dropped both in quarterly and annual terms (-5% QoQ; -13% YoY), deepening the activity slowdown witnessed in this and in previous quarters.

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Outlook

The Good: Relative Valuation

The Argentine banking industry in general presents a relatively small size in terms of GDP, when compared to other Latin American and developing countries. From this point of view, the long-term potential remains intact. Moreover, in terms of solvency, the domestic banking industry presents healthy capitalization figures.

The Bad: High Relative Valuation; High NPLs; Leliq-Dependence

Banco Hipotecario presents P/E and P/BV valuation ratios that lie well above the values of its local peers. For further details, see the Relative Valuation chart later in this report.

In addition, Banco Hipotecario has seen a trend of worsening asset quality figures, reaching above-the-industry-average levels: in 2Q19, the ratio of non-performing loans to total credit stood at 13.3% (11.9% in 1Q19; 4.5% in 2Q18), with a rather low loan-loss coverage of 52%.

As mentioned, a great share of the bank's profit does not stem from the traditional commercial banking business but from holdings of Central Bank Leliqs with unusually high yields. Any government decision that could change the current scheme would have a strong impact on results.

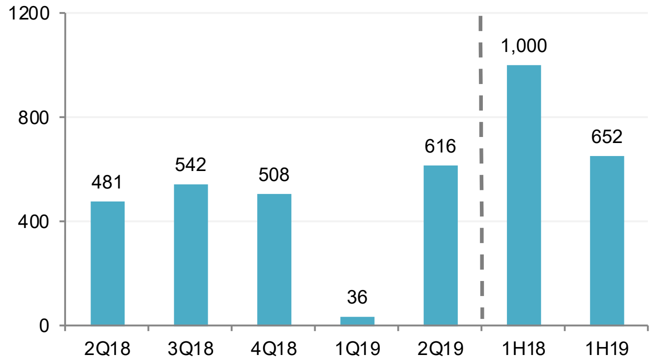
High-Risk Scenario Means Lower Valuation and Increased Volatility

The current scenario of political and economic uncertainty in Argentina has triggered an unprecedented escalation of discount rates, lower intrinsic valuation of domestic assets, and increased stock price volatility.

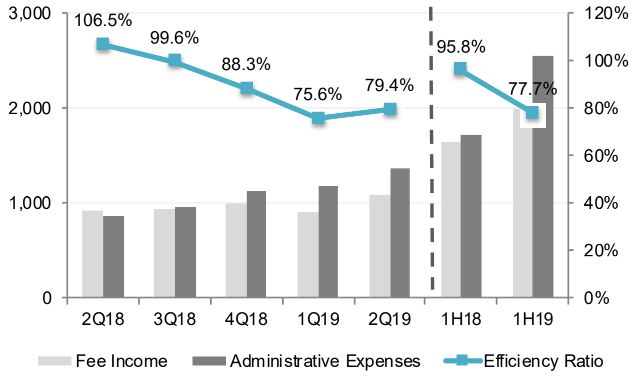
BHIP

RESULTS

Earnings (ARS Million)

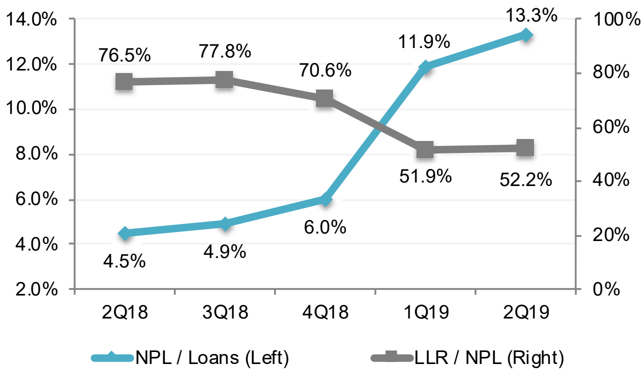


Efficiency (ARS Million)



ASSET QUALITY

NPL and LLR Coverage

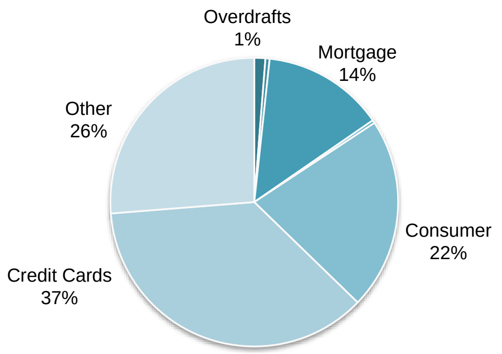


Source: Own elaboration based on company financial statements.

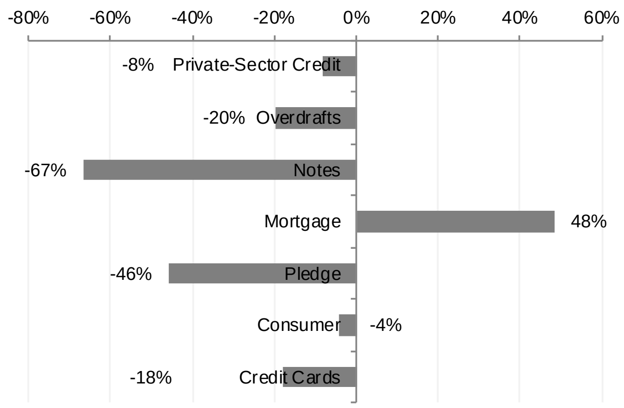
BHIP

LOANS

Composition as of June 2019



YoY Growth



Source: Own elaboration based on company financial statements.

BHIP

MAIN FINANCIALS

(ARS M)	2Q19	1Q19	2Q18	QoQ	YoY
Income Statement					
Net Interest Income	171	162	733	5%	-77%
Net Fee Income	1,086	900	923	21%	18%
Administrative Expenses	2,242	1,943	1,614	15%	39%
Net Income	**616**	**36**	**481**	**1587%**	**28%**
ROA	2.0%	1.8%	2.4%	19 bps	-38 bps
ROE	16.6%	15.8%	22.6%	75 bps	-600 bps
Efficiency Ratio	48.5%	46.3%	57.2%	215 bps	-871 bps
Balance Sheet					
Cash	7,976	6,862	6,262	16%	27%
Securities	20,360	21,519	16,322	-5%	25%
Loans	39,414	41,456	45,148	-5%	-13%
Total Assets	**83,822**	**85,259**	**81,717**	**-2%**	**3%**
Deposits	29,617	28,974	26,871	2%	10%
Financial Liabilities	38,355	40,615	39,154	-6%	-2%
Total Liabilities	**73,328**	**75,141**	**72,688**	**-2%**	**1%**
Shareholder's Equity	**10,271**	**9,906**	**8,719**	**4%**	**18%**
Equity / Total Liabilities	14.0%	13.2%	12.0%	82 bps	201 bps
NPL / Total Loans	13.3%	11.9%	4.5%	140 bps	880 bps
LLR / NPL	52.2%	51.9%	76.5%	30 bps	-2430 bps
Exposure to Public Sector	22.7%	22.8%	17.3%	-9 bps	539 bps

Source: Own elaboration based on company financial statements.

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SUPV 2Q19

research-financiero@capitalmarkets.com.ar

August 19

Date: 08/23/2019

ARS 37.05

Target Price: ARS 62.90

Rating

Market Performer

Price Range (ARS)

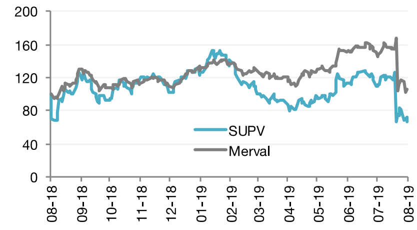
52 wk. Min.	52 wk. Max.
36.30	84.60

Variation %

Min.	Max.
2.1	-56.2

Price SUPV vs. Merval

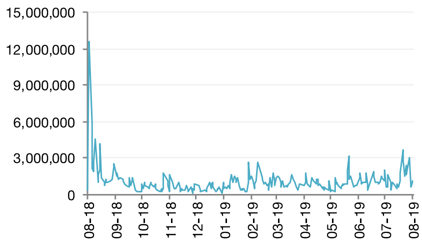
Last Year (100=Beginning of Period)



Source: Bloomberg

Daily Volume

Last Year



Source: Bloomberg

	Financial Margin (M)	Net Income (M)	EV/EBIT (x)	EPS ($)	P/E (x)	P/BV (x)
2018	10,462	3,030	41.3	6.6	5.6	1.0
2019e	7,111	4,438	35.4	9.7	3.8	0.8
2020e	9,184	3,493	46.4	7.6	4.8	0.7

Share Outstanding (million)	457	52-week Return	-32.9%
ADRs Outstanding (million)	N/A	EPS (TTM)	9.5
Market Cap. (million)	16,922	P/E (TTM)	3.9
Loans / Deposits (%)	66%	P/BV (MRQ)	0.9
Enterprise Value (million)	41,830	Dividend Yield	1.8%

Source: Company's financial statements; Bloomberg.

SUPV: Securities Income and FX Gains Save the Quarter

Grupo Supervielle (BYMA:SUPV) posted mixed results in 2Q 2019. Earnings amounted to ARS 1.9 billion, +302% y-o-y, and 210% q-o-q. It is worth noticing that 2Q19 results include ARS 664 million in inflation adjustment driven by the income tax provision, which translated into a negative effective tax rate, augmenting the quarter's net income.

In terms of net interest income, while 2Q19 figures grew 13% between quarters, they dropped more than 50% in annual terms. This was the result of a steep increment in financial expenses (169% YoY), mainly due to higher interest rates on time deposits, which greatly outpaced the growth of financial income (53% YoY).

In a context of commercial banking business stagnation, a relevant portion of 2Q19 profit stemmed from securities income, totaling more than ARS 4.9 billion, versus a loss of ARS 509 million in the same quarter of 2018. The bank also posted a profit of ARS 271 million from FX results, compared to a loss of ARS 328 million in the previous quarter.

Such performance is in part the result of a credit market that remains stagnant. While deposits rose only 3% between quarters (49% YoY), private-sector credit showed no growth in the quarter (0.2% QoQ) and grew below inflation in annual terms (8% YoY). The ratio of non-performing loans to total credit stood at 5.1% as of June 2019 (3.6% in 2Q18; 5.3% in 1Q19), meaning a clear worsening of asset quality figures, although there was a mild recovery in the last quarter. Loan-loss coverage is 107%.

The Good: Relative Valuation

The Argentine banking industry in general presents a relatively small size in terms of GDP, when compared to other Latin American and developing countries. From this point of view, the long-term potential remains intact. Moreover, in terms of solvency, the domestic banking industry presents healthy capitalization figures.

In the case of Grupo Supervielle, its stock trades at a lower relative valuation in terms of P/E and P/BV ratios than its local peers. For further details, see the Relative Valuation chart later in this report.

The Bad: Dependent on High-Yield Central Bank Leliqs

As mentioned, a great share of the bank's profit does not stem from the traditional commercial banking business but from holdings of Central Bank Leliqs with unusually high yields.

Any government decision that could change the current scheme would have a strong impact on results.

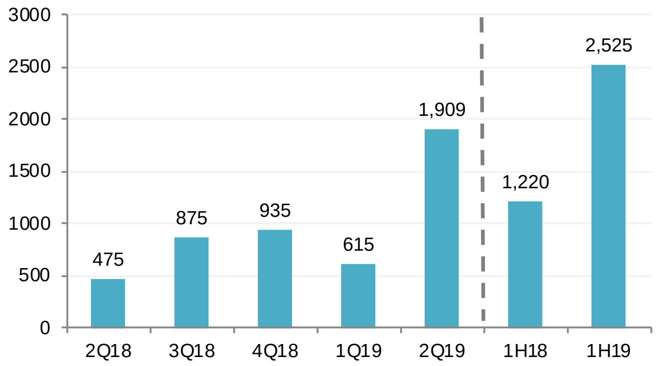
High-Risk Scenario Means Lower Valuation and Increased Volatility

The current scenario of political and economic uncertainty in Argentina has triggered an unprecedented escalation of discount rates, lower intrinsic valuation of domestic assets, and increased stock price volatility.

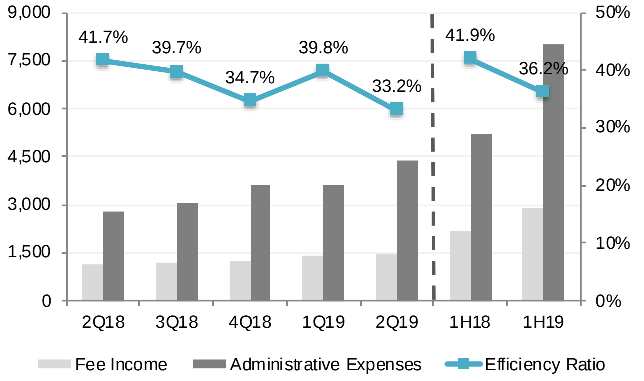
SUPV

RESULTS

Earnings (ARS Million)

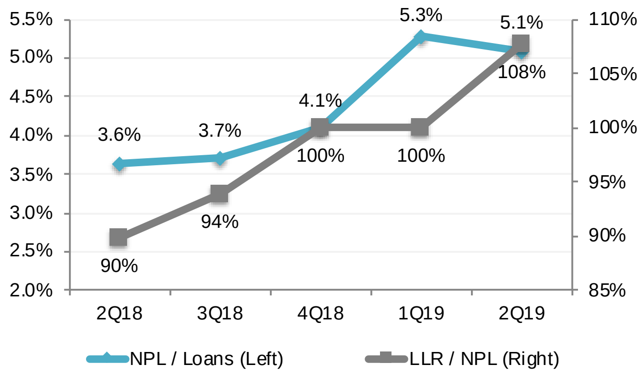


Efficiency (ARS Million)



ASSET QUALITY

NPL and LLR Coverage



Source: Own elaboration based on company financial statements.

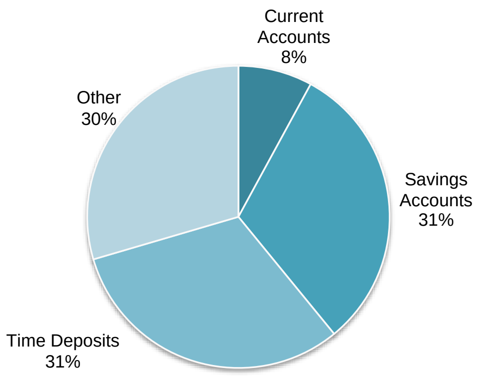
Argentine Banking Industry – First Half 2019

August 19

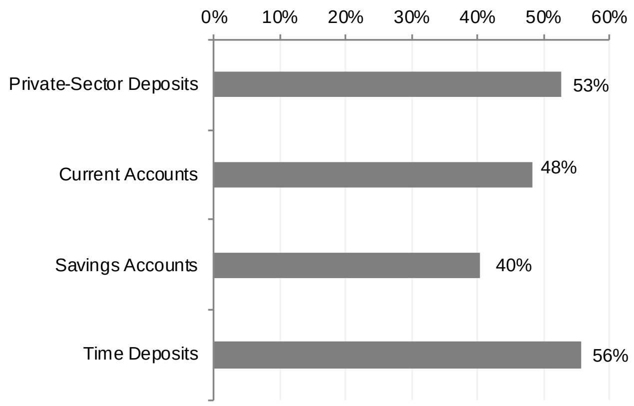
SUPV

DEPOSITS

Composition as of June 2019

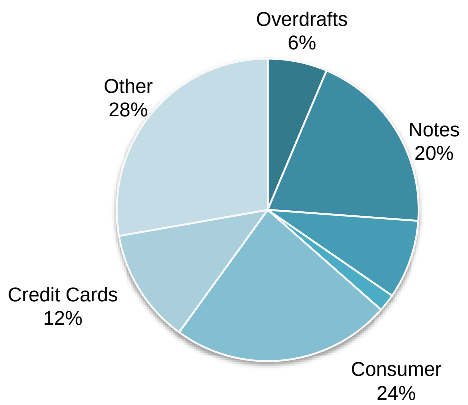


YoY Growth

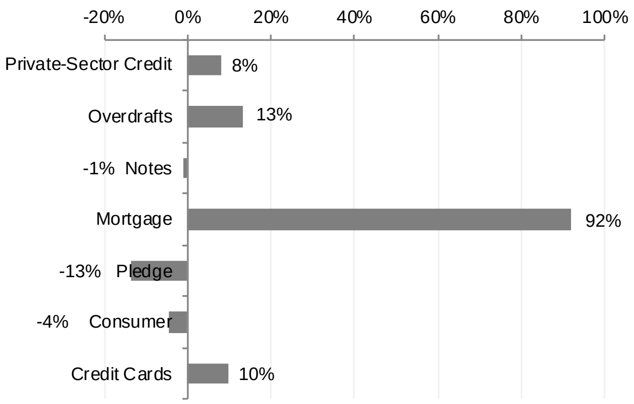


LOANS

Composition as of June 2019



YoY Growth



Source: Own elaboration based on company financial statements.

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SUPV

MAIN FINANCIALS

(ARS M)	2Q19	1Q19	2Q18	QoQ	YoY
Income Statement					
Net Interest Income	1,371	1,218	2,898	13%	-53%
Net Fee Income	1,459	1,432	1,150	2%	27%
Administrative Expenses	4,396	3,598	2,761	22%	59%
Net Income	**1,909**	**615**	**475**	**210%**	**302%**
ROA	2.6%	1.8%	1.9%	84 bps	74 bps
ROE	22.3%	16.3%	14.5%	604 bps	781 bps
Efficiency Ratio	33.2%	39.8%	41.7%	-661 bps	-847 bps
Balance Sheet					
Cash	26,482	31,052	19,693	-15%	34%
Securities	41,912	35,216	13,655	19%	207%
Loans	74,082	73,722	70,180	0%	6%
Total Assets	**166,145**	**163,849**	**120,789**	**1%**	**38%**
Deposits	112,638	109,677	75,673	3%	49%
Financial Liabilities	24,908	27,113	24,452	-8%	2%
Total Liabilities	**146,750**	**146,063**	**105,288**	**0%**	**39%**
Shareholder's Equity	**19,394**	**17,786**	**15,501**	**9%**	**25%**
Equity / Total Liabilities	13.2%	12.2%	14.7%	104 bps	-151 bps
NPL / Total Loans	5.1%	5.3%	3.6%	-19 bps	145 bps
LLR / NPL	107.7%	100.0%	89.9%	768 bps	1781 bps
Exposure to Public Sector	27.1%	23.5%	13.8%	355 bps	1326 bps

Source: Own elaboration based on company financial statements.

Argentine Banking Industry – First Half 2019

August 19

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