

Transcript 4Q20 Earnings Conference Call



Supervielle Fourth Quarter 2020 Earnings Call Opening Remarks

Ana Bartesaghi

Good morning everyone and welcome to the Grupo Supervielle Fourth Quarter 2020 earnings call. This is Ana Bartesaghi, Treasurer and IRO.

A slide presentation will accompany today's webinar, which is available in the Investor section of Grupo Supervielle's investor relations website, www.gruposupervielle.com. Today's conference call is being recorded. As a reminder, all participants will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation.

If you want to ask a question you need to be connected to the zoom platform from any device. We will not be able to take your questions if you are connected from a phone line. Also, please make sure your name and last name appear in the zoom platform you are using. To ask a question by voice please press the "raise your hand" button located in the zoom platform. To withdraw your question press "raise your hand" again. You can also send your questions in written form via the Q&A box in the zoom platform anytime during the call. We will ask you to limit yourself to one question and a follow up and then you can raise your hand again in another round.

Slide 2

Ana Bartesaghi

Speaking during today's call will be Patricio Supervielle, our Chairman & CEO and Mariano Biglia, our Chief Financial Officer. Also joining us are Alejandro Stengel, Second Vice-Chairman of the Board and Bank CEO and Jorge Ramírez, First-Vice Chairman of the Board. Alejandra Naughton, board member of several of Grupo Supervielle's subsidiaries will also be joining us for today's call. All will be available for the Q&A session.

Note that starting 1Q20, as per Central Bank regulations, we began reporting results applying Hyperinflation Accounting, in accordance with IFRS rule IAS 29. For ease of comparability, we have restated 2019 results, to reflect the effects of inflation adjustment. Therefore, all results in this presentation are adjusted for inflation as of December 31, 2020, unless otherwise noted.

For your convenience, our earnings report filed yesterday after market close, also includes managerial results in nominal terms as well as more details on Hyperinflation Accounting.

Before we proceed, I would like to make the following Safe Harbor statement. Today's call will contain forward-looking statements which are based on Management's current expectations and beliefs and are subject to a number of risks and uncertainties, including as a result of the COVID-19 pandemic,

and I refer you to the forward-looking statement section of our earnings release and recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances.

I would now like to turn the call over to our Chairman, Patricio Supervielle.

Slide 3

Patricio Supervielle. Thank you, Ana. Good morning everyone. Thank you for joining us today.

Starting with our **financial performance** on slide 3 of our earnings presentation:

- In a complex scenario, we continued to balance risk and profitability by managing the credit cycle, and excess liquidity through asset and liability management.
- We achieved low double digit comprehensive ROAE in real-terms during the year, notwithstanding the many challenges posed by the pandemic, a recessionary macro that deepened during the year and a shifting regulatory framework. ROAE reached 9.9% for the year and was lower at 7.4% in the quarter as pressure from higher cost of funds resulting from the floor on time deposit interest rates and subsidized rates on loans resulted in a NIM contraction, while regulatory controls continued to impact fees.
- Throughout the year we consistently increased our Coverage Ratio, which reached 192% at year-end, from 83% in the prior year-end quarter, reflecting a conservative stance on risk management. We also continued to review our expected loss models and are closely monitoring our loan book and risk models to adjust accordingly as the situation evolves.
- Excluding one-time charges related to some severance charges in the quarter, the efficiency ratio in 4Q20 was 66%. For the year, comparable efficiency, excluding non-recurring charges in both periods, improved 230 basis points to nearly 62% as we continue to keep a tight control on expenses and achieving a mid-single digit decline in personnel expenses while advancing on our transformation strategy.
- Lastly, strong liquidity levels and a solid capital base with a TIER 1 ratio of 13.8% positions us well to advance on our initiatives.
- **Now, turning to our strategic initiatives**, in parallel we have been executing our transformation strategy with the goal of driving sustainable growth as demand resumes while enhancing our current competitiveness. Specifically, this includes advancing on our digital transformation, evolving our service model in our branch network and adding API capabilities to connect to third parties. I will discuss this in more detail shortly.

Slide 3

As you can see on slide 3, sustained digital adoption continues across our business.

To give some color on the progress we are seeing, for example:

- Monetary transactions at non-automated banking tellers declined sequentially to a historical low of 5.5%, from the 19% seen prior to the pandemic, while mobile more than doubled its share during the year accounting for 11% of transactions in the fourth quarter.
- Adoption of E-checks was up 44% sequentially while use of e-factoring continued to grow as SMEs continue to rapidly welcome digital banking.
- In consumer finance, new App functionalities added early in the year are being well received with mobile payments and digital onboarding expanding consistently throughout the year.
- Lastly, we continued to see good traction at our digital online broker which saw a total of 134,000, new accounts opened during the year, more than doubling the number of accounts opened in the previous year. In turn, DART reached nearly 24,000 in the fourth quarter up from less than 11,000 in the same quarter of the prior year.

Slide 4

Now, moving on to our branch transformation initiative on page 4.

We are very encouraged with the successful results from the service model pilots we have been carrying out since last August.

This includes one pilot with a value proposition for SMEs in areas of our network where we see potential, another pilot where we are expanding self-service areas targeted to senior citizens building on our biometrics technology; and a third one which is a 100% self-service model.

These pilot programs are demonstrating significant improvements on several fronts:

- As shown on the top right chart, transactions through human cashiers are migrating at a much faster pace to the online and automatic channels in these three pilots vis a vis our senior citizens dedicated network. In just five months, the share of transactions at human tellers fell significantly from a range according to branch location between 14% to 28% in late August, to a range of between 5 to 6% in December. For the senior citizens dedicated comparable network, in the same period the share of transactions at human tellers declined from 23% to 17%.
- We achieved an average increase of 35 percentage points in the Net Promoter Score of these three pilots, with one location posting an even higher improvement.

- Our newly expanded 24 hours self-service lobbies helped increase self-service transactions. Importantly, we saw a drop-in customer operating inside the branch lobby vis a vis the 24 hour lobbies, with more customers operating outside of branch service hours.
- We are also pleased to see that our strategy to broaden our service offerings to better reach SMEs resulted in an early indication of higher performance from this Cluster.

Following these successful results, we plan to start scaling up these new formats across our branches during the year. This will include investments in construction works and IT, with an expected pay-back period of between 30 to 36 months.

Slide 5

Please turn to slide 5. During 2020 we implemented an agile at scale operating model consolidating agile methodologies and process. At the same time, we deepened the customer centric **cultural transformation** across the Company.

We have organized the company into Individuals, Corporates & SMEs, and Payments, with Customer Service and Omnichannel cutting across end-to-end interactions, or experiences. These sets of experiences are managed by empowered squads as part of a Tribe that works to enhance the Supervielle customer experience.

Our **Agile Transformation Office** aims to guarantee the alignment to the Bank's strategic objectives and to scale agility across our organization ensuring the customer centricity at all times.

This is supported by **Centers of Excellence** that distribute talent, resources and knowledge to each squad so that they can carry out their purpose based on the best practices of each discipline.

Slide 6

Now please turn to slide 6 for a quick overview of our Business and IT Capabilities, which is based on three pillars.

- The first one is to **Strengthen and modernize our Core banking system.**
- Our second pillar is to **Speed Up Deployment** of our omnichannel strategy, modern IT architecture, including APIs to accelerate transformation, connect to third parties and prepare for open banking.
- Lastly, our third pillar, **Be Prepared for the Future**, includes leveraging digital marketing and AI capabilities, as well as cloud services.

During 2021 we plan to make capital investments of total of 4.2 billion pesos, of which 3.1 billion will be applied to deploy our digital transformation strategy and 1.1 billion to start scaling up the service model pilots across the branch network.

Our goal is to offer our customers a HUMAN BANKING EXPERIENCE that combines the use of technology with our staff assistance to provide our customers the best of both worlds.

Slide 7

Turning to the macro on slide 7.

Following a GDP contraction of 10% in 2020, we see the economy beginning to rebound benefiting also from a statistical carryover of 6%.

Favorable external conditions also offer some tailwinds for the year, particularly as higher prices for agricultural commodities continue strengthening the trade balance; while the government continues to show signs of fiscal restraint.

This provides a solid foundation for real GDP to expand above 7% in 2021. The recovery, however, is still subject to advances in the vaccination program to contain the health crisis, and the resumption of IMF negotiations.

While inflation for 2020 dropped 17 points year-on-year to 36%, monthly inflation has deteriorated since last August and we anticipate it will increase to approximately 48% this year. The gap between the blue-chip rate and the official exchange has somewhat contracted, although it still remains at high levels while interest rates remained unchanged with 7-days repo rates at 36.5%.

Let me now turn the call to Mariano Biglia, our CFO. Please Mariano, go ahead.

Slide 8

Mariano Biglia, Chief Financial Officer.

Thank you, Patricio. Good day everyone.

Please turn to slide 8. Our loan book in the quarter contracted sequentially by nearly 4% on the back of sustained overall weak demand while we maintained prudent lending and focus on profitability in this uncertain context.

Peso loans were flat sequentially, as growth in credit card loans were offset by lower corporate loans. US\$ denominated loans in original currency, contracted as some large corporates paid down their dollar loans in line with the overall industry trend.

Government sponsored loans at preferential rates remained unchanged sequentially at 10% of our loan portfolio at year-end. This includes nearly 11 billion pesos in SME loans at preferential rates, of which 4.5 billion pesos were in short term factoring transactions that are fully guaranteed by FOGAR.

Slide 9

Now, looking at funding on slide 9. We closed the year with strong liquidity levels both in pesos and dollars.

The loans to deposits ratio remains at historically low levels of 62%.

Average balances of AR\$ deposits, increased nearly 78% YoY and nearly 1% sequentially.

Total AR\$ peso deposits at year-end, declined nearly 7%. While core peso deposits remained flat sequentially, we deleveraged the balance sheet by reducing institutional funding to preserve financial margin.

US\$ deposits in original currency rose 3% during quarter, representing only 14% of total deposits in line with the outflow of dollar denominated deposits observed in the industry.

Slide 10

Turning to the P&L on slide 10. Net Financial Income was down 15% sequentially to 9.3 billion pesos.

We saw a sequential NIM compression of 170 basis points during the quarter to 19.5%, as higher cost of funds from the floor on the rate of time deposits along with higher market interest rates reduced spreads. Increased volumes of loans granted to SMEs at preferential interest rates together with increased volumes on credit cards from government sponsored programs, also contributed to NIM compression.

Slide 11

Moving on to Asset Quality on slide 11. Loan loss provisions amounted to 1 billion pesos in the quarter, down 67% sequentially. We continued to revise our expected loss models including additional macro variables and updated top-down analysis of some industries that could be more susceptible to the pandemic. This reevaluation did not lead to an increase in Covid-19 specific provisions in the quarter, which stood unchanged sequentially at AR\$2.8 billion at year-end.

The ratio of total provisions to total loans declined to 7% from just over 8% last September. A breakdown of this ratio by key customer segment is shown on the top right chart.

The NPL ratio declined 80 basis points to 3.7% in the quarter, mainly due to the write-off of atomized consumer loans in the personal & business banking segment reflecting our policy of writing-off delinquent loans at 270 days. We also continued to increase coverage in the quarter reaching nearly 192% in the fourth quarter from 183% in the prior quarter.

NPLs and coverage ratios benefited from the relief programs established by the Central Bank which allows debtors to reschedule their loan payments with grace period beginning to expire starting this coming April, and to a lesser extent from the regulatory easing on debtor classification during the pandemic.

Excluding regulatory easing, coverage increased to 184% in December from 158% in September as we continued to refine our models and conduct top-down industry analysis. We will continue to closely monitor events and make appropriate adjustments as required to our risk models.

Slide 12

As shown on slide 12, our loan book maintains a well-diversified industry exposure.

Agribusiness and food & beverage, which comprise a large share of our portfolio, continued to perform well in this environment.

At the same time, we have further reduced our exposure to higher risk sectors which accounted for less than 9% of our portfolio from 13% in the prior quarter. Moreover, loans in the highest risk sectors have guarantees exceeding 60%.

At the same time, over 40% of our commercial loan portfolio is collateralized, while collaterals on non-performing commercial loans increased to 80% from 78% in the prior quarter.

Importantly, loans to lower-risk payroll and pension clients accounted for 72% of our total loans to individuals at the bank level.

Now please turn to slide 13, for some brief remarks on our perspectives for the year.

Slide 13

While guidance remains suspended due to the limited visibility ahead, on this slide we share our overall views on the key business drivers for 2021.

We expect to see loans and deposits growing above inflation. Loan growth will largely depend on the size and strength of the economic rebound, advance in the vaccination program, along with consumer and investor confidence. We expect loan growth will come first from export-oriented industries, particularly agribusiness. This is supported by the world economic rebound, including Brazil and increased commodity prices. Visibility, however, still remains low.

Deposit growth, in turn, should be supported by FX market restrictions and the regulatory floor on interest rate paid to time deposits.

In terms of asset quality, we could see a potential deterioration in NPLs during the second and third quarters of the year after the grace periods from the rescheduled loans begin to expire in April. That moment will reflect more accurately the behavior of our clients in terms of their payment capacity. While we feel comfortable with the current level of provisions, these could be revised upwards if economic conditions were to worsen. This is mitigated by our prudent approach to lending and the strength of our portfolio. Cost of Risk, in turn, is expected to be below 2020 levels.

We expect NIM to remain pressured by higher cost of funds resulting from the floor on interest rates on time deposits and subsidized rates on loans. Also, we expect fees to grow in line with inflation. Despite regulations limiting repricing until March this year and some regulatory caps in place for Credit Card commissions and ATM fees for 2021, the bulk of our fees to individuals, mainly bundles of banking services, are not affected by regulations. Fees on loans will depend on the overall economic context.

In terms of expenses, salaries are anticipated to grow with inflation, and we will continue to exercise strict control on recurring costs. While investments in accelerating our digital transformation strategy and the revamping of some branches will result in some temporary increases in costs, this will contribute to enhance efficiency in the longer term. Higher turnover tax rates along with the recent extension of the turnover tax to Leliqs/Repos in the Citi of Buenos Aires should also affect expenses.

To conclude, we expect Capital & Liquidity to remain at adequate levels underscoring long-term sustainability.

Now we are ready to open the call for questions. Ana please go ahead.

Ana Bartesaghi

Thank you, Mariano. At this time, we will be conducting the question and answer session. As a reminder, to ask a question you need to be connected to the zoom platform. We will not be able to take your questions if you are connected from a phone line. To ask a question by voice please press the “raise your hand” button and press it again to withdraw your question. You can also send your questions in written form via the Q&A box.

We will ask you to limit yourself to one question and a follow up and then you can raise your hand again in another round.

One moment while we poll for questions.

Q&A Session

The first question comes from Gabriel Nobrega with Citi. Please go ahead.

Gabriel Nobrega

Yeah. Yes. Hi everyone. Good morning and thank you for the opportunity to ask questions. During the quarter, we actually saw that you reversed on some provisions from your corporate loan book. And so I was wondering, if -- are there any other parts of your book which may have been more conservative than the results were actually coming in? Do you expect that there could be any more provision reversals during 2021 or is there an expectation that due to the Central Bank still giving more reliefs and flexibilizations, this is going to generating uncertainty and then you could actually not even reverse but actually creates some additional provisions? Thank you.

Patricio Supervielle

Thank you. Can you please, Mariano, can you answer this question? Thank you.

Mariano Biglia

Sure, Patricio. Thank you. Hello Gabriel. During the fourth quarter, as we do in every quarter, we revised our expected loss models, updated macroeconomic variables, revising -- making a top-down industry analysis and revising all the high-risk and very high-risk sectors of every industry. In this context, we made a mix in our provisions, reducing provisions in corporate loans as we received some collections particularly in the construction sector, where as you can see in the presentation, we reduced exposure. So reducing exposure to a high-risk industry also reduces the need for provisions.

Then also we were expecting higher devaluation of the peso as we expect now, so that also contributed to revise downwards the provisions of U.S. dollars loans. But on the other hand, we increased our provisions particularly in loans to individuals and SMEs and also credit cards that have been referred - - deferred within the Central Bank deferral program. In this context, although it is an option for debtors and they could take it and they pay if it's a loan paid deferred loan at -- as an additional installment at the end of the loan or for credit cards, they are deferred in 12 installments or 9 installments after three months grace period. So, they are not past-due, but we increased coverage in those cases because we will have to expect for a few months later to see starting in April, how is the behavior of these debtors.

So, all in all, we maintained the same -- almost the same level of COVID-19 specific provisions, while we increased coverage because we made some write-off, particularly in the retail segment, and thus reducing NPLs and increasing coverage.

Gabriel Nobrega

All right. That's perfect. And as for my second question, during this quarter, we saw that you increased your investments into digital transformation, and I'm just wondering if you expect to keep the pace of investments in your digital platform throughout 2021, or should we start seeing this decreasing? Thank you.

Patricio Supervielle

Let me take first piece and then I pass to Alejandro. But basically, the digital transformation that we started in 2019 and scaled in 2020 will continue going forward and over the next few years. This is one structural decision we've made in order to modernize our bank. And then, also there's a second transformation which concerns the future of branches in -- at Supervielle and we've made three MVPs

or pilot projects, very interesting, that I think Alejandro will be able to explain both of them because they concern transformation of our entire franchise into a modern bank -- 21st century bank.

Please Alejandro.

Alejandro Stengel

Thank you, Patricio. Yes. We are planning at least to sustain these levels of investments into 2022. As Patricio mentioned, we're working on two fronts. One is the channel and network, a branch network transformation into an omni-channel that will allow us to have the best customer experience. There we worked on three formats to enhance this customer experience. One, increasing the self-service areas that were around 20% of premises into 60% of premises in space, and this coupled with our biometric technology is allowing an increased acceleration of the adoption of automatic channels to service clients and also to originate products and services from these automated channels.

We have also -- another format focused on offering SME value propositions in areas of the network where we see potential and we see indication -- early indication that this is actually going to do better than what originally expected. And in the third case, we are scaling up a fully automated format this year and next year which allow us in the three cases to increase our efficiency quite considerably.

On the IT business fronts, we have increased all the digital transformation initiatives. Currently, we have 50 squads working with agile methodologies to make sure that end-to-end customer experiences and customer journeys are digitalized. We've seen an increase in NPS, particularly in the case of the branch network pilots and we're working to enhance the full digital capabilities of onboarding for individuals, corporations as well as cross-sell and cash management services. We are very enthusiastic about this and we definitely see it going forward until the end of 2022.

Gabriel Nobrega

Perfect. Thank you everyone for your answers.

Ana Bartesaghi

Thank you, Gabriel. Our next question comes from Ernesto Gabilondo from Bank of America. Ernesto, go ahead.

Ernesto Gabilondo

Thank you, Ana. Hi, good morning, Patricio. Good morning to all your team. And good morning, everyone. My question is on asset quality and the deferred portfolio. In your press release, you mentioned that around 10% of the loan portfolio is deferred and that you have already created extra provisioning of around ARS2.8 billion as of December related to COVID-19. So, considering that the

Central Bank is adding 60 days more of grace period, how should we think of the NPL ratio in the third quarter after ending this grace period? What could be the level of the peak? And if you have any expectations on the payment behavior of the deferred portfolio? Thank you.

Patricio Supervielle

Thank you for your question. We -- in terms of the NPL, we believe that, I think Mariano mentioned, it will peak in second Q or third Q once the deferral program ends, and maybe then afterwards in the second half of the year, we believe that there might be a decrease in NPLs.

But please Mariano, do you want to compliment?

Mariano Biglia

Yes. Hello Ernesto. Regarding the behavior we expect from debtors who took the option to defer loan installment or credit card balances, in general, we don't expect a different behavior that they would have in normal situations except for higher risk industries where, as I mentioned, we have some additional provisions because those are debtors that could face higher challenges to repay all their loans that -- all the installments that have been deferred. And then we also differentiate between debtors that have deferred, maybe only one or two or three months and debtors who have deferred five or more installments. In those cases, we classify them as -- with a higher risk of not paying their loans when installments start to mature. And we also monitor whether if these debtors, particularly when they're individuals, if they have a credit card and a loan and whether they have deferred both or only one. If they deferred only one, what's their behavior in the other financing. So, we take all these considerations and make additional provisions where we think that they are necessary.

Ernesto Gabilondo

Thank you, Patricio and Mariano. And for my second question. Can you give us an update of the last regulatory framework? Anything related to floors on the policies, subsidiaries that you mentioned, the caps on credit cards, the freeze on fees.

Patricio Supervielle

I would like to compliment on Mariano's answer. In -- also, I think it's -- regards what happened also in 4Q, there was a decrease in position of high or -and very high-risk industries in terms of credit exposure. And also, we have all our nonperforming loans are very well collateralized. 80% is non -- is well -- is very well collateralized. So, regarding to finalize your question, I think that we are well positioned for what we expect for 2021.

Ernesto Gabilondo

Thank you, Patricio and Mariano.

Ana Bartesaghi

It was your follow-up. You can ask it again, if you want Ernesto.

Ernesto Gabilondo

Yes. Thank you. So, my second question is, if you can give us an update of the last regulatory framework regarding floors on deposits, the subsidiaries in some interests, loans, the caps on credit cards, the freeze on fees. What else I am missing or what else are you hearing that could be on the regulatory front this year?

Patricio Supervielle

Okay. I will pass to Mariano. But regarding fees, there are certain regulations on ATM fees, but the bulk of fees we believe they are non-regulated. So more or less than 90% of the fees which is by the bundle banking products which represent 90% of our fees, they are non-regulated, and they will come along with inflation.

Mariano, do you want to compliment on the rest of regulations?

Mariano Biglia

Yes. Sure. Let me follow up with the regulations on interest rates. Right now, we have on the liability side, we have floor on time deposit interest rates. We have two floors: one for deposit of less than ARS1 million and another floor which is a little bit higher for deposits of more than ARS1 million. In this case, the floor is set as a reference to the interest rate. So, if the Central Bank happens to increase or decrease interest rates, the floors would also be moving in the same direction.

Then on the asset side, we have the subsidized lines at different interest rates. We have loans at 24% interest rate, 30% or 35% depending on whether they are for working capital or for investments. And those lines are offered principally to SMEs and to the lower end of our middle and bigger corporate clients. And then, of course, we have all the Central Bank instruments which are not regulated itself, but they are nonetheless set of course by the Central Bank. So, we have still in place a lot of regulations both on the asset and liability side. And also, on fees, as Patricio mentioned, although fees had a much higher impact in 2020 where we were limited to increase all the types of fees. And now in 2021, this affects on only smaller part of all our fees.

Ernesto Gabilondo

Thank you. And is there any regulation on the provinces that is correlated to your business or related to your business?

Mariano Biglia

In provinces, the regulations come from the taxes side, not -- there are no different the rules from the Central Bank or based on the province. But the main tax is the turnover tax, that tax has a different rate depending on the province. And on that side, the most important issue that started affecting us in January this year is that the autonomous city of Buenos Aires which for this matter acts as a province expanded the reach of the turnover tax to Leliqs and repos with Central Bank that were previously exempt. So now we have that tax which has on average rate -- it had on average rate between 7% and 8%, but now it reaches also Leliqs and repos in the city of Buenos Aires. And also, on top of that the city of Buenos Aires increased the turnovers tax rate to 9% and that also was made by other provinces such as Cordoba and Tucumán.

Ernesto Gabilondo

Very helpful. Thank you so much.

Ana Bartesaghi

Thank you, Ernesto. Our next question comes from Yuri Fernandes from JP Morgan. Yuri, you can ask your question now.

Yuri Fernandes

Hi Ana. Hi Patricio. Thank you. Thank you very much for the opportunity of asking questions. I have a first one regarding your consumer finance, regarding IUDÚ. We see results improving, but still are some loss there. So, my question is, when do you expect that IUDÚ to break even. I am a bit concerned on the amount of loss deferral there. I guess this was a portion of the previous question. But how do you see those loss behaving? Because if I read correctly in the release, I guess 39% of the loss in IUDÚ they are being deferred to date. So, two questions right, like how do you see business evolving? Maybe you can comment a little bit on your KPIs. I guess you have an interesting strategy there on profitability and about asset quality. So, an overview on the consumer finance.

And my second question is regarding margins, like I guess this quarter was the first quarter fully of reflecting the mandatory remuneration of time deposits. So, should we see margins more stable now, like what's the outlook for margins going on? Thank you.

Patricio Supervielle

Okay. Thank you for your question. First of all, the strategy of IUDÚ and the consumer finance unit, one key part will be the opening of offering digital accounts for individuals for in order to capture retail deposits. This is a structural move that will pay off in the next -- this year we hope and in the next -- in the following years and it will reduce the cost of funding we have in this business, and therefore it will have a very important swing factor in the profitability of the entire group. IUDÚ will act as a digital attacker offering services that banks are not so eager to offer. And then therefore, we hope to attract segments of people that prefer to work with digital platforms.

There's another factor that affecting the real profitability of IUDÚ, that during the pandemic IUDÚ had let's say less sales of insurances and less sales of non-financial services which are an important equation in the profitability. This is already changing, now we have -- we see that there is a movement in terms of sales, much better sales in insurance and non-financial services. And this -- these are services that they're not -- it's not just one-off sale, but it's something that you build once you get a client then this client keeps -- there's a life cycle of maybe a couple of years or two to four years of let's say fees that are coming into the platform.

Regarding margins, we have -- well, first of all, we think that we have a very disciplined score methodologies in terms when we assess and discriminate a good credit from a bad credit. And we believe that rates -- it's important in consumer finance what happen with rates. And in 2021, we believe that interest rates will be stable, because this -- even though inflation is high and that's a risk the Central Bank does not have incentives to move rates. So, rates will -- we believe that they will be quite stable during the year. And so therefore, margins -- financial margins for consumer finance we believe that they will be strong. I think -- so finally, we believe that profitability will start to improve the 2021, 2022 and it will become a very important part of our let's say platform. I hope I have answered your questions.

Yuri Fernandes

So, thank you, Patricio. Just a quick follow-up on IUDÚ. We saw the number of clients growing right like 40,000 to 410, so something like that, right. So, the idea is to keep growing it at that pace, accelerate that pace, do you have a target to -- of clients by yearend? Because I think there are other players doing similar strategy, so it would be nice just to have some KPI on your view for you?

Patricio Supervielle

Mariano, do you have some figures on that. I don't -- I cannot -- I don't think I can give you specific target. We are quite aggressive in terms of growth. But at the same time very cautious approach in terms of exposure of credit and credit cards.

I think another important feature that I want to mention is that Walmart is leaving the country and we have a contract that is renewed until August 2021. The new players replacing Walmart will be de Narvaez. We've been working with the de Narvaez Group for the last few years as they were clients with their retail operations in Argentina. Although they were out of the supermarket business for many

years in Argentina, they have been in -- they are in the supermarket business in other countries, for instance Uruguay.

And so there are -- these guys are knowledgeable in retail. And we believe that the -- we are very happy to work with them and we believe that the business practices might be even better than the ones we had with Walmart. And for instance, just to give you one idea is that the Walmart is not used to have loyalty cards, whereas probably de Narvaez, they will incorporate a loyalty card as accrual program, and this gives you a huge opportunity to expand the business in terms of traffic coming into Walmart.

Yuri Fernandes

Perfect. Patricio, thank you very much.

Mariano Biglia

And let me add also that. It's important to highlight that we are turning IUDÚ also into a digital bank. So, it's not only the quantity of clients, but that we aim to get digital clients which will increase also the funding and deposit base of IUDÚ that will be something new compared to the old business model where it was only an underwriting of loans and only work with retail customers on the asset side. And now it will work both on the assets and liabilities side with retail customers and turning into digital. Then I think there was a second question regarding time deposits. Was it?

Yuri Fernandes

Yeah. I was asking more, because I know it's a regulatory issue, right. But today the numbers in the first Q, they reflect the -- how the time deposits will behave in the future right. So, my question was, what is your outlook for margins, like should margins be stable? I guess Patricio kind of addressed that, but I don't Mariano if have -- if you want to add. Basically, what's there to look for margins in 2021 putting an easy -- now in a short -- in a short way to ask. What's the outlook for NIMs?

Mariano Biglia

Yes. Well regarding regulation and we are talking about all the group and mainly the bank for that matter, we expect of course floors on time deposits to be in place. They are now in place during the first quarter. So, as they were in place -- as you said in fully in the fourth quarter, the level of NIM that we saw in the fourth quarter is likely to stabilize during a few months particularly in this first quarter. And until we start to offset that growing in more profitable loans. So that's -- in that way, we will be able to increase NIM despite the floor on interest rates on time deposits. But we will see that for sure after the first quarter.

Alejandro Stengel

Yuri, this is Alejandro Stengel. Maybe one thing to look at is that if the Central Bank continues to buy dollar reserves and inflation continues to show signs of going down as we've seen a more equilibrated fiscal situation in the first Q. It is more likely that they will review their policy on the floor of rates and for time deposits and probably consider it bringing it down. I think these are two things that we might look at and that would have as you can imagine a considerable impact very quickly on margin and therefore on overall profitability. I think that's something you might want to look out for.

Yuri Fernandes

That's interesting. So, I guess the message is, again that are a lot of uncertainty. So, it's hard to write this down, but basically stable margins it's kind of the worst case in your view may be continued for the next quarter. And you have two avenues of increasing the margins. The first one is true low mix, so basically growing in higher risk, higher profitability loans in the second half. And another way is basically a review of those regulations and putting like a lower floor for time deposits. So that's the message, right?

Alejandro Stengel

I would sort of adjust a bit the first part of the message Yuri. It's not that we're going to go for higher risk. We see a tremendous potential within our franchise and sort of sectors like Agribusiness, the Winery, the Citric Industries, which we've served for many years and that they have really depleted their inventories and they will have a strong need for working capital. And these are very good risks a value chains that are led by strong industry captains that have very good distribution and supplier networks. So, there is to your side of the argument, there is an opportunity basically to compensate by scale, these narrow margins and then yes, probably maybe as of the third quarter we'll see a possibility of the Central Bank reviewing the minimum rate or the minimum floor that they put on time deposits. That's the way I would frame the answer.

Yuri Fernandes

Super clear. Thank you very much, Alejandro, Patricio and Mariano.

Ana Bartesaghi

Thank you, Yuri. So, our next question comes from Alejandra Aranda from Itaú. Alejandra, go ahead please.

Alejandra Aranda

Hi, good morning, and thank you for taking my question. I was wondering, it's so difficult to think of Argentina on other six months period. I was just wondering if you could give us a little bit of a spoiler and share with us what has been happening on the last two months in terms of dynamics for your loans? How you're seeing that demand coming through and the NIMs there, if you could give us some indication of the first two months of the year?

Patricio Supervielle

Yes. Alejandra, thank you. Let me start first of all with what happened last year in second Q and third Q. We had very high NIMs that allow us to build very good provisions. Then in fourth Q, there was a little bit of NIM compression due to the flows introduced in interest rates for deposit and also more competition on the institutional funding side. So that drove a little bit of NIM compression.

Looking forward, we believe that in the first maybe to -- first Q -- first half of the year, NIMs will basically remain stable and what will happen -- what will be very important is that -well, regarding NIMs, we believe that loan demand will start to pick up in the second half of 2021 in the avenues that Alejandro or recent just explained, but these avenues of growth will allow us to provide to replace the Leliqs and repos with high NIM loans.

And it's interesting to observe that what would happen maybe in other bank franchises, they will also do if we expect loan demand resumes. The other banks what they will do is they will replace these Leliqs and repos with low NIM loans. So, because historically we have high NIM loans compared to the rest of the industry. And then, I think I don't know if I have answered your question Alejandra. Do you want some more color?

Alejandra Aranda

Well, I do understand the concept of loans probably picking up on the second half and that with stable rates on the deposit side and we're all believing that they're going to keep those floors there. So there -- you can replace that and have a pickup on NIMs on the second half, but I'm a little bit skeptical on the first half as I know I'm not seeing where that loan demand on the first half is coming from basically even with rates being stable on the deposit side. You're going to get a compression as you were pointing before on one of your slides, deposits are going to keep on coming because people can't buy dollars and loan demand is just not there.

Patricio Supervielle

This is true. We have lived a terrible credit crunch in 2019 and 2020. I mean, three years in a row of a terrible credit crunch. So, today credit penetration is 11% of GDP. So, you can imagine we have almost, it's a very low credit penetration. And to have loan demand pick up, you need -- of course you need the

business confidence, but still having said that in an electoral year, I believe that there will be some demand on personal loans for instance on consumption. And as Alejandro explained, maybe you write that there are uncertainties. But at the same time, there is a scenario of world demand -- the world is picking up, the world is rebounding. So, this is helping Argentina in terms of agricultural exports and we have commodity prices that are in average 30% above last year. So, this is also supporting the export industries. And so, I believe that there will be some pickup of loans with -- in particular in these sectors.

The uncertainty, the thing to watch in the first Q and second Q is the behavior of payment of the deferred loans. That's the thing to watch. We are confident that our coverage is okay, but the thing to watch is that of course and this is starting due in April.

Alejandra Aranda

Okay. Okay. Thank you so much.

Ana Bartesaghi

Thank you, Alejandra. Now, we have a question from Carlos Gomez Lopez from HSBC. Hello Carlos, and you can ask your question now.

Carlos Gomez Lopez

Okay. Thank you very much. So, two questions, the first, in terms of loan growth, you ended up the year negative. And I was going back over your previous presentations, in the third quarter, you still expect a positive outcome. What happened exactly in the fourth quarter? Did you see less demand than you expected or is it simply that inflation was much higher than you expected? And then also on inflation given that you expect a higher inflation in 2021, should we expect therefore also a higher monetary correction and therefore a lower return at the end of the year?

Patricio Supervielle

I think that there is -- I mean, there was uncertainty. I mean, this -- the pandemic there was uncertainty and also very cautious approach still the market was not requesting loans. And so again, we had three years in a row of credit crunch. We believe that there will be a turning point. And for the reasons I just mentioned, the world economic rebound, your agricultural export, maybe an electoral year where consumption will have some rebound, but this is looking forward. What happened particularly in 4Q, I cannot explain except that there was lack of confidence and people did not want to request loans.

Patricio Supervielle

Mariano, you want to compliment on that.

Mariano Biglia

Yeah. Thank you, Patricio. Hello Carlos. Yes. What we've seen during the 4Q as Patricio mentioned was still a very weak demand and we saw a mild rebounding in the demand for personal loans and then some growth in credit card loans or credit card financing overall. And on the commercial side, the demand for credit is still very low and only growing in the subsidized lines of 24%, 30% and 35% interest rates. So, we are still also cautious on growth particularly as I mentioned when I talked about asset quality. We are very cautious in the industries that we consider to be with a high-risk or very high-risk due to the pandemic. So, for instance in that sense, we received collections of loans in the construction industry and -- but we haven't grown with new origination in that industry. So, we're being cautious and at the same time the demand particularly on the commercial side is still very low.

Alejandro Stengel

Carlos, this is Alejandro. Just to compliment what Mariano is saying, when you look at what we were doing on the third quarter that has a bearing on how comparison in the fourth quarter is, there was a significant increase in the mandatory 24% lines, which are subsidized credit lines and we focused on short-term working capital not long term. And that of course has a bearing on the level of growth that you have from one quarter to the other.

The other thing I think you should be aware of or follow-up on is that there was a significant reduction in dollar-denominated credit lines. So, the combination of both things is having an effect on the result at the fourth quarter that you are correctly pointing out. I would highlight the reduction of dollars, dollar-denominated credit lines and the fact that we did not want to become exposed in long-term subsidized credit lines.

Carlos Gomez Lopez

Thank you very much. And about inflation for this year?

Mariano Biglia

Yes. For this year, we are expecting inflation to be clearly higher than 2020. In line with market expectations, we were expecting inflation to be in the high-40s closer to 50%. But of course, it's still too soon to tell because there's a lot of variability. We are seeing some good signs on the fiscal deficit side, but it's still too soon to predict a lower forecast -- a much lower forecast of inflation.

Carlos Gomez Lopez

We understand that. I guess, our question is, with higher inflation, I mean, do you think that the way the business looks now, you would need a nominal return above 50% for -- to have real earnings. Is that realistic or should we expect lower real returns this year than we saw last year?

Mariano Biglia

Well, inflation of course is never good for the financial industry, not good for great demand. But besides that, we are on the first place, we are hedged against inflation through different asset classes. So those assets should give us first the profitability in nominal terms to match inflation. And on top of that, deliver positive results in real terms. Our hedge with inflation is based in non-monetary assets that includes real estate and also about 50% of our equity, we have loans that adjust by UVA and bonds -- treasury bonds that adjust by CER both our inflation indexes.

So, if inflation happens to increase, we will see an increase in those non-monetary assets and thus that will increase our shareholders equity and then we will see a higher return and high revenues from UVA loans and from CER bonds. I'm not sure if that answered your question.

Carlos Gomez Lopez

Yes. Thank you very much.

Patricio Supervielle

Yeah. So just complementing what Mariano said. We also have a 14% equity exposed into dollars, dollar-linked bonds, which also correlated to inflation. That's complete the overall picture.

Ana Bartesaghi

Thank you, Carlos. I think there are some more questions. We are not seeing any new one. So, I think this ends today's question-and-answer session. Thank you for joining us today. We appreciate your interest in our company. We look forward to meeting more of you over the coming months and providing financial and business updates next quarter. In the interim, we remain available to answer any questions that you may have. Thank you and stay safe and healthy.

This concludes today's conference. You may disconnect your lines at this time. Thank you, again.