

Operator

A slide presentation will accompany today's webcast, 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.

Slide 2

Ana Bartesaghi

Good morning everyone and welcome to the Grupo Supervielle First Quarter 2021 earnings call. This is Ana Bartesaghi, Treasurer and IRO.

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. Therefore, all results in this presentation are adjusted for inflation as of March 31, 2021, unless otherwise noted. In addition, following the retrospective application of the Central Bank communication A7211 effective January 1st, 2021, figures for all quarters of 2020 have been restated.

For your convenience, our earnings report filed yesterday after market close, also includes managerial results in nominal terms.

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.

Given this new strict lockdown in Argentina, and to avoid connectivity issues we have decided to revert to a conference call format for this quarter only.

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.

Please turn to slide 3 our earnings presentation:

During the quarter we moved into a second wave of Covid-19. While today we are better prepared to confront this with the many initiatives we have accelerated or put in place to serve our clients while securing the health and safety of our employees, the scenario in our market remains complex.

During this period, we continued to exercise liquidity management to protect our financial margin and reinforce our strategy to protect our capital.

- **In terms of our financial results**, we reported attributable net income of nearly 200 million pesos in the quarter, despite higher turnover taxes, the impact of the regulatory framework and continued weak loan demand in a recessionary economic environment. ROAE in real terms was 1.8% in the quarter, and 4.5% when excluding the consumer lending business, as NIM remained pressured from higher cost of funds resulting from the floor on time deposit on interest rates and subsidized rates on loans, while fees remained weak.
- Maintaining a prudent approach to risk management, we continued to increase our Coverage Ratio this quarter which reached 205% from 192% last December. And we are closely monitoring our loan portfolio and risk models after the end of the Central Bank automatic loan deferrals last March.
- Efficiency, excluding non-recurring severance and early retirement charges, increased 120 basis points to 66.3% impacted by lower revenues. By contrast, comparable personnel and administrative expenses excluding non-recurring charges in both periods declined 6% as we maintain strict cost controls while advancing on our transformation strategy.
- In this environment, we are focused on capital preservation and retaining strong liquidity. We have a solid capital base with a TIER 1 ratio of 13.8% and are deploying hedging strategies against inflation which include real estate investments, mortgages and sovereign bonds.
- **Now, turning to our strategic initiatives**, with an unprecedented number of people going online and turning to self-service to transact during the pandemic, and our belief that these habits will continue, we have accelerated the execution of our transformation strategy with the goal of driving sustainable growth as demand resumes while enhancing our current competitiveness. These include assessing the future of our work model and real estate management, advancing our digital transformation, evolving our service model in our branch network and adding API capabilities. I will discuss the latter in more detail shortly.

Slide 4

Turning to the macro front slide 4.

Easier comps following the sharp economic contraction last year and favorable external conditions, support a GDP rebound. However, economic activity still remains below pre-pandemic levels as we face the second Covid-19 wave.

While monthly inflation has remained high in recent months even despite soft domestic demand, higher global commodity prices since mid-last year are driving increased FX flows. In this context, the Central Bank is reversing the downtrend in international reserves, and lowering the risk of a near-term peso devaluation. In addition, despite lower than planned subsidy reductions, pensions and public salary adjustments, increased taxes and export duties are contributing to strengthen the fiscal balance.

So, while the gap between the blue-chip rate and the official exchange has somewhat contracted, it still remains at high levels while interest rates remained unchanged with 7-days repo rates at 36.5%.

For the year, we expect inflation of approximately 47% and GDP growth of approximately 6%, with an economic recovery also dependent on the rollout of the vaccination program, the resumption of IMF negotiations that are most likely to take place after the mid-term elections in October and business confidence.

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

Slide 5

Mariano Biglia, Chief Financial Officer.

Thank you, Patricio. Good day everyone.

Please turn to page 5. Reflecting both overall weak credit demand, and our focus on prudent lending in this challenging environment, our loan book contracted nearly 6% sequentially, better than the industry's performance.

In turn, Peso loans were down 7% sequentially.

- Note that credit card loans and factoring are both seasonally lower in the first quarter of the year vs the fourth quarter.
- In addition, government sponsored loans at preferential rates declined to 9% of our loan portfolio, from 10% at the close of the prior quarter. This primarily included close to 10 billion pesos in SME loans at preferential rates, of which slightly over 4 billion pesos were in short-term factoring transactions.
- By contrast, we saw a sequential increase of nearly 12% in leasing transactions which contributed to 2 percentage points in market share of close to 11%.

In addition, US dollar loans in original currency, were up 5% sequentially reflecting short term financing to corporates.

Slide 6

Now, moving on to funding on slide 6. Liquidity levels remained strong, both in pesos and dollars, with the loans to deposits ratio at a record low of 55%.

In line, AR\$ peso deposits were up 8% sequentially, driven by higher institutional funding following a strong reduction in these types of deposits in the prior quarter as we deleveraged the balance sheet. Additionally, non-remunerated retail deposits posted a QoQ contraction in line with the industry and largely reflecting seasonal trends.

Average balances of AR\$ deposits, increased nearly 29% YoY and were down 2% sequentially as we continued to exercise liquidity management to protect our financial margin.

US\$ deposits in original currency rose up 2% during quarter, accounting for 13% of total deposits following the industry outflow of FX deposits.

Slide 7

Turning to the P&L on slide 7. Net Financial income and margin remained pressured by overall industry lower loan demand, as well as lower holdings in Leliqs and Repos. Higher cost of funds from the regulatory floor on the rate of time deposits further reduced spreads, while a lower yield on the investment portfolio also impacted NIM.

As a result, financial income was down 9% sequentially to 10 billion pesos and NIM contracted 90 basis points in the quarter to 19.3%. The latter, was partly mitigated by a 40-basis point increase in loan portfolio NIM, mainly reflecting higher margins in the US\$ loan portfolio along with a lower weight of loans to SMEs at preferential rates.

Slide 8

Moving on to Asset Quality on slide 8. Loan loss provisions were relatively stable sequentially at 1.4 billion pesos with cost of risk increasing to 5%, but below historical levels.

Covid-19 specific provisions remained unchanged sequentially at AR\$2.8 billion at quarter-end.

On the top right chart of this page, we show our total provisioning ratio, which was 6.9% in March, and a breakdown by key customer segments.

The NPL ratio improved sequentially by 30 basis points in the quarter down to 3.4%. This was principally due to an improvement in non-performing corporate loans, while NPLs in other products had variations in different directions that offset each other.

We also continued to increase coverage in the quarter to 205% from 192% in the fourth quarter. Note that the coverage ratio is distorted by two factors, the loans and credit cards that had been automatically deferred until March 2021, and the addition of 60 days until last March to each debtor classification. Both effects also impacted our NPL ratio.

Excluding regulatory easing, coverage was 173% in March, compared with 184% in December, but above 86% in March of last year, as we refined our models. We will continue to closely monitor events and make appropriate adjustments as required to our risk models.

With regulatory easing ended, in the coming months we expect the coverage ratio to decrease and it may also be impacted by some new NPL creation if some clients that deferred their maturities along 2020 and 2021 do not resume payments.

Slide 9

Moving on to risk management on slide 9. The chart on the left depicts the well-diversified industry exposure of our loan book.

Industries that account for a large share of our portfolio, such as agribusiness, food & beverage and wine, continue to perform well in this context.

At the same time, we have further reduced our exposure to higher risk sectors which accounted for less than 7% of our portfolio from 9% in the prior quarter. Moreover, loans in the highest risk sectors have guarantees exceeding 60%.

In addition, over 41% of our commercial loan portfolio is collateralized. We also continued to increase collaterals on non-performing commercial loans, which reached 82% this quarter, up from 80% in 4Q20.

Importantly as well, 71% of total loans to individuals at the bank are held by lower-risk payroll and pension clients.

Now, let me turn the call back to Patricio for comments on our digital transformation strategy and some brief remarks on our perspectives for the rest of the year.

Slide 10

Patricio Supervielle

Thank you, Mariano. As you can see on slide 10, we continued making consistent progress on the execution of our digital transformation strategy. For example:

- Monetary transactions at non-automated banking tellers stood at 4%, down from 17% prior to the pandemic. The share of mobile transactions adjusted down to 8% after reaching a high of 10% in the fourth quarter, but remained above the 6% pre-pandemic level.

- E-checks continued to post exponential growth, up 36% sequentially reaching 30 billion pesos.
- We are also very pleased with the sustained growth in digital customers at the bank which increased 54% over the past twelve months.
- At IUDU – our consumer finance subsidiary, new App functionalities added early last year are being well received with new digital customers expanding consistently. We expect to launch new features to the app which will continue to drive new users.
- Finally, at Invertir Online – our online broker – active customers have increased consistently expanding 88% during the past twelve months. At the same time, DART reached showed a seasonal sequential decline, but nearly double last years' levels.

Before moving on to our views for the year, let me note that this quarter we have launched a more comprehensive set of KPIs to monitor progress on our digital transformation strategy which can be found in the exhibit of our 1Q21 earnings call presentation.

Slide 11

While guidance remains suspended due to the continued limited visibility ahead, please turn to slide 11 where we share our views on the main drivers of our business throughout the rest of the year.

As we navigate a more challenging environment including the second Covid-19 wave, we now expect a delay in the rebound in credit demand vis a vis our expectations on our previous earnings call. We currently anticipate loans to grow in line with inflation in 2021.

In terms of deposits, FX market restrictions and the regulatory floor on interest rate paid to time deposits are expected to support peso deposit growth slightly above inflation.

As to asset quality, in this environment we are likely to see a deterioration in NPLs in the second and third quarters, as the loan deferral programs, and grace periods expired at the end of March. At the moment we have only one month of collections without the relief programs and it's too early to have a complete assessment. At this time, we remain comfortable with the current level of provisions. In addition, we expect Cost of Risk to be below 2020 figures but above our historical average levels.

In terms of margins, we expect NIM to remain pressured by very low credit demand along with higher cost of funds derived from the floor on interest rates on time deposits and subsidized rates on loans.

As regulations limiting fees repricing until March this year have been eliminated, we expect fees to increase in line with inflation. While some caps are still in place for 2021, the bulk of our fees to individuals, mainly bundles of banking services, are no longer affected by regulations.

In terms of expenses, we expect banking salaries to grow with inflation. Higher turnover tax rates along with the recent extension of the turnover tax to Leliqs/Repos in the Citi of Buenos Aires is anticipated to affect expenses. And while we continue to keep tight controls on recurring expenses, we expect to see a temporary increase in costs as we further accelerate our digital transformation agenda and revamp some branches, which will contribute to enhance efficiency in the medium term.

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

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

Operator

Thank you, Patricio. 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

Operator

Ladies and gentlemen, we have reached the end of today's question-and-answer session.

Our first question is from Ernesto Gabilondo with Bank of America. Please proceed with your question.

Ernesto Gabilondo

Hi, good morning, Patricio, Mariano, and good morning to all your team. Thanks for taking my call.

My first question is on inflation. We can see April's inflation is already at 46%, so a little bit higher when compared to March, and I think that you're expecting 47% for the year. So, do you expect it could be higher in the second quarter and then normalizing for the rest of the year? I just want to know how it would be impacting the results of the net monetary position.

Also, if you can share with us how you're seeing interest rates and the effective tax rates in the coming quarters, that would be very helpful. Thank you.

Patricio Supervielle

All right, let me first give you a little bit of what we see in terms of interest rates. Basically, inflation is high, yes, and we expect that inflation will continue to be high, and we expect that the scenario of interest rates will remain low. The government is trying to muddle through the election, and so, therefore, basically, they have decelerated also the devaluation of the peso. On the monetary front, basically, they want to feel more confident, and so expect this moving below inflation, and we can expect this until at least the elections. In terms of inflation, we are 100% hedged against inflation, mostly through UVA and CER assets, and real estate and other non-monetary assets.

Basically, maybe, Mariano, do you want to add on this?

Mariano Biglia

Sure, Patricio. Hello, Ernesto. Thank you for your question. Let me add how this impacts our income statement. As Patricio said, we are hedged against inflation through a variety of asset classes. First, we have real estate and other non-monetary assets, so that reduces the impact of inflation in our net monetary position line items in the P&L. Then, as long as we keep having high inflation levels, the net monetary loss of the monetary position is offset by the repricing of UVA loans and bonds that adjust by inflation. There may be a lag between one to two months, until inflation impacts in full in the UVA, but at the end of the day, we will see a repricing that is an income in the financial margin line item.

Ernesto Gabilondo

Perfect, and how do you see the effective tax rate in the coming quarters?

Mariano Biglia

I can comment on that. For the upcoming quarter, or for the full year, we see the effective tax rate closer to the statutory rate of 30%, maybe a little bit lower, because we have done special deductions on certain SME financing, which lowers our tax rate, particularly, in the first quarter. As long as we see our profit before taxes increasing, that effect will be partly diluted. So, we'll have a positive effective tax rate maybe below 30%, but closer to the statutory tax rate.

Ernesto Gabilondo

Perfect, and just for my last question, how has been your alliance with Rappi, how many clients do you have, and I don't know if you can share if you have some specific targets for the following years?

Alejandro Stengel

I can help you with that, Ernesto. This is Alejandro Stengel, I'm CEO of Banco Supervielle. We are discussing the opportunities with Rappi, and at this point I am unable to comment further, but this, together with other alliances, is part of our acquisition strategy, and we have a very positive outlook regarding these alliances and their opportunities.

Ernesto Gabilondo

Okay, perfect. Thank you so much.

Patricio Supervielle

Thank you, Ernesto.

Operator

Thank you. Our next question comes from Gabriel Nobrega with Citi. Please proceed with your question.

Gabriel Nobrega

Hi, everyone, good morning, and thank you for the opportunity. Just firstly looking at asset quality, we actually saw some opposing trends as to your peers which already reported results. We saw NPLs decreasing, while provisions increasing, and so I just wanted to maybe get a feel from you if there are any segments at the moment that are starting to worry you, and also, as there's still a lot of uncertainty

surrounding Argentina, maybe you can have more necessity of provisions down the road. So, maybe just picking your brains, how you're looking at asset quality, and I'll make the second question afterwards. Thank you.

Patricio Supervielle

First of all, let me tell you that we are following very carefully credit quality in—and we do a top-down analysis. We have, basically, a discipline of portfolio limits that we follow, where we have, let's say, a high-risk—I mean, where we stipulate which industries are high risk, very high risk or medium risk or low risk. This is being followed very carefully.

Maybe I would like to have Alejandro and—if you can, Alejandro and Mariano, can you give some more color on the question that Gabriel made?

Mariano Biglia

Yes, let me comment, Patricio on loan loss provision, that Gabriel asked. Although we reduced our NPLs in the first quarter, automatic deferral has continued until March. We still have loan loss provisions. They were higher than previous quarter, but mainly because in the fourth quarter the cost of risk was very low. We didn't have—almost new NPLs, automatic deferrals continue, and we revised our model in some industries, and also, in the forward-looking macro variable projections, we were less pessimistic than we were in various quarters. The first quarter had a really low level of loan loss provisions. So, when compared to that, you see an increase of 20%, but it's still a low level of cost of risk. We also need to make provisions to continue having our coverage, because, although, the loan portfolio decreased in real terms, you have some increase in nominal terms, and when you increase 5% to 6%, you need to still make loan loss provisions, because the stock of loan loss reserves is not adjusted by inflation, you need to book new charges in order to keep having the same coverage.

Gabriel Nobrega

All right, that's very clear, thanks so much. Then, as for my second question, looking on your digital strategy, we do see that you're adding more and more clients, more and more downloads, but I wanted to understand here. Do you believe that these new clients, they're already starting to generate more revenues for you, or do you still believe that you are maybe spending more on these client acquisition costs before these new clients are already becoming profitable for the Bank?

Patricio Supervielle

Are you talking of digital clients at the bank level? Can you give more specific—or I didn't hear the question?

Gabriel Nobrega

Sure. It's more on your digital clients. We see here that you've already reached 4,4 thousands clients, if I'm not mistaken here, and so I just wanted to understand, if there's some growth in the clients, they're already starting to be profitable for you, or are you still spending more to acquire these new clients?

Patricio Supervielle

Okay, all right. Alejandro, I think it is a question for you.

Alejandro Stengel

Sure. Good morning, Gabriel. We have been very successful in the digital onboarding of digital-native customers so far, and we will continue in that trend. These digital customers, as you know, have a cycle in which they turn profitable. You have a proportion of those that basically give you some balance in the accounts and this helps in building up core deposits, and a portion of them go on to become, through the scoring we have developed, into credit clients, and they contribute to our net interest income. So far, we see this to be evolving as we had planned, and we will continue to increase and accelerate on our digital acquisition, which is turning out to be very much in line with our objectives.

Gabriel Nobrega

All right, that's very clear. Thank you, everyone, for the responses.

Operator

Thank you. Our next question is from Carlos Gómez with HSBC. Please proceed with your question.

Carlos Gómez López

Hello, good morning. I wanted to know if you could comment on the latest regulation from the Central Bank, allowing the banks to use treasury bonds to meet their liquidity requirements and not just Leliq, those issued by the Central Bank? Do you expect to start using government bonds for these purposes, or would you stick to the Central Bank paper, and do you think you will continue to have the option of Leliq? Thank you.

Patricio Supervielle

Well, this is very new. Thank you, Carlos, for the question. This is very new and we typically discuss this. We have a specific Asset and Liability Committee, where we discuss these issues. But, let me give you my first stomach response. We don't—we will not use—I don't think we should use these government bonds as a requirement. But, this is my stomach response. I, personally, don't like this regulation.

I don't know if someone else wants to add on that. Maybe Alejandro or Mariano, what do you think?

Mariano Biglia

Hello, Carlos. I think this is an option given by the Central Bank. Right now, we have our minimum cash reserves fully integrated within Leliqs, which are a Central Bank instrument, so immediately, we want to take that option, we have a Central Bank instrument, but it's important to know that we can also subscribe new treasury bonds, also, to use in the remunerated cash reserve. So, we'll consider it's not something that we will do, at least in the immediate term.

Carlos Gómez López

Again, to clarify, at this point, this is an option, you could use them, but you don't have to, but in the future ...

Mariano Biglia

Yes, it's important to highlight that, because it's an option given by the Central Bank. Of course, the Central Bank aims to foster the issue of bonds by the treasury, but it's an option for banks. We could subscribe new Treasury bonds in order to use them as part of our remunerated cash reserves, but we can keep having Leliqs, as we do now.

Carlos Gómez López

Okay, and could this become an obligation, could you be obliged to subscribe to their bonds, and in that, would you have any legal avenues to try to avoid it?

Patricio Supervielle

No, I don't think it will be—I mean, of course, we cannot know, but I don't think it will be an obligation to do that. I mean, it would be a very bad signal, frankly, and I don't think it makes real sense, and I don't think they will do that. This is my opinion.

Carlos Gómez López

That's very clear. Thank you so much.

Operator

Thank you. Our next question comes from Alejandra Aranda, with Itaú. Please proceed with your question.

Alejandra Aranda

Hi, good morning. Thank you for the question. Basically, I wanted to get a sense of what you're thinking about on the funding side, the liability management, if you could comment a little bit on that, especially because we saw a big jump on deposits for this quarter, but that must have been towards the end, because the average amount remained pretty stable sequentially, if you could comment a little bit.

Patricio Supervielle

Okay. I mean, liquidity management since the beginning of last year has been a feature that we constantly use in order to preserve high margins, high financial margins. Particularly, in a scenario where there is—we have lived through a credit crunch, three continuous years of credit crunch, we use liquidity management to preserve these margins, and we have a highly prepared Management Team to do that. This will continue until credit demand resumes.

Maybe, Mariano, do you want to add on that?

Mariano Biglia

Yes. Hello, Alejandra. It's correct, what you observed. We had higher deposits at the quarter end, although, the average balance in the quarter was in line, or either slightly lower than previous quarter. This has to do mainly with institutional funding, where we can increase or decrease the deposit and use them mainly in short-term securities of Central Bank, which is part of our liquidity management. Looking forward, maybe the big increase as of quarter end will be the discussion point the second quarter, so we could see a higher average in the second quarter. But, again, it's part of our asset and liability management, and so we'll manage that the way we think it's more profitable and more prudent.

Alejandra Aranda

Okay, but would it be correct to assume that with that strategy, we could see further margin compression?

Mariano Biglia

We saw margin compression in the first quarter, mainly due to the floor on rates of time deposits, and also because in the mix of deposit, we saw a higher increase in remunerated deposits and a lower increase in sight deposits, so that put further pressure on margins. We see that the same trend continues in the second quarter, so we expect maybe a slightly higher margin, in pesos, in the line item of the P&L, but as a percentage of NIM, it will be similar to the first quarter, and increasing in the second half of the year.

Alejandra Aranda

Okay, thank you very much.

Patricio Supervielle

Just to complement, full year, we believe that the NIM could be similar to the 4Q20, which is around 20%.

Alejandra Aranda

Okay, that's very helpful. Thank you.

Operator

Thank you. One moment, please, while we poll for questions.

Ladies and gentlemen, we have reached the end of the question and answer session. I will now turn the call over to Ana Bartesaghi for closing remarks.

Ana Bartesaghi

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 returning to our video conference format. In the interim, we remain available to answer any questions that you may have. Thank you and stay safe and healthy.

Operator

Thank you for joining us today. This concludes today's conference. You may disconnect your lines at this time.