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Ana Bartesaghi – Treasurer & IRO

Good morning, everyone and welcome to the Grupo Supervielle Second Quarter 2022 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.

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, and press "raise your hand" again to withdraw your question. You can also send 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.

Speaking during today's call will be Patricio Supervielle, our Chairman & CEO, and Mariano Biglia, our Chief Financial Officer. Also joining us is Alejandro Stengel, First Vice-Chairman of the Board and CEO of Banco Supervielle. All will be available for the Q&A session.

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As a reminder, 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.

Patricio Supervielle, our Chairman and CEO will start the call discussing our key highlights for the quarter and updates on our transformation initiatives. Afterwards, Mariano Biglia, our CFO will take a deeper look at our performance and near-term perspectives and after that we will open the floor for questions.

Patricio, please go ahead.

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Patricio Supervielle - Chairman and CEO

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

Now, please turn to slide 4 of our earnings presentation.

We are navigating an increasingly challenging macroeconomic environment in Argentina and worldwide. Accelerated inflation reaching three digits together with rising interest rates have driven loan demand to historical lows while the government's crowding out is in full force.

We have taken immediate action to adjust to this context, implementing a major restructuring of IUDÚ, our consumer finance business, with the goal of running a more efficient operation. And I will discuss this in more detail shortly. Simultaneously, we continued to make significant advances on our key strategic pillars, increasing customer acquisition and digital adoption, and improving asset quality. We are also transforming our network and significantly rightsizing our Bank and Brokerage operations to drive efficiency, while improving funding.

Our bottom line this quarter was negatively impacted by headcount reductions to capture efficiencies at both IUDÚ and the Bank, as we prioritize long term value creation over short-term profitability. The sharp drop in the price of our government security holdings in June, together with significantly higher inflation, low credit demand and increased regulatory floors on interest rates on time deposits also impacted results. As a result, we reported a loss of 2 billion pesos in the quarter. Excluding non-recurring severance and early retirement charges, we would have reported a consolidated net loss of 1.2 billion pesos, while the banking business would have posted a net loss of 160 million pesos. Mariano will provide more color on our financial performance on this shortly.

While Argentina faces important fiscal, financial, and monetary challenges that have not yet been addressed, we remain fully committed on building a more efficient, profitable, and scalable operation while monitoring market dynamics. Reflecting our conviction in the value of Supervielle's assets and the potential of our business, last July the board approved a share repurchase program for a total of 2 billion pesos, or the lower amount equivalent to 10% of our capital stock, through March 2023. This initiative is supported by a liquid and well capitalized balance sheet.

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Turning to page 5, let me now review the progress on the initiatives under each of our six strategic pillars designed to improve ROE.

Starting with **customer experience and acquisition**, this quarter we added 89 thousand new retail customers. Of these, 65% were onboarded digitally, while 30% are payroll customers.

Note that 57% of these digitally onboarded retail customers took credit card loans.

Corporate customers in turn, increased nearly 1% sequentially and close to 7% year-on-year.

We are also very pleased with the sustained progress in **digital adoption**, with digital bank customers up 26% sequentially and 89% when compared to the same quarter of last year.

Equally encouraging is the 60% sequential increase in **Mobile App** customers achieved this quarter. We also saw good traction in Senior Citizens mobile app customers – which were up 12% sequentially and 72% year-on-year. As a result, the share of mobile transactions doubled to 20% of total monetary transactions, up from 10% in the same quarter of last year. Combined, online and mobile banking channels accounted for 41% of total monetary transactions.

We remain focused on customer acquisition, digital onboarding, and cross selling as part of our initiatives to further enhance the customer experience and increase share of wallet.

We have also taken meaningful steps this quarter with respect to our **efficiency pillar**. Several rightsizing initiatives across our operations have enabled us to reduce our headcount by 18% year-to-date. This was driven by workforce declines of 6% at the bank, 75% at IUDÚ and 29% at invertironline.

Starting with **IUDÚ**, last year we launched the IUDÚ fully digital financial services platform aimed at attracting low cost deposits and scaling the business with the goal of reverting the negative impact this operation has had on ROE over the past years. Unfortunately, annual inflation levels accelerating to nearly 100% have made the consumer finance

business extremely challenging and therefore we decided to rapidly change course. In this context, we are integrating the entire IUDÚ customer base to Banco Supervielle drastically reducing operational costs. At the same time, we have slowed down loan origination focusing on improving asset quality. While this is resulting in higher severance charges this year, it is a significant step in running a more efficient operation.

At **IOL invertironline**, our fintech subsidiary, we recently appointed a new CEO. The difficult context faced today by fintechs worldwide, together with highly restrictive regulations in Argentina, have negatively impacted trading volumes and fees. To mitigate this, we are currently reevaluating unit economics in this new environment and streamlining this operation, including the headcount reduction implemented this month.

Now, moving to efficiencies at the **Bank**, as discussed during our prior earnings call following the termination of the financial agency agreement with the government of the province of San Luis, this month we transferred this business to the designated bank. This included transferring and/or closing 18 branches, their related employees and respective loan portfolio. These 18 branches, accounted for 10% of total bank branches and 4% of our employees, but only represented 2.5% of the bank's revenues, 2.4% of its total loan book and 3.1% of total deposits. Note, we continue to serve over 106,000 private sector customers in the province of San Luis, leveraging the strong franchise we have built the past 25 years which continue to serve.

Beyond San Luis, we have also merged 15 low-performing branches into other locations and are awaiting final Central Bank approval to fully close them. The transformation of our network is an ongoing process, and we are accelerating this trend leveraging our virtual hubs that support our anytime – anywhere banking strategy, while further enhancing customer satisfaction.

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On slide 6, you can see how the transfer of the low performing branches in San Luis together with the merger of 15 branches in other locations are allowing us to significantly improve branch productivity.

As shown on the two charts on the left, average loans per branch would improve by 19% when excluding these 33 low performing branches. Similarly, customers per branch would increase 15%.

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Turning to slide 7, we also made progress on our **funding pillar**.

During the year we have focused on increasing corporate sight deposits, driving growth in transactional products, and increasing share of wallet.

These initiatives have enabled us to expand the share of corporate checking accounts by 13 basis points year-to-date.

Likewise, the share of retail savings accounts was up 31 basis points year-on-year, contributing to improve our funding mix.

Public sector deposits beyond San Luis are also performing well reflecting our focus on building the finance agent business servicing municipalities.

Lastly, in terms of our sixth pillar related to maintaining healthy **asset quality**, our focus on establishing portfolio limits, and further atomizing exposure to economic sectors and top customers allowed us to reduce our NPL ratio to 3.8% on a consolidated basis, and down to 2.6% at the bank level – reaching a historical low.

More details on our key digital and operational KPIs can be found in the exhibits of this presentation.

With this, let me turn the call to Mariano. Please, go ahead.

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Mariano Biglia - CFO

Thank you, Patricio. Please turn to slide 8.

Our loan book stabilized this quarter and was relatively unchanged sequentially, following a low double digit sequential contraction in the first quarter.

AR\$ loans increased 1.5% sequentially to just over 180 billion pesos. This was mainly driven by loans to SMEs and short-term financing to corporates, together with an increase in our retail customer credit card portfolio reflecting our customer acquisition strategy, partially offset by a 12% sequential contraction of total loans at IUDÚ. This led to a 2 percentage point decline in the weighting of consumer finance loans over our total loan book reaching a historical low.

Note that US dollar denominated loans continued to decline accounting for just slightly over 8% of total loans.

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Turning to funding on slide 9, total Argentine peso deposits were up 7% sequentially, with core peso deposits increasing 6% in the period.

Institutional deposits, in turn, were up 7% contributing to support financial income.

Liquidity levels remained healthy in local currency as well as in US dollars, with the total loan to deposit ratio at 46% reflecting historical low credit penetration.

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Please turn to slide 10. Total Net Interest Margin stood at 18.8% in the quarter. AR\$ peso NIM, in turn declined 30 basis points sequentially to 19.0%, and was up by a similar amount year-on-year.

A couple of factors contributed to this sequential performance:

- First, AR\$ cost of funds increased 540 bps driven by regulatory increases in minimum interest rates on time deposits as described in more detail in our earnings report.
- Second, the yield on AR\$ investments declined following the sharp drop in the price of our government bond holdings.
- This impact was partially mitigated by lagged loan repricing; a 680-bps increase in the average yield of Central Bank Securities and Repo transactions, coupled with a 39% increase in the volumes of those instruments.

When excluding the impact of the decline in the price of government securities in June, NIM would have been 19.6%, 80 bps above the reported NIM for the quarter.

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Now please turn to 11.

Our total NPL ratio declined 50 basis points to 3.8% sequentially with Coverage stable at slightly over 108%.

At the Bank, the NPL ratio remained unchanged at a low 2.6%. Coverage stood at 142%, while Net Cost of Risk of 4.2% compares with 1.3% in the prior quarter which benefitted from the reversal of provisions from a reduction in the loan book. Asset quality levels remain comfortable with the Bank's NPL ratio in July stable at 2.6%.

In turn, IUDÚ's NPL ratio improved 310 basis points sequentially. As anticipated in the prior call, this quarter we wrote-off delinquent loans that had been automatically deferred by the Central Ban during the pandemic. This improvement was limited by the 12% contraction of the loan book.

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Moving on to page 12, the efficiency ratio this quarter was slightly over 81%, impacted by several factors:

First, expenses were up just over 5% sequentially, mainly driven by significant severance and early retirement charges, together with salary increases that anticipate inflation, thus increasing costs in real terms.

To a lesser extent, higher costs also reflect the implementation of our initiatives to drive customer acquisition and advance on our digital and operational transformation.

The rightsizing initiatives at the Bank and IUDÚ that Patricio discussed earlier resulted in a sequential headcount reduction of nearly 6%. These severance and early retirement charges contributed with a 560 basis points increase to the efficiency ratio.

In addition, the sharp drop in the prices of our government security holdings in June negatively impacted efficiency by another 300 basis points.

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Turning to capitalization on slide 13.

We closed the quarter with a Tier 1 capital ratio of 13.6%, a 20 basis points sequential decline.

This is mainly explained by loan portfolio growth above inflation together with the impact of net results.

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Now moving on to our views for the main drivers of our business for the full year, on page 14.

- Starting with loans, we now expect our portfolio to grow below inflation in 2022, vis-a-vis our projections for stable loan in real terms as discussed in our prior call.
 - Note we revised annual inflation expectations to 90%, up from the 65% anticipated earlier
 - Our current view also takes into account the transfer of the loan book related to the financial agency agreement with the government of San Luis which accounted to 2.4% of total loans, and
 - Finally, weaker loan performance at IUDÚ given the more challenging macro backdrop.
- Our expectations for Deposits remain unchanged - growing in line with inflation given FX restrictions and interest rate floors on time deposits.
- In terms of asset quality, with loan growth slowing down, we now anticipate loan loss provisions slightly below 2021 levels, below our prior expectations. In turn, net cost of risk is anticipated to remain unchanged at similar levels of last year while we have improved our NPL expectations to remain relatively in line with today's levels.

Expectations for all other metrics remain unchanged from our first quarter 2022 views. And let me do a quick recap on that:

- NIM is expected to remain slightly above 2021 levels with the margin up in real terms, benefiting from:
 - A sustained improvement in the funding mix,
 - The impact of higher inflation on inflation-adjusted assets, including government bonds and mortgages, and
 - Sustained net positive effect from the increase in interest rates passed by the Central Bank.
- In terms of Fee income, bank fees from individuals are expected to follow inflation, while insurance income is anticipated to increase in real terms as premiums recover from the shortfall over the past two years. By contrast, brokerage fees are anticipated to remain soft.
- Operating expenses are expected to increase slightly above inflation reflecting additional costs from the implementation of our digital transformation strategy, continued headcount efficiencies, and customer acquisition costs.
- Finally, the Tier 1 ratio is expected to remain at adequate levels in the 12 and 13% range by year-end. Remember that 100% of our capital remains hedged against inflation.

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

Q&A Session

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.

The first question comes from Ernesto Gabilondo from Bank of America.

Ernesto Gabilondo

Thank you, Ana. Hi, good morning, Patricio, Mariano, and Alejandro, and thank you for your presentation. My first question is on the political outlook. I understand we're still far from the elections. There's a lot of divisions among political forces. And it seems there's still no preference for a candidate, right. So how are you seeing the political outlook ahead of the elections?

Alejandro Stengel

So good morning, Ernesto, and thank you for your question. You're quite right. At this point, it's very difficult to tell what the exact shape of the different political alternatives will be. We see that at least on the incumbent on the current administration coalition, there's a lot of strain and it is unclear which candidate would emerge from there. Clearly, we see that the recent appointment of the current Minister of Finance, is trying to bolster politically the possibilities of Mr. Massa. But that, of course, will depend strongly on how the economy performs after the measures he intends to take.

On the opposition side, we've recently seen a lot of factionalism going on and a lot of divisions. But there seems to be some consensus around at least three possibilities. One what would be the hardliners of the opposition around Ms. Patricia Bullrich, then you have on a broader mainstream perspective of *Juntos por el Cambio* to the current mayor of the city of Buenos Aires which is Horacio Rodríguez Larreta. And then we expect a Radical party candidate to also become available unless some other coalitions form within that opposition. At this point it's very difficult to tell which of these will emerge as stronger candidates. What we do know is the current polls show that there's a lot of voter dissatisfaction regarding the current administration.

Ernesto Gabilondo

Oh, perfect. Thank you very much. And just a second question on your buyback program. We have been getting questions from investors, asking if this is the best use of capital, considering the challenging macro outlook for Argentina. As you have mentioned in your presentation, inflation could be up to 90% and rates are still moving up to maximum levels. So it seems it will be difficult to normalize those levels in the short-term. And this within the context of risks of an important depreciation of the Argentine peso.

On the other hand, if we look into Supervielle's balance sheet, it seems has lower strengths when compared to the large cap banks. The reserve coverage ratio, it's at 108%. Tier 1 ratio, as you mentioned could be around 13%. But when looking to the large cap banks they have coverage ratios of 170% and common equity Tier 1s above the 25%. I understand all the internal initiatives and what you mentioned about these six pillars initiatives to improve profitability. But considering the external risks and challenging outlook in Argentina, I would like to hear your thoughts about this buyback program. Thank you.

Mariano Biglia

Yes. Good morning, Ernesto. Yes, currently, we feel comfortable with our capital levels, with our tier ratio over 13%. Although it's lower than our peers, we know there are -- where our limitations in place in the past years on the payment of dividends, now they are being partially released. So if we focus on the current capital ratio and the outlook for the future, we feel it's an adequate level. The impact of this buyback in the capital ratio will be also limited because it's AR\$2 billion, maximum level program. So, as of June 30, all the program will have been executed, it will have an impact of 0.6% in the Tier 1 capital ratio, it should be lower in the future as this amount is fixed in pesos, so it's being diluted over time.

And also, it has a cost for us and for our shareholders to have this excess capital because it loses value with inflation impacting our P&L. And the way to protect the liquidity at the holding level, remember that this is liquidity that we have at the holding company received from dividends from subsidiaries that have positive results as Supervielle Seguros and Supervielle Asset Management.

So, in order to keep the value of this liquidity in real terms, we have few options. The main option is treasury bonds, which has also its risk as we saw in this quarter. So this decision allows us to remain in an adequate capital level, reduce our treasury bonds portfolio, and reduce the impact of inflation. At the same time, we're buying shares that we feel do not reflect the actual value or the value based on the fundamentals of the stock. So, this is for us also an appropriate decision.

Patricio Supervielle

Ernesto, I would like to compliment on what Mariano just said. The buyback program is basically for us a signal that we believe in what we're doing, in terms of transformation. Grupo Supervielle, we believe has the most ambitious transformation program in the financial system looking at what you see in terms of, for instance, consolidation of

branches that we are pursuing since last year, and which is also in the hands of the Central Bank already, but already -- even though we are expecting the authorization to close branches, we have already operated a drastic diminution of operating costs at all the branches that we want to close.

Also if you see for instance, the transfer of 18 branches in the province of San Luis, which were inefficient branches, and what will continue to do in the future in terms of, for instance, closing more inefficient branches, but also particularly putting in place the new digital technologies, the virtual hubs that allow us to do anywhere banking and anytime banking in the country. This is a strong belief that the company Banco Supervielle will be a very competitive company. So we are willing to sacrifice short-term profits in order to reap the rewards in the near future.

We have been executing efficiencies in 2021 and 2022 at the bank level. Now you see a major transformation that we are doing in IUDÚ which is a consumer finance operation by basically executing a very drastic employee reduction. And also, we will be transferring all clients from IUDÚ into the bank in order to operate it in a single platform in the bank. We believe that all these will turn into return on equity and creation of capital. When the macro changes in Argentina, when it becomes more rational, all these measures we're taking today will allow us to grow again in a healthy way and much more efficient way. So this is why we're implementing this, in addition to what Mariano said, which is basically holding government securities basically that have other risks.

Ernesto Gabilondo

Thank you very much, Patricio and Mariano.

Ana Bartesaghi

Thank you, Ernesto. The following question comes from Yuri Fernandes at JP Morgan. Yuri, please go ahead.

Yuri Fernandes

Thank you, Ana. Hi, guys. I have a question regarding the profitability outlook. I understand that the change in the macro political environment is key here. But you have been doing a lot on the cost side. And we are still not seeing like better bottom line, right. So my question is, when should we start to see a better trend here? I guess you had some trading losses this quarter. So I guess a question I have is, how are you seeing those losses in July, August, like are things improving? And regarding IUDÚ, I guess the business is getting much smaller, you're reducing headcount. So given like the size of the severance payments over last quarters, like should we see earnings improvement from here? Like what is the outlook in a more short midterm for you? Thank you.

Alejandro Stengel

Yes, of course. Good morning, Yuri. Thank you for your question. What we have been doing is basically very much trying to take advantage of a series of restructuring that needed to be done in a context which isn't really favoring a growth of the financial system. The macroeconomic and the regulatory conditions right now, drive the financial sector to lend to the Central Bank or to the government treasury. Also, the increase in inflation deteriorates financial intermediation. So commercial banks that are positioned to serve the private sector in these contexts suffer more than others.

As mentioned before, we worked hard on improving efficiencies in '21 and '22. And we also invested in client acquisition, as part of our digital transformation strategy. And this has had an impact as you pointed out in our ROE. The drop in the bonds we saw in the month of June, we think was a reflection of a one-time effect and that the Central

Bank tried to correct quickly that situation after. Basically we have very clear policies on stop loss and that was executed promptly and therefore, that was the loss that was taken. But at the same time, part of these losses were recovered with a subsequent evolution.

Customer acquisition, also as mentioned before, has an impact on ROE in the short-term because you have a combination of caps on credit card lending. And also you have these floors on rates for time deposits, which affect the short-term ROE of this acquisition process. But again, here we are taking a long-term view in which the customer acquisition process and product development process, enhancement of the customer experience, and increased digital adoption will help us. In the short-term, this 18% reduction of headcount and restructuring of IUDÚ and bringing them into the bank platform will take a toll. But we see that probably in the second half of next year, depending on macroeconomic conditions, much of this hard work that has been going on will render its fruits.

Yuri Fernandes

No, that's pretty clear. So second half of the next year is kind of your best -- assuming again, really depending on the economy on inflation. But given what you're seeing, second half is the best guess.

Alejandro Stengel

As you can imagine, Yuri, you cannot do this without the demand side, if credit demand, macroeconomic conditions don't enhance, this will continue to be challenging.

Yuri Fernandes

No, that's clear. And I have a second question regarding exactly that point, like you have been more working on retail. I remain in the [indiscernible] in Kavak and we are seeing auto loans growing nicely. But when you consider the total retail like the total loans to individuals, they have been flattish or slightly down. So my question is, is this you becoming a little bit more restrictive, given like higher inflation in Argentina? Or it's a demand issue for like -- is there a strategy changing because of the inflation? I guess that's the kind of question I want to ask. Thank you.

Alejandro Stengel

Yes, during these periods, we typically become more sensitive to asset quality. And we have been very careful, and you see this in the strength of our portfolio. When you go into this kind of macroeconomic context, which are difficult and changing and volatile, you want to be sure that the asset quality is protected. And this, for example, in the case of consumer lending, has had a very clear impact. And we have become more restrictive in our lending policy in that segment, in particular. We have also bolstered and drove growth in segments that we think have a good potential and good asset quality, like the one you mentioned, which is the Kavak segment and the cases of loans backed by assets that customers will defend.

So all in all, what we're doing is basically balance a more uncertain macroeconomic outlook, where we see that some of the segments that we cater to that serve have been losing purchasing power and disposable income. Case endpoint is not only consumer segments, but also pensioners as you probably know, and at the same time trying to increase the portion of middle to high income customers and asset backed loans, which are helping us to balance this equation a bit better.

Yuri Fernandes

Perfect. Thank you, guys.

Ana Bartesaghi

Thank you, Yuri. So I think there are no more questions today. So ladies and gentlemen, we have reached the end of today's Q&A 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 will remain available to answer any questions that you may have.