

Grupo Supervielle 2Q23 Earnings Conference Call Transcript

Slide 1

Ana Bartesaghi

Good morning, everyone and welcome to the Grupo Supervielle Second Quarter 2023 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 answer questions if you are connected from a phone line. Also, please make sure your first and last name appear in the zoom platform you are using. You will be able to ask a question by voice or send questions in written form via the Q&A box in the zoom platform anytime during the call.

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 at Banco Supervielle. All will be available for the Q&A session.

Slide 2

As a reminder, today's call will contain forward-looking statements based on Management's current expectations and beliefs and subject to several risks and uncertainties. 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 the key highlights for the quarter and priorities for 2023 as well as an update on macro views for this year and 2024. Afterwards, Mariano Biglia, our CFO will take a deeper look at our performance and near-term perspectives. This will be followed by a Q&A session.

Patricio, please go ahead.

Slide 3

Patricio, Chairman and CEO

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

I will begin my presentation with Slide 3.

We continue executing our strategic plan while navigating a complex macro and political environment with weak loan demand.

The momentum that we saw at the beginning of the year continued through the second quarter with profitability across all business units. Our program is on track with ROE improving to 18%, in real terms, in the quarter. For the first half of the year, ROE increased to 10% from negative 6% in the same period last year.

Our results for the first half reflect strong asset and liability management, our prudent approach to lending, and significant progress in streamlining operations. This resulted in revenue growth, healthy asset quality, significant improvement in operating efficiency and profitability.

We continued deepening our transformation driving digitalization and innovation while capturing customers beyond our physical footprint. Starting June 3, we were the first bank to expand the timeframe for money market investments to 24/7. This initiative has been well received with 90,000 clients already investing through this platform.

As we look to the remainder of the year, our key priorities include:

First, continued focus on profitability and cross-selling products to existing customers. In particular, we are cross-selling insurance, investment products, and cash management services, while also driving loans above market growth. InvertirOnline, our online brokerage business, continues to deliver a very strong performance. Active customers doubled year-to-date with assets under management up 49% in real terms since December last year.

Second, we are closely monitoring market conditions, and managing assets and liabilities to protect financial margins and the group's capital and continue with a prudent credit risk approach. Our shareholder equity remains fully hedged against inflation while we are also long in US dollars.

Slide 4

Now please turn to slide 4. Foreign exchange reserves have continued to decline further impacted by the negative commercial balance, while the Central Bank continued to increase the reference interest rate on the back of accelerated inflation.

After the Primary Elections, the Central Bank devalued the peso by 22%. The reference rate for LELIQs increased from 97% to 118%. Against this backdrop, the blue-chip swap rate experienced higher volatility reflecting increased political uncertainty.

According to certain early indicators, the pass-through effect of the exchange rate devaluation is anticipated to have further accelerated inflation in August and into September.

In turn, the fiscal balance has deteriorated as revenues have been declining and expenses declined in real terms but at a slower pace than in previous months. The IMF's original fiscal primary deficit target of 1.9% has been exceeded and is currently estimated to reach 3%.

Slide 5

Turning to slide 5, as we head toward the presidential elections in October, let me share our macro views for the remainder of 2023 and expectations for 2024.

While the government is maintaining a fiscal balance restraint, the recent peso devaluation has established a new and higher floor on inflation. On August 23, The Board of the IMF completed the fifth and six reviews of the Extended Fund Facility for Argentina, enabling an immediate disbursement of around US\$7.5 billion. The next review is scheduled for November 2023.

In this context, we expect economic activity to continue falling in the second half of the year leading to a GDP contraction of approximately 3% for the year.

Looking to 2024, the Primary elections suggest that a clear majority of Argentines favor fiscal and monetary normalization, which would lead to a growth scenario in the medium term as the economy stabilizes.

We anticipate a significant increase in the country's commercial surplus, driven by growing agricultural exports, higher energy production and more favorable trade regulations.

Contraction in economic activity is anticipated to continue during the first quarter of 2024, with activity levels turning to positive terrain in the second half.

To conclude, we have a proven track record of operating in unstable conditions and are certain of our ability to navigate through these challenges. While macroeconomic headwinds are expected to persist as we move through the remainder of the year, we are well-positioned to address these challenges. In the meantime, we maintain ample liquidity and safeguard our capital against inflation, which positions us well to rebound and resume growth once the economy stabilizes.

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

Mariano Biglia

Slide 6

Thank you, Patricio, and good day everyone.

Please turn to slide 6 for an overview of our performance for the first six months of the year. As Patricio just noted, the consistent execution of our strategy has driven a positive swing in profitability, in line with our expectations.

Net income improved to 7 billion pesos with ROE at nearly 10%, up from a net loss of 4.4 billion pesos and negative ROE of 6% in the first six months of last year.

This improved year-on-year performance was mainly driven by a combination of strong revenue growth and lower costs and provisions.

- **Starting with revenues, Net financial income** was up 9%, or over 7 billion pesos, reflecting higher spreads and volume on our investment portfolio. Our brokerage business also performed very well, driving **fee income growth** of slightly over 2%, or close to 500 million pesos.
- **On the cost front**, rightsizing and operating efficiency initiatives implemented in 2022 contributed to a 9% decline in **personnel expenses** – or 3.6 billion pesos. In addition, our tight focus on cost controls resulted in a mid-single-digit year-on-year reduction in **Administrative Expenses and D&A** – equivalent to savings of 1.1 billion pesos. Cost savings reflect the reduction of operating expenses at IUDU, the transfer of smaller San

Luis Province branches to Banco Nación, the decrease in corporate offices lease space and selective branch closings.

- **We also reported a good performance in Loan Loss Provisions**, down nearly 35% - or close to 3.3 billion pesos – reflecting both a shift away from consumer finance loans together with growth in middle-market companies.
- **Lastly, other income (losses)** declined nearly 6%, or 736 million pesos, reflecting a drop in credit card benefits together with lower turnover taxes paid.

Now, for a quick update on turnover taxes. There is more detail provided in our earnings release. Since 2021 the City of Buenos Aires started to tax income from Leliqs and Repos with the Central Bank and since 2023 the Province of Mendoza did the same with Leliqs. Before, these instruments were exempt as they are issued by a national entity. As a consequence, the Central Bank filed a claim with the Supreme Court of Justice against the tax authorities from Buenos Aires and Mendoza, alleging that Leliqs are monetary policy instruments used by the national monetary authority that can't be interfered with by a local government. In addition, both Banking Associations ADEBA and ABA and the majority of financial institutions operating in these jurisdictions followed suit.

Accordingly, we are not taxing Leliqs in Buenos Aires and Mendoza since April and January this year, respectively, following the opinion of our internal and external legal advisors. Savings in turnover tax for 2Q23 accounted for approximately 500 bps of ROE. This is in line with the Central Bank claim for the unconstitutionality of this tax and we believe it's in the best interest of our stakeholders.

These contributions to profitability were partially offset by higher taxable income and exposure of deferred taxed assets to inflation.

Slide 7

Now looking at our performance for the second quarter, starting with slide 7.

Total assets increased sequentially above inflation and significantly above industry growth with deposits also expanding considerably above the industry trend.

Our effective asset and liability management allowed us to leverage the higher spreads of short-term central bank securities and maximize NIM in an increasingly volatile environment.

Our short-term Central Bank securities portfolio increased to nearly 43% of total assets at quarter end, up from 31% in the prior quarter, while the share of government securities, declined to 8% this quarter from nearly 11% in the first quarter.

In turn, peso deposits increased 16% sequentially driven by growth in public sector deposits, corporates, and the positive impact from the thirteenth salary.

Slide 8

Moving on to slide 8, total lending lagged inflation and the industry trend reflecting our prudent approach together with overall weak credit demand. As a result, total lending fell 5% sequentially.

Starting this quarter, within Total Lending, we are providing info on off-balance sheet guarantees granted to corporate customers. This is a product area that has been growing rapidly this year.

As shown on the chart to the right, as we continue to prioritize high-value customers, particularly loans to payroll, SMEs and middle-market customers, consumer finance customers continue to cede share of total loans.

Slide 9

Moving on to slide 9, the **total NPL ratio** declined to 2.5% in the quarter one of the lowest levels ever as we maintained tight credit scoring criteria and a healthier loan mix as I mentioned earlier. Early delinquency, in turn, improved sequentially.

All segments contributed to the lower NPL ratio.

Moreover, the sale of a delinquent consumer loan portfolio together with the upgrade of a corporate customer to Stage 2 from Stage 3 contributed to bringing the coverage ratio to 148%, up from 116% in the prior quarter.

Slide 10

Now please turn to slide 10, Net Financial Margin increased 20% sequentially to over AR\$48 billion in the quarter.

Higher investment portfolio volumes, along with increased returns driven by sustained interest rate hikes following rising inflation contributed to higher NIM in the quarter, expanding 470 basis points sequentially and 780 basis points year-on-year to 26.6%. This high level of NIM continued into July and August.

Slide 11

As shown on slide 11, the efficiency ratio for the quarter improved to 62.5% from nearly 72% in the prior quarter and just over 81% a year ago.

The sequential improvement reflects revenue growth of over 16% coupled with a 7.6% increase in expenses. Note that personnel expenses were up 12% in the period as salaries in June were adjusted ahead of inflation.

On an accumulated basis, expenses for the first half of the year decreased close to 7%, while revenues were up 9%.

Slide 12

Moving on to Capitalization on slide 12, we continued to build capital in the quarter with our Tier 1 ratio increasing 1 percentage point sequentially to 15.7%.

This increase is mainly explained by positive Bank's net results, together with dividends received at the holding company level from other subsidiaries.

Also, risk-weighted assets increased below inflation in the quarter reflecting loan portfolio contraction in real terms.

Slide 13

Before opening for Q&A, please turn to slide 13 to review our perspectives for full-year 2023.

Taking into account the recent macro trends discussed by Patricio, we have revised our perspective on the following line-items:

- With respect to **asset quality**, although NPL is at very low levels, we now anticipate net **cost of risk** for 2023 to range between 4.5% to 5%. This is above the Cor for 1H23, but inflation is most likely to rise sharply in the third and fourth quarters, eroding individuals' disposable income and impacting certain commercial businesses. Additionally, we now expect the NPL ratio at year-end to range between 2.5% and 3%, while before we anticipated closing the year with an NPL ratio at a higher level ranging between those observed during 4Q22 and 1Q23.
- In a higher interest-rate environment and given the good year-to-date NIM performance of 24%, we expect **NIM** for the year to remain similar to the level reported in the first half.
- In terms of **fees**, in the current context we now expect softer insurance fees in real terms than earlier in the year. By contrast, brokerage fees will be higher this year as this business benefits from higher volatility. Our views on the bulk of bank fees to individuals remain unchanged with these fees expected to reprice in line with inflation.
- With respect to profitability, we now anticipate ROE to remain at levels observed in the first half of the year, while before we expected a positive but lower ROE. Note that while ROE reported in 2Q23 benefited from extraordinary spreads and volumes in our investment portfolio, performance has been good in July and August to-date.
- We are also increasing our **Tier 1 ratio** expectation in the range of 14% to 16% by year-end, up from 13% to 14% before. As a reminder, 100% of our capital remains hedged against inflation.

Beyond these changes, our 2023 expectations for all other metrics remain unchanged from our prior quarter views.

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.

To ask a question 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 with Bank of America. Please go ahead.

Ernesto Gabilondo

My question will be on your impressions on the economic and political outlook. After the primaries, we have seen Milei got like the preference on the voters. So I would like to hear your thoughts. Now, if Milei is elected President, he will likely need to make agreements to pass some of his campaign proposals, which I think could prevent a fast dollarization of the economy or to protect the Central Bank. However, at the same time, it could be challenged to get into agreements to approve structural reforms, which I think are highly needed, especially when Argentina has inflation and interest rates above 100%. So, I would like to hear your views on what your first impressions are on the economic and the political outlook going forward.

Patricio Supervielle

I will refer the answer to Alejandro. Simply, I would like first to start by saying that of course these results were sort of a surprise for all of us, and we did not expect a one-third scenario, which for each candidate more or less and this reflects uncertainty, but at the same time, a majority of Argentines are demanding a change towards a lower size of government, lower taxes and more of a private economy creating jobs. So this is good. But as you well said, the next government will need teams, we need to make agreements because there are many structural changes that need to be done in the country and this is quite a challenging scenario for next government.

Alejandro if you want to add something.

Alejandro Stengel

Good morning, Ernesto, and thank you for your question. I think that basically the surprise in the actual outcome has introduced a greater degree of volatility than we've seen in the markets. However, having said that, the levels of deposits in pesos and dollars have remained pretty stable, and the devaluation of 22% in the official exchange rate, followed by an increase from 97% to 118% in the reference peso interest rate, they are trying to anchor future expectations of inflation.

And judging by the ROFEX contracts we saw as of yesterday; this could hold up to some point in September or the middle of October. That is, that after an initial turbulence, the guidelines of the government by which with these two movements they would try to anchor the future devaluations and future increases in interest rates up to October, it seemed to be as of now reasonably in line with what the government would like to happen. Having said that, what we saw is that a gap with the financial exchange rate moved up, moved, and maintained the 100% gap and this will create a pass-through situation and therefore we are expecting inflation over the next months to go into the double digit zone for August and September for sure.

And now, going back to --that's overall as what we see going on with the macro, if you extend that beyond October, we think that the government will do everything in its hand, in its reach to avoid further devaluations and having reached an agreement with the IMF and having some boost, even if used to payback debt in our Central Bank reserves is a help in that direction.

And therefore, we think that they will try to definitely avoid further devaluations, further --after October, but there is a chance that might happen when you look at the rate of inflation that we expect. In terms of what would happen with Milei becoming elected, I think you're quite right in terms of alliances. If his performance at the ballot box in October was similar to the one he had on August 13, he would get roughly 40 representatives in the House of Representatives and 8 senators. And that clearly is very far from the majority needed to pass legislation.

Therefore, he would go into alliances, which would probably make it more difficult to move too quickly into dollarization or changing the charter or even eliminating the Central Bank. We think that he probably prioritized, together with his allies, a very quick devaluation and stabilization plan with strict fiscal and monetary policy, you would initially have significant inflation and then it should be going down towards the second half of 2024. Definitely, it will be a challenge for him to create these alliances and to create support for the legislation that he wants to pass through Congress. We think that on many areas, for example, labor reform, there will be a consensus in moving forward and probably the most radical of his proposals will take longer, something that he and his team more recently have been acknowledging that will take a little bit more time and require a little bit more understanding of the situation they get before they change government and understand what the situation that they are receiving is. I hope I've given you sort of a broad brush answer to a rather complex question.

Ernesto Gabilondo

Yes, no, no, thank you very much. Just kind of a follow-up in terms of a potential dollarization of the economy.

I believe Bullrich is also proposing to dollarize the economy, but at a much lengthier pace now when compared to Milei, but I think both of the candidates are going into that direction. So if we go into this dollarized economy, what could be the impact for the Argentine banks? What is your current strategy in paper linked to inflation and dollars at the moment?

Alejandro Stengel

Sure, I can take a shot and then Patricio and Mariano can answer. First of all, our information about what the Bullrich team is looking into is, they've been talking more of a bi-monetary economy rather than going full-fledged to dollarization. At least that's the information we have so far.

Now, in terms of what the impact of dollarization would be on banks, we see positive and negative effects. On the positive side, what you would very quickly see is a sharp decline in interest rates and therefore this sharp decline would probably create significant demand, credit demand. Remember that currently, the credit to private sector as a percentage of GDP is close to all-time lows at around 7.5%. If you would like to have a proxy of what the upside could be, you could go back to the convertibility where it was close to 25%.

So a sharp decline in interest rates would probably boost demand and increase significantly from current levels credit demand of the private sector. You would also see a very likely an extension of durations in these loans, and you would also see a much better functioning of the capital markets to provide long-term financing both to the market and to the banks. So all these would be actually very good effects, very positive effects. On the negative effects, one very important difference is that you that you lose the lender of last resort, and the role of the lender of last resort in case of a financial crisis and this would probably make banks, at least initially, very prudent in the policies that they have, to whom and under what conditions they extend credit.

I think that's like a broad-brush summary of positive and negative effects. I don't know if Mariano or Patricio would like to add to it.

Patricio Supervielle

I would like to add a few other positive effects but of course, I'm building on what Alejandro said. I think another positive effect would be – a dollarization, it would imply also more liquidity for the banking system in the sense and a substantial growth in deposits, because Argentines have the custom of saving a part of their wealth abroad and then they would have the opportunity to invest and make the deposit in Argentine banks.

There's another thing also important, I think that with dollarization you remove the currency risk for foreign investments, so potentially it could be a booster for foreign investments in the country that would be good for the banks and also for the economy as a whole. And finally, I think also that dollarization could trigger at a certain point in time a consolidation, because I think if you look at what happened in the past 25 years, the only real moment of consolidation was when there was a crisis in 2002, a big financial crisis. Then afterwards, there were just some transactions in terms of M&A, but there were only a few of them. There was not a drive of consolidation, and I think it has to do a lot with a risk sensation from management of banks towards making potential moves. When you remove the currency effect and you have, let's say, dollar deposits, I think it's a major change, and that major change could lead to a consolidation at a certain point in time, which I think is very good.

Ernesto Gabilondo

No, excellent. I think you made very interesting points. Just thinking of, if we have this dollarized economy, as you mentioned, that could help to have lower rates and to improve the lending activity in Argentina. How should we think about next year if that happens, considering that this year most of the Argentine banks have benefited a lot from the asset liability management and investing in Leliqs, Repos, in government paper.

So how do you think that will be sustainable for next year?

Patricio Supervielle

I think that with fiscal consolidation and fiscal normalization at a certain point in time, there will be a pickup in loan demand. And then the assets that banks have today, particularly on Central Bank securities, they will be transformed into loans, and which is very healthy by the way. Do you want to build on this answer?

Mariano Biglia

Yes. I think for next year we'll see at the beginning more or less what is happening now until the macro stabilizes.

We will most probably see high levels of inflation, high levels of interest rates, and then decreasing inflation finally goes down which is what we expect after the fiscal deficit is reduced and certain tariffs and other prices relative prices are fixed. So in that context, what we believe is that we will see a pick-up in loan demand, first from the most probably from the corporate sector and then from individuals, which will in turn replace the Leliqs, which is our main asset class today. So that will allow us to replace the financial margin generated or obtained from Central Bank loans to financial margin obtained from loans, which will be our main business. Remember that in the past we used to have a higher NIM than the industry.

Now our NIM, although it's at very high levels, it's similar to the industry because all banks are doing the same. We are capturing deposits and investing in Leliqs and treasury bonds. So, what we expect for the mid-term is that Leliqs and maybe most all central bank instruments, Leliqs and repos will be finally replaced by a growth in the loan portfolio and having a more sustainable long-term NIM.

Ernesto Gabilondo

Perfect.

Thank you very much.

Ana Bartesaghi

Thank you, Ernesto. We have a new question from Carlos Gómez López with HSBC. Please, Carlos, go ahead.

Carlos Gómez-López

So, you talked about the surprise in the past elections. I've been surprised by the good results of the banks in this second quarter, and I was wondering, and it applies to all the banks, right? All of you have had a particularly good second quarter.

Should we understand that there is some element of either the interest rates or the inflation evolving in a particular way this quarter, which is different from the first, perhaps different from the third. Can we really extrapolate this second quarter or this first half of the year into the second half? I understand there's a lot of

uncertainty. We don't know what is going to happen, but that would be my general question. Is this, doesn't this feel a bit extraordinary and would the normal profitability be lower than this? Thank you so much.

Mariano Biglia

Thank you, Carlos, for your question. Yes, sure, as you said, this quarter was somehow extraordinary, but nonetheless, we are seeing a similar NIMs and spread during July and the elapsed time of August.

So we will probably see a third quarter still probably in line with the second Q, but more probably stabilizing in the fourth quarter. So maybe this is not the level of spreads that we expect for a mid or longer term, but it still has some time to run, particularly into the third quarter.

Patricio Supervielle

I would also like to add that the swing factor that you have seen in our case, it also reflects all the structural changes and consolidations that we have been conducting over the past year by basically benefiting from the fact that the consumer finance business, which was a lagging factor for us, is no longer there.

And we've been doing, I think a pretty good job in terms of consolidating branches that were one close to the other. And we have built digital capabilities today that expand the footprint and we can open individual accounts or enterprise accounts out of our branch network. And so we are very happy on that. And so we are preparing the company for a stabilized economy and preparing for growth again.

Carlos Gómez-López

Okay. Thank you. And no, it is true. The gap in profitability with the other banks is narrower.

So again, my question would refer to all the industry because all the industry has been quite profitable, but you're right, Supervielle has gotten closer to the other bank. There's no question about that. If I can follow up a little bit, going into 2024 and 2025, and I know that you wish you knew like all of us did, but realistically, I mean, it seems reasonable to expect that there has to be some type of adjustment, of real adjustment of the variables becoming more real, the foreign exchange, the tariffs, everything has to adjust, has to go back to a more normal level. From the outside, that would seem contractionary, and therefore that the next, I would say year, year and a half might be tough. Now, that's one perspective. How do you see it, and how are you positioning the bank for the next two years?

Alejandro Stengel

There's no question, Carlos, that we will see volatility in the next year, year and a half. Having said that, in terms of the bank strategy, we're not changing our strategy. We're still targeting our key market segments.

We are focusing on middle to high income individuals on one hand and trying to give them the best digital experience. We are also focusing on SMEs and we're making good progress there as we do significant cross-sell

and innovation on those parts. Now, in terms of the impact of the stabilization plan, we think that initially it will be recessionary. We are imagining 2024 with a decline in GDP of roughly 2.5%, -- 2.3%, and that will probably affect certain customer segments that are linked to consumption.

But at the same time, two or three very positive things will be happening in the Argentine economy, sectors to which we are exposed. One is a significant change in the commercial balance for the energy sector. As you are probably aware, we are going from a deficit in our energy trade to a very significant surplus, which will probably be heightened towards the second half of next year. And you also have significant growth and investment in mining, and at the same time, the impact of the drought will have gone, so you're likely to have a big swing also that will help you in terms of central bank reserves, creating a difference estimated by some economists at around US\$20,000 million.

All this will have an extremely positive effect towards the second half of the year on these sectors to which we are exposed. So the answer would be 2024 is going to be a very, a very binary year. You're going to see a very complicated first half with high inflation and deep recession as interest rates go up probably to control as best as possible this inflation. But then a second half with a significant change in expectations and being exposed to some of these sectors I mentioned should help us drive growth in the direction we want it because these are export oriented segments that will have a significant advantage after the stabilization and the foreign currency adjustment.

Patricio Supervielle

I would like to add on what Alejandro said. In all the sectors that Alejandro mentioned, we have started to grow more aggressively, and we see also today already results that we are going above the market. So the decline that you were seeing in the first two quarters, we want to change this to grow in terms of market share.

But also the other thing is, if you look into our past history, a large part of the high NIMs was due to a big percentage of a mid-market share in personal loans, due to a large segment of individuals that get their salaries or their pensions, particularly senior citizens. When inflation goes down, we will start to see again the effect of high NIMs in personal loans, probably in the second half of 2024. And that will help us to resume growth, to get profitability from that side also.

Mariano Biglia

I can maybe add just a brief summary on the very short term view.

So how we are positioned to go through this upcoming months where we for sure are going to see a lot of volatility. Right now, we are very liquid. It's important to highlight that we are very liquid both in pesos and US dollars. After the elections, for instance, we didn't see any reduction in deposits.

In particular, dollar deposits were very stable, but we keep in with levels of liquidity of about 70% and also in pesos because 40% of our assets is in Leliqs or Repos with the central bank. Repos are one day, Leliqs are 28 days, but they are issued every week. So they have a tenure of about 14 days on average. So that and adding cash and very short-term loans makes us have a very short-term balance with high liquidity, again, both in pesos and dollars, then we are 100% hedged against inflation. There we have real estate, we have mortgages that adjust by UVA,

and we have treasury bonds that adjust by CER, by the inflation index. And then on top of that, we have also a position in treasury bonds, that is more tactical, where we can be long in US dollars. Remember that our position in US dollars must be net, that's a net position of zero, but we can go long through dollar-linked bonds or dual bonds, which pay the higher of inflation or dollars. So that's how we position for the short-term to have liquidity and also make some profitability that will allow us to build capital for growth.

Carlos Gómez-López

Okay, as a second question. The dual bonds, as you said, you can receive your payment in dollars or in pesos. They are counted as foreign currency or as local currency.

No, they are paid in pesos. If devaluation is higher than inflation, they pay the difference in the exchange rate, but they are paid in pesos and they don't count for the foreign currency position. So that's why we don't have a limit on those bonds because they are accounted for as if they were 100% pesos.

Carlos Gómez-López

All right, so effectively, you can go long dollars through the dual bonds.

Mariano Biglia

Correct. We can go up to 30% with dollar-linked bonds and beyond that, because they don't count in the foreign exchange position, through dual bonds.

Carlos Gómez-López

So is there a limit in the dual bonds?

Mariano Biglia

No, there is no limit. Of course, we have our internal policy risk limits, but there's no limits on the foreign currency exposure side for the Central Bank.

Ana Bartesaghi

Thank you. Carlos, we have a question from Rodrigo Nistor at Latin Securities. Hi, Rodrigo, please go ahead.

Rodrigo Nistor

Hi, good morning, everyone. In light of the prevailing inflationary environment, we have seen a rising in time deposits as a proportion of the banking sector funding base and some deposits moving to the money market funds. So, and I also was thinking at Patricio's comment before. So, do you think this can limit your margins once exposure to the public sector reduces? And then, if you can provide us with a brief comment on competition if platforms like UALÁ, Mercado Pago are impacting at all in your funding availability? Thank you.

Mariano Biglia

The first part, regarding funding, as you said, more funds are being allocated by corporates and individuals to mutual funds or money market funds, mainly money market funds.

So that's why savings accounts and current accounts in the industry, not only our case, are growing below inflation because with so high rates of inflation, people and companies will allocate more funds to interest, assets that accrue some interest. But on the other hand, we see a growth in deposits also from the institutional sides. So that partially offsets the extremely high NIM that we will have if all funds would stay in saving accounts or current accounts. But as deposits are growing, more or less in length with inflation, we're expecting to grow a bit less, maybe 5% to 10% less, but with an inflation of more than 100%, that's not a big difference.

So that growth in deposits allows us to keep margins quite at high levels.

Patricio Supervielle

Yeah, I think you raised the point of savings and deposits moving to money market funds, and you mentioned a couple of fintechs. And basically, I think that when inflation is over 100% people, Argentines, they want to have their protection for their money because of the losing of purchasing power with inflation. And we believe that there is a threat, particularly, yes, of fintechs because they offer a very simple way of protecting their savings or salaries or whatever.

So what we have done, this is the reason why we were the first bank in Argentina to have a simple way of investing instantaneously in a very rapid way, seven days a week. You can invest or remove the funds from your investment any day of the week at any time. And this is a way of protecting because it is exactly what the fintechs were doing. And it's kind of strange that still you don't see the bulk of banks reacting to that.

But I think that there will be changes. What we have done probably will be copied by others at a certain point in time.

Ana Bartesaghi

Thank you, Rodrigo. We have a question in the Q&A box from Guido Bizzozero with Allaria. First, it says, which will be the turnover tax charge in 3Q23, considering you are not paying anymore? And what can we expect for the second half of 2023 in severance payments and early retirement charges?

Mariano Biglia

Let me first take the part of the turnover tax. First, I would like to point out that it's not that we are not paying turnover taxes. We are not paying only in regard to Leliqs and Central Bank instruments. As we explained during the presentation, these are monetary policy instruments from the Central Bank.

So the Central Bank claims that they cannot be taxed or interfered with by local governments. So that's why we stopped paying since April, but we keep paying turnover tax on all other taxable income, which is basically interest from loans. For instance, remember that treasury bonds are not taxed. So we base on the interest earned on the loan portfolio and of course on commissions and other sources of revenues.

So the tax revenue charged for the third quarter would be in line with the second quarter, where we had already stopped paying on Leliqs. But as interest rates increase, our revenues also increase. Remember, for this tax, you don't net the inflation charge, you only pay for the revenues. Even if interest rates are more positive or negative in real terms, you're paying only on the revenue side.

So with higher interest rates, we will probably increase the charge of the turnover tax. So for the second quarter, the turnover tax charge was 5.7 billion, so we would expect a bit more, slightly higher in the third quarter.

And regarding severance payments and early retirement charges, we decreased these charges in the first half of the year, but as we continue to find sources of efficiencies, we will probably increase a bit during the second half of the year because we keep through the merge of branches and all the capabilities developed through digital processes that allow us to work more efficiently, even with more customers, we can reduce our headcount, of course, not at the level as last year where we reduced 20% the group's headcount, because we're merging IUDÚ with the Bank, but we still continue at a rate that I would say around 5% per year, that's our target, so you will see some increase in severance costs for the second half.

Ana Bartesaghi

So this was the last question. 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 remain available to answer any questions that you may have. Have a good day.