

March 8th, 2019

Transcript - 4Q18 Earnings Conference Call

Supervielle Fourth Quarter 2018 Earnings Call Opening Remarks

Slide 1

Operator

Good morning and welcome to the Grupo Supervielle Fourth Quarter 2018 earnings call. 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. 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. As a reminder, today's conference call is being recorded.

At this time, I would like to turn the call over to Ana Bartesaghi, Treasurer and IRO. Please go ahead.

Slide 2

Ana Bartesaghi

Thank you. Good morning everyone and thank you for joining us today.

Speaking during today's call will be Patricio Supervielle, our Chairman of the Board of Directors who will discuss the overall macro environment, and Jorge Ramírez, our Chief Executive Officer and Vice Chairman of the Board of Directors who will review our results for the quarter. Also joining us is Alejandra Naughton, Chief Financial Officer. All will be available for the Q&A session.

Before we proceed, I would like to make the following Safe Harbor statement. Today's call will contain forward-looking statements and I refer you to the forward-looking statement section of our earnings release and recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances.

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

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Patricio Supervielle

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

If you're following the presentation, please turn to **Slide 3**.

It was a challenging quarter, yet we were able to make progress. We almost doubled attributable comprehensive income year on year in the fourth quarter and posted a 7% sequential increase.

Importantly, we met our annual profitability target operating in a challenging macro environment that was worse than originally anticipated. Moreover, we achieved this even as we decided to increase our loan loss provisions meeting our 100% NPL coverage goal one year ahead of plan.

Our franchise continues to demonstrate its resiliency and flexibility to navigate a macro scenario of low credit demand and macroeconomic challenges. In a high-interest rate environment coupled with soft loan demand, increased liquidity is being invested in low risk short-term central bank securities. This resulted in net financial of margin slightly above 20% – up both year-on-year and sequentially.

For the next few minutes, I am going to provide an overview of the key macro indicators to put into context how this is impacting the overall Argentine economy, the financial industry, and more specifically our company.

Jorge will then discuss our results for the quarter in greater detail and our outlook for 2019.

Slide 4

Turn to slide 4. Fourth quarter macroeconomics was characterized by high inflation following the sharp peso devaluation in the prior quarter.

Following the agreement with the IMF, new monetary policy rules and FX bands, the FX stabilized while interest rates started to decline although still remaining at high levels:

- The monetary policy rate reached 59% at year-end from a high of 74% in early October, and
- The average BADLAR rate, the benchmark rate for the Argentine financial system, declined slightly just below 50% at year-end.

Economic activity seems to have reached an inflection point at the close of the year. For example, the December monthly GDP proxy, the EMAE, posted a 0.7% month over month increase. Imports have also shown a monthly-seasonal improvement over the past couple of months. Nevertheless, the recovery is expected to be slow, impacted by the contractionary monetary and fiscal policy mix. Additionally, the political environment also makes for a more cautious scenario. Economist's consensus and ours, call for a GDP contraction of 1.3% in 2019, with a weaker performance in the first half of the year, and recovery beginning in the second half. For 2020, GDP growth is anticipated at 2.5%.

Looking ahead, market consensus also anticipates a scenario of further declines in inflation reaching 31.9% for 2019 and 20.3% in 2020. Monetary policy rates are also expected to decline to 37% by year end.

We also continue to experience unusually high minimum reserve requirements of approximately 45% of demand deposits and 35% of time deposits. We expect these requirements to gradually decline as the credit dynamics normalize over time. In any event, as Jorge will explain later, we do not assume any reduction in these minimum reserve requirements in our 2019 outlook figures.

Slide 5

Moving on to the Argentine financial sector, on slide 5. AR\$ denominated deposits expanded 19% sequentially in the quarter, while dollar denominated deposits continued to increase - up 7% in dollar terms.

Deposit growth measured in original currencies decelerated in January and remained relatively flat in February reflecting seasonality, with the system remaining at highly liquid levels in this high interest rate environment.

By contrast, system loan growth decelerated during the quarter against a difficult macro backdrop. Peso denominated loans contracted nearly 2% sequentially in 4Q18, and around 1% in each of the first two months of 2019. System dollar denominated loans measured in US dollars, in turn, contracted nearly 4% quarter-on-quarter, but increased this year, up 1% in January and just under 2% in February.

We experienced a relatively similar trend in loans. While we reduced deposits towards the close of the quarter reflecting excess liquidity management by our treasury, average deposit balances however increased 15% sequentially.

I will now turn the call to Jorge, who will review our financial performance and outlook. Please Jorge, go ahead.

Slide 6

Jorge Ramírez, CEO & Vice Chairman of the Board

Thank you, Patricio. Good day everyone.

Starting with the evolution of our asset base, average assets were up 12% sequentially.

As the Central Bank finished unwinding LEBAC stocks in the quarter, we captured a higher share of non-financial institution deposits – mainly sight wholesale deposits – to fund investments in high-margin 7-day LELIQ securities issued by the Central Bank.

Towards the close of the year we reduced our holdings in these LELIQs to manage excess liquidity in the current environment. Our loan book, in turn, contracted nearly 4% quarter-on-quarter. All of this together, resulted in a sequential decline in assets of slightly over 3%.

Slide 7

Turning to slide 7. In a weaker environment characterized by soft loan demand, together with the tightening of credit scoring across segments earlier in the year, peso denominated loans were relatively stable – increasing about 1%. FX currency loans measured in US dollars, in turn, were down 8%.

This softer environment is the main reason for a year-on-year loan book growth of 32%, below our guidance range of 40 to 50% for 2018.

In line with current market conditions, our exposure to the consumer finance segment remains below 10% of our total portfolio, a similar level to the prior quarter and down from 13% in the same quarter last year.

The share of corporate loans fell to 50% from 54% in the third quarter. This mainly reflects the impact from the AR\$ appreciation on US dollar denominated corporate loans, combined with a reduction of this portfolio measured in its original currency as we continued to adjust our risk appetite.

Slide 8

Moving on to slide 8, as a result of the FX dynamics and overall soft loan demand in a recessionary environment, as I just explained, the corporate book contracted nearly 11% sequentially. In original currency, peso loans were down 6% while our US\$ denominated loans fell 8%.

Retail loan growth continued to decelerate - up 5% quarter-on-quarter on the back of softer mortgage demand in the current backdrop.

Our consumer finance loan portfolio, in turn, contracted again in the quarter, down 5% sequentially in line with our risk appetite in this economic scenario.

Finally, our portfolio remains highly atomized and well diversified among a wide range of economic sectors, while maintaining good collateralization levels.

Slide 9

Turning to slide 9, average deposits in the quarter were up 15% sequentially. Deposit balances, however, declined 2% in the period as we managed excess liquidity towards year-end. Particularly, we decided to reduce the balance of special checking accounts by 26%.

Both the loans to deposits and loans to assets ratios continued to decline reflecting overall high liquidity and weaker loan demand.

The share of FX deposits remained stable at 33% of total deposits as the AR\$ appreciation in the quarter offset the 5% increase in US\$-denominated deposits measured in original currency.

Slide 10

Moving on to funding on slide 10, retail and senior deposits increased their share of total deposits, up to 44% from 40% in the third quarter, while corporate deposits accounted for nearly 20%.

The share of non-interest bearing deposits accounted for a sizeable portion of our total deposits, increasing to 39% from 37% in the prior quarter.

Slide 11

Moving on to the P&L on slide 11, Net Financial Income rose 20% sequentially. Larger average volumes of assets and deposits, together with higher interest rates were the main drivers behind this performance; which was partially offset by higher cost of funds.

The net interest margin of our loan portfolio increased by 120 basis points sequentially. Both our AR\$ and US\$ portfolios contributed to this increase.

Net financial margin expanded 210 basis points reaching 20.3% in the quarter, up from 18.2% in the prior quarter. This combines higher yield from the loan portfolio as it continued to reprice and higher LELIQ rates in the peso-denominated portfolio.

For the full year, Net Interest Margin reached 19.4%, in the higher end of our 18 to 20% guidance range.

Remember two accounting considerations. First, Net Income from Financial Instruments benefits from the peso yield on holdings of both short-term Central Bank Securities -Leliq- and dollar denominated government securities -Letes-. However, Net Interest Income is penalized by the cost of deposits that fund these investments. Second, as mentioned, Net Income from Financial Instruments includes the peso yield on dollar denominated government securities, but does not include the FX gain or loss on dollar deposits taken to fund these securities. In 4Q18, as a result of the appreciation of the peso, the peso yield on dollar denominated securities declined, as well as the peso cost of these USD deposits.

Slide 12

Turning to slide 12, Net Service Fee Income growth remained soft in the quarter – up 4% sequentially.

We experienced a drop in fees charged driven by weak corporate loan origination, together with higher commissions paid mainly to debit and credit card processors.

At the same time, Income from Insurance Activities declined close to 2% quarter on quarter. We experienced seasonally higher claim ratios in the quarter together with the run-off of our credit related policies.

Slide 13

Moving on to asset quality, on slide 13, we proactively stepped up total NPL coverage to 100% a year ahead of plan. This compares with 94% coverage in the third quarter and 88% in 4Q17.

Reaching 100% coverage brought our cost of risk up to 7% from almost 6% in the prior quarter.

Excluding the 231 million pesos this quarter in additional loan voluntary loss provisions, cost of risk would have remained flat sequentially. Excluding also the 120 million pesos voluntary loss provisions made to reach a 94% coverage in the third quarter, cost of risk for the full year would have been 5.2%. This is slightly above the top end of our 4.6 – to 5.1% annual cost of risk range as increased inflation impacted consumer's disposable income and a higher interest rate environment hit companies.

The NPL ratio increased 40 bps quarter-on-quarter to 4.1%. The Corporate segment reported a 30 basis points increase in the NPL ratio reaching 1.1% remaining at historical lows. Retail banking posted a 90 days plus delinquency ratio of 2%, below the 3.3% NPL ratio reported in the fourth quarter, reflecting the large share of payroll customers which have a better performance. By contrast, due to lower loan origination and the impact of inflation on customers' disposable income, the consumer finance segment reported a 90 basis points sequential increase in its NPL ratio.

Slide 14

Taking a deeper look at asset quality for the consumer finance business on slide 14. This business is the most affected by inflation. As you can see, 3-month vintage data and NPL creation remain well below peak levels experienced in the first half of the year. Vintages peaked in February of last year, and NPL creation in 2Q18, declining as we introduced more stringent credit scoring standards in the first quarter of the year to adjust to the challenging macro environment.

However, the sharp increase in inflation experienced between September and November, resulted in some deterioration in these metrics towards year-end. Preliminary data for 2019 gives us room to be optimistic.

Slide 15

Moving on to expenses, on slide 15, we saw a sequential deterioration of 260 basis points in the efficiency ratio reaching 61.9% in 4Q18, mainly due to mandatoy salary increases.

On an annual basis, efficiency improved to 61.5% from 67% in 2017, in the middle of our 59 to 63% guidance range.

Slide 16

Next, slide 16

We almost doubled attributable comprehensive income year-on-year in the quarter and posted a 7% sequential increase.

Attributable net income, was up over 50% year-on-year and remained flat quarter-on-quarter when excluding the increase in LLPs to reach 100% NPL coverage ratio ahead of plan.

ROAE for the quarter reached 22.6%, up 20 basis points from the prior quarter, while ROAA remained relatively stable at 2.6% sequentially.

For the full year, we delivered attributable comprehensive income of 3 billion pesos, up 61% and in line with our 2.9 to 3.3 billion guidance range. We achieved this despite a more difficult than originally anticipated macro backdrop and the decision to step up coverage and reach 100% NPL coverage.

Slide 17

Moving on to capitalization on slide 17, consolidated pro-forma Tier 1 Capital ratio rose 40 bps to 12.9% at year-end. This is in line with the top end of our 12 to 13% guidance range.

The chart on this slide compares our Tier 1 ratio for the fourth quarter against March 2018 - before the sharp peso devaluation that took place later in the year. As you can see, the impact of the peso devaluation on our credit risk weighted assests resulted in a 120 basis points capital consumption in this period.

But more importantly, capital creation contributed with a 150 basis points increase in Tier 1, exceeding the 130 basis points consumed by our risk weighted asset increases in the period.

During the quarter we made capital injections of 1.3 billion pesos in Banco Supervielle and Mila. A total of 927 million pesos remain at the Holdco for future capital injections.

Slide 18

Please turn to slide 18.

In summary, as we said before, while the macro environment turned out to be worse than originally anticipated at the time we presented our guidance, we met our annual profitability target.

The strength and flexibility of our business model was evident in 2018 as we had to navigate through rapidly changing macro and currency volatility. Importantly, we have the franchise well positioned to return to growth in an improving macro environment.

Slide 19

Let me now share with you our guidance for 2019 and some of the underlying assumptions, which you can see on Slide 19.

Despite limited visibility in the current volatile economic environment we are keeping our policy of providing annual guidance. But, note we are presenting wider guidance ranges for 2019 than in previous years.

Based on our macro assumptions as Patricio discussed at the start of the call, we expect Loan growth in the range of 21% to 31%, with assets and deposits growing in line with inflation.

At the same time, we expect cost of risk of between 5.0 to 5.8% in 2019, assuming NPL coverage remains at 100%.

We also anticipate NIM to remain in the 18.5% to 20.5% range for the year. Note that as of the first quarter of 2019 we will adjust our NIM calculation to also take into account exchange rate differences and net gains or losses from currency derivatives. Until now, our NIM only included interest income and interest expense, as well as results from the investment portfolio. With these additions, our NIM ratio will be more accurate and representative of our financial margin and spreads. Consequently, we will stop reporting Net Financial Margin as NIM will capture all of the components of our net financial margin.

Our guidance also calls for the efficiency ratio reaching levels of between 61% to 63% for the full year. While improving efficiency remains one of our strategic goals, the full impact of the salary increases given resilient inflation impose a challenge.

Note that starting 2019, we are providing net income guidance instead of Comprehensive Income. Net income in 2019 is anticipated to increase between 28% to 52%, reaching between \$3.3 to \$3.9 billion pesos in the year, from Net Income of 2.6 billion in 2018. Comprehensive Income in 2019 is expected to be above 2019 Net Income.

Given our expectations for the above metrics, our Tier 1 ratio is anticipated to range between 10.6% and 11.1% at year-end.

Operator, please open the floor for questions.

Q&A

Jason Mollin:

Hello, everyone, and thank you for the opportunity to ask a question. My question is on your 2019 outlook guidance, and potentially 2020 and beyond. You've given very clear metrics that this guidance is based on, GDP growth of 1.3%, inflation of 32%, your outlook for BADLAR, etc. Where do you see the various scenarios, let's say, a weaker than expected scenario and a better than expected scenario, how that could play out, how that may be tied into the upcoming election, the outlook for the FX, that could really drive these different scenarios? How should we think about this and what could drive your expectations to be at the low or high end, or even be higher or lower than you're expecting? Thank you.

Jorge Ramirez:

Good morning, Jason. Just one clarification, our expectations for the GDP for the year is a decline of 1.3%, not a growth.

Jason Mollin:

Got you.

Jorge Ramirez:

But this aside, I mean, this could be a very binary year in terms of how things play out. I mean, we're expecting, in any of the scenarios, the first half of the year to be tougher than the second half of the year, with the biggest caveat being the kind of volatility or uncertainty that the upcoming elections might bring to the table. Clearly, the economy should start improving from the second quarter on, essentially because we're expecting a very good harvest for this year, compared to one of the most severe draughts in the past 60 years, that we had last year. So, just by comparables, that should start showing improvement, for the economy to start performing better, and that has a very major impact, especially in the second quarter, because that is the dollar cash rich quarter in Argentina. It's normally the quarter of the year in which the bulk of the agri-business exports hard currency are liquidated in the country.

On top of that, the government still has around \$10 million from the IMF, that they can use in order to keep the currency under control. So, if inflation starts coming down as we move towards the second quarter, clearly, the central bank might have the tools in order to start bringing inflation down and correct some of the cash reserve requirements. Cash reserve requirements currently are having a dual effect. On the one hand, it's still increasing interest rates, and as a result of that, they're clearly making it substantially less attractive for people and for companies to borrow money. So, any reduction in the cash reserve requirements, even though interest rates might still remain high, could have the impact of boosting deposit rating; essentially, because the gap between the rates for deposits and the rates for interest rates, which is currently very wide, could start narrowing.

So, we're expecting FX at the end of the year to be at 48. Clearly, I think we're going to have very different scenarios, depending on the outcome of the elections. It could be below that if we have a post-election rally. It could be above that if we have not so good news in the elections. By "not so good news," what I mean is a turn back toward heterodox policies that have already failed in the past, that's what I mean by that. So, it's anybody's guess what the currency may end up being in that scenario.

We believe that the ranges we have provided take into account as much as possible of these binary scenarios that we're expecting, but, again, this is Argentina, so the frequency with which scenarios tend to happen is very frequent.

Jason Mollin:

That's very helpful. Just as a follow-up, if you try to quantify—like, if the median outlook or the base-case outlook is, as you said, negative 1.3% real GDP growth, what's the worst case and what's the best case in that scenario?

Jorge Ramirez:

My take would be, probably the worst case could be around 2, minus 2. Best case, could be still negative, but taking half a percentage point area to flat.

Jason Mollin:

Thank you very much.

Operator:

Our next question is from Mario Pierry with Bank of America Merrill Lynch. Please proceed with your question.

Mario Pierry:

Good morning, everybody. Let me ask you two questions, as well. The first one is related to your loan portfolio NIM rank. If we look at Slide 11, you show that your NIM for your local currency loans went from 22.5% to 25.3% in one year. So, I was wondering how far into the repricing of your loan book are you; meaning, how much more upside is there for NIMs to continue going up given the maturity or the duration of your loans? That's question number one.

Jorge Ramirez:

Okay. Hi, Mario, good morning. I think we're pretty well ahead in terms of repricing the loan book. The corporate portfolio has been fully repriced and the retail portfolio, I would say, both in consumer and retail bank, is fairly fully repriced. However, we believe there still might be some room, essentially, if funding interest rates come down, because that will have a very positive impact in our consumer finance portfolio. We just, you probably recall, there's no retail deposits, it has to fund itself in the market, so any drop in interest rates helps the company and it helps the business. Also, we have in the retail bank, where we do have a larger share of personal loans. So, any expectation of improvement, which we believe might still be some room for that, we don't expect it come from the repricing on the asset side, but mostly on the repricing on the liability side.

Mario Pierry:

Okay. The second question is related to your cost of risk guidance. You are expecting pretty much cost of risk to come down in 2019. So, if you can help us understand when do you expect NPLs to peak and does your guidance consider you maintaining a coverage ratio of 100%, or is that declining?

Jorge Ramirez:

Yes, we're expecting NPLs and credit quality to peak on or around the second quarter of the year. It does include—the cost of risk does include the expectation of us maintaining 100% coverage for the year and—

Alejandra Naughton:

No, I was adding some color regarding NPLs, that we expect to be reaching by year end a number close to five, but, anyway, I would highlight again the guidance of cost of risk, this comment that we are making regarding NPLs is the full year. So, you could be observing higher levels around the year, because the cycle of the economy could be worsening by the middle of the year, but it's very important for us to highlight. Of course, we will be

following the numbers quarter-over-quarter, but, however, the guidance is full year. So, if you observe some deterioration in the middle, it doesn't mean for us, according to the information we have up to now, that it could be a trend to consider the guidance for 2019.

Jorge Ramirez:

Just on that answer, Mario, we're expecting to have the 100% coverage, to maintain the 100% coverage by year end, and if possible, above the 100% ratio. However, throughout the year, we might see some movements, because it will depend on when some of the further credit quality issues might hit us in terms of quarter end, okay? Some of them might get anticipated, some of them might get delayed, but the idea is to end up the year in the figures account for that, we're going to end up the year with 100% coverage.

Mario Pierry:

Okay. No, that's very clear, thank you.

Operator:

Our next question is from Gabriel Nobrega with Citi. Please proceed with your question.

Gabriel Nobrega:

Hi, everyone, and thank you for the opportunity to ask questions. I actually wanted to pick your brains and maybe understand what is going to be the strategy for the Bank this year to maybe manage your excess liquidity, and here I just wanted to understand—mainly, as loan demand has been decreasing a lot and at the same time we have begun to see that the central bank is actually reducing interest rates, and could even reduce them further through the year, so I just wanted to maybe get a bit more sense from you what are the strategies here.

Jorge Ramirez:

Clearly, the strategy this year—the name of the strategy that we've been following since the second quarter of last year is flexibility, because you need to have a lot of flexibility in terms of have you moved the different pieces of the business when you go through an environment like the one we've been traversing since early second quarter of last year. What I mean by that is that we're using the investments in central bank notes as a way of compensating for weaker loan demand and more stricter credit policies and risk capital, okay? At the same time, we're trying to keep the flexibility in the franchise to be able to go back to growth in our basic business, which is our commercial—we're commercial lenders, I mean, that's essentially our DNA and our spirit, so we want to go back to that, but in order for that to happen, we need the economy to stabilize and the macro-environment to stabilize. But, in the meantime, yes, we're using this excess liquidity in order to invest in these LELIQs all the excess liquidity that we're generating.

Regarding the second part of your question, in terms of how interest rate compression hits us, remember that the cost of funds for a consumer finance company is determined by the interest rate levels of LELIQs. So, the higher the LELIQ rates, the higher cost of funds for the consumer finance company. The lower they are, the lower the cost of funds they have. They price, at average, loans between 75% to 90% APR. So, any reduction in the rates of the LELIQ has an impact on the bank, which is compensated by the increase in NIMs in our loan portfolio, mostly on the consumer finance company, but also on a retail bank. So, in that sense, we have a pretty well hedged balance sheet on a consolidated basis. This is the way that we look at it. Clearly, for us, in the long term, is a much better scenario, a scenario of lower interest rates than the current scenario of high interest rates.

Gabriel Nobrega:

Okay, that's very clear, and if you'll allow me to actually make a second question.

Jorge Ramirez:

Sure.

Gabriel Nobrega:

Could you just share more details on how the turnaround of your consumer finance business has been going so far? Also, could you maybe share with us what are the key metrics that you're tracking in order to become more comfortable with the situation of this business going forward?

Jorge Ramirez:

Okay. I mean, the consumer finance business has been, as I explained in the presentation, clearly the business that has been most affected by this high interest rate environment and high inflation; essentially, because of its cost of funds, and second, because inflation and public utility prices have affected disposable income for this segment of the population, the customer—that represents our customer base in this segment.

Clearly, when we announced the reorganization of the business in August, that was prior the change in the central bank's monetary policy and the big increase in interest rates that we had by the end of August, early September of last year, so the situation was even harder than we had originally anticipated when we started reorganizing the business. We've been able to streamline the operation. We did some headcount reduction, a very important one. So, we're bringing down costs, and the expectation for cost increases for that business for this year are very, very low, in the range of between 5% and 7% year-on-year, so that's pretty good news in that sense. We've been taking a lot of measures in terms of improving our collections and we're showing that is already paying off. That was what I was meaning when I mentioned in the presentation the preliminary data for the business in 2019 gives us room to be optimistic, because, essentially, we're seeing improvements in collections in all the different buckets that we have in the business. Again, it's still early in the game. As I explained earlier, this is a very binary year, so things can still go south, but we're seeing that happening very well.

In terms of the metrics that we're following, I measure a lot the size of the portfolio, bad loan formation, the early stages of delinquency in the early buckets, like 30-plus, because that is a very good lead indicator telling us how delinquency is going to be in the next 60 or 90 days, and clearly cost of funds and returns on the asset side of the business are the metrics that we follow up very closely.

Finally, just one further point. We have—as part of the organization we did, is we started to increase cross-selling our sales of non-financial services and products in that segment, and that is also progressing well. It's still at modest levels, but we have good expectations that that has a way of originating non-financial income from this segment.

Gabriel Nobrega:

All right, that's very clear. Thank you so much.

Jorge Ramirez:

Pleasure.

Operator:

Our next question is from Ernesto Gabilondo. Please proceed with your question.

Ernesto Gabilondo:

Hi, good morning, Patricio, Jorge, Alejandra and Ana. My question is related to the implementation of inflation accounting, that I think you are going to give more details in the 20-F report next month, but can you provide some color on what could be the impact for net income and ROE in 2019?

Alejandra Naughton:

Yes, hello, Ernesto. As you mentioned, the central bank in Argentina adopted inflationary accounting standards, that from January 1, 2020. However, we will be disclosing those numbers in the coming filing of our 20-F, because Argentina was included in the list of hyper-inflationary countries. The preliminary numbers for us suggest that our return on equity could have resulted in a negative 10%, and result into, let's say, close to 1.5 billion losses from our nominal profit of 3 billion.

Ernesto Gabilondo:

Perfect, perfect, and then just a second question regarding your op ex line. It grew around 35% in 2018, but given that we continue to see high inflation levels and you're seeing negotiations with unions demanding to rise wages, do you see this line could be growing at the same pace in '18, or even it could be growing at a higher pace this year?

Alejandra Naughton:

The thing is that clearly administrative expenses in this inflationary environment is a huge challenge. Just to give you some color regarding our model, we have administrative expenses for personnel growing close to high 30s or 40% increase, and the administrative expense is a little bit lower, low 30s, and have to do with the situation that personnel expenses, it carries from the increases experienced during 2018. So, you have facing 2019 two effects. One, the carry from the gradual increases along the year, during 2018. This carry could be represented in a number close to a 25% increase. Plus, the expectations regarding inflation for this current year. So, all in all, our administrative expenses will be growing during the year in a number close to high 30s, combining administrative expenses and personnel expenses.

Ernesto Gabilondo:

Perfect, thank you very much, Alejandra.

Alejandra Naughton:

You're welcome.

Operator:

Our next question is from Yuri Fernandes with JP Morgan. Please proceed with your question.

Yuri Fernandes:

Thank you, Jorge, Alejandra. I have a follow-up from Ernesto on this expenses growth. I recall last year you had some impact from pension, like an early retirement kind of program, that was about 200 million pesos, and last quarter you also said you had some impact from the headcount reduction in the consumer finance, so just pointing to these, to ask about the pace of the growth on personnel expenses, if we adjust by that, we are seeing personnel expenses growing about 60% year-over-year, and my question here, if there is anything else here in the end of the 4Q, any kind of readjustment that you had to do regarding the previous salary increase, because 60% pace for salaries seems a bit high for me. So, that's my first question.

My second question is regarding your Q1 ratio in your guidance. I just would like to check if that number, the 10.6, in the lower end you have in the guidance you have for '19, if that includes the excess cash in the holding company and the capitalization that was approved by the central bank in January. Thank you.

Alejandra Naughton:

Okay. In terms of administrative expenses, first and very important, we do not have ahead any further initiatives regarding early retirements, and that situation that you mentioned, corresponding to 2017. So, the numbers that I shared two minutes ago of an increase of 37% is clearly the dynamic of a company that is facing this high inflationary environment, and the changes in headcount that is completely different between segment, let's say. While we are reducing the headcount in consumer finance, you could be observing some increase marginally on the bank's subsidiary, because of the nature of the business and the dynamic of that business is different. So, this is my answer for you on that regard.

The second question was regarding, sorry?

Yuri Fernandes:

The Tier 1 ratio on your guidance ...

Alejandra Naughton:

Ah, the Tier 1, sorry.

Yuri Fernandes:

The 10.6 to 11.1, if that includes the excess cash, it's like the adjusted number.

Alejandra Naughton:

Thank you. Yes, exactly, we always offer as a guidance the Tier 1, what we call the pro forma Tier 1, that includes that money, and along the year we would plan to have some capital injections, particularly on the bank subsidiary, and in that case, one on the consumer finance segment, but it's all included.

Yuri Fernandes:

Okay. If I may, a final one here, Alejandra. On Gabriel's question regarding our strategy of excess liquidity, it really called my attention here the decline on defaults, the decline on assets quarter-over-quarter, given inflation was running above 10% on a quarterly basis. So, my question here is just to understand—and I totally agree, like your loan to deposit ratio decline is close to 80%, but given the high inflation environment, it really called my attention that total assets are declining. So, my question is if we should expect this should go on, and also if it is somewhat related to the decline in the number of active clients. I think there was a small decline, 1.8 million to 1.9 million clients, active clients. So, if your strategy is basically to not provide kind of finding, I don't know, new kind of relationships with clients, just to understand how you're managing this excess liquidity, how you are managing this with clients.

Jorge Ramirez:

Hi, Yuri, this is Jorge. No, I mean, it does not have to do with the franchise, nor with the number of customers. This was a year-end event and it had to do with—I mean, if you look at the average deposits for the quarter, when you compare the growth. We had a 15% growth in deposits in the—our average deposits in the quarter. So, we lend money on the averages, we don't make money on the year end balances. So, it was only a matter of when we took the picture and the risk return of investments, compared to one day or sight deposits that are enumerated. I mean, if you look at the bulk of the reduction, it comes from special check accounts that are 100%

institutional funding. You cannot see yet the figures for us in 2019, but if you would see them, if you would be able to see them, you would see that has come back up. So, it was only the leverage at the end of the year that had to do within general metrics and us managing excess liquidity, where we didn't see the right trade-off between risk and return.

Yuri Fernandes:

No, super clear, Jorge, many thanks.

Jorge Ramirez:

Pleasure.

Operator:

As a reminder, it is star, one on your telephone keypad if you would like to ask a question. Our next question is from Carlos Gomez with HSBC. Please proceed with your question.

Carlos Gomez:

Yes, hi, good morning. I would like to complement the question on inflation accounting. How would your shareholders' equity have been—I would imagine it would have been higher than what you reported under the inflation accounting? Second, also on the Tier 1 ratio, again, 10.6 and 11.1 is not a very high level. At what level would you think you might want to consider another capital increase? Thank you.

Alejandra Naughton:

Carlos, regarding net worth, we posted a net worth as of December of 17 billion, and adjusted by inflation, that number would have been a number close to 18 billion.

Jorge Ramirez:

Hi, Carlos, this is Jorge. Regarding the second part of your question, probably we are closer to the 10% mark, we would consider raising new capital. We still have options in terms for us to raise Tier 2. That bucket is probably empty. So, there are some things that we can do, but I think that 10.6, around that figure, between 10.6 and 10, is our minimum comfort level.

Carlos Gomez:

Just to clarify, this 10.6 to 11, this is the capital ratio of the bank, of Banco Supervielle?

Jorge Ramirez:

No, that's the consolidated pro forma.

Carlos Gomez:

Sorry, it's consolidated pro forma, okay, all right. So, if it's close to 10%, you might consider another one.

Jorge Ramirez:

Yes.

Carlos Gomez:

All right, thank you so much.

Jorge Ramirez:

Pleasure.

Operator:

Ladies and gentlemen, this concludes the question and answer session. I would like to turn the conference back over to Ana 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. In the interim, we remain available to answer any questions that you may have. Thank you and enjoy the rest of your day.

Operator:

Thanks you. This concludes today's conference, you may disconnect your lines at this time, and thank you for your participation.