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Script 1Q20 Earnings Conference Call

Supervielle First Quarter 2020 Earnings Call Opening Remarks

Operator

Good afternoon and welcome to the Grupo Supervielle First Quarter 2020 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 1

Ana Bartesaghi

Thank you. Good Afternoon 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 and Alejandro Stengel, Chief Operating Officer of the Bank. All will be available for the Q&A session.

Please note that starting this quarter, as per Central Bank regulations, we have began reporting results applying Hyperinflation Accounting, in accordance with IFRS rule IAS 29. For ease of comparability, we have restated 2019 results, quarterly and for the year applying IAS 29 to reflect the effects of inflation adjustment for each period. Therefore, all results in this presentation are presented adjusted for inflation as of March 31, 2020, unless otherwise noted.

For your convenience, we have also included in our earnings report managerial results in nominal terms. This means, we are including 1Q20 financial results ex-IAS29, isolating the IAS29 impact for the quarter and also showing quarterly figures for 2019 in nominal terms as they were previously reported until December 31, 2019. You can find more details on Hyperinflation Accounting in our earnings report filed yesterday after the close of the market, as well as in the investor education presentation we have uploaded to our IR site along with the earnings materials for the quarter.

Before we proceed, I would like to make the following Safe Harbor statement. Today's call will contain forward-looking statements which are based on Management's current expectations and beliefs and are subject to a number of risks and uncertainties, including as a result of the COVID-19 pandemic, and I refer you to the forward-looking statement section of our earnings release and recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances.

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

Slide 2

Patricio Supervielle. Thank you, Ana. Good morning everyone. Thank you for joining us today. We hope you and your loved ones are healthy and safe in this challenging time.

If you're following the presentation, please turn to **Slide 2**.

I am very proud of how quickly our team responded to the first signs of the COVID-19 pandemic, implementing protocols to ensure the health and well-being of our employees and customers, while also maintaining the continuity of our operations. Through prudent management, we enter this crisis with a high level of liquidity and comfortable capitalization levels, fortifying the organization's long-term sustainability in this rapidly changing environment.

Going into this unprecedented period, we had already begun a transformational process spanning the organization. With a heightened need to support our customers in a low touch environment, we have accelerated our digital transformation adding online functionalities and implemented significant re-deployment of ATM infrastructure. We also made requisite adjustments to our operations to promote safe banking across all our customer segments.

Importantly, we also provided financial relief in areas that I will go into on the next slide. We are supporting our communities through monetary donations and supplies in addition to organizing opportunities for giving by our employees and customers.

Turning to our financial performance, we delivered higher profitability this quarter despite the increasingly challenging macro environment. Efficiency also improved reflecting the streamlining undertaken last year and strict cost controls. We reported sequentially higher cost of risk and loan loss provisions reflecting the adoption of rule IFRS9 resulting in increased coverage. Both coverage and the NPL ratio benefitted from the regulatory easing on debtor classification.

Slide 3

On March 19, the government established a nation-wide mandatory lock-down which has been extended in several instances and remains currently in place.

Bank branches opened for specific customers on April 3, with financial services deemed an essential business starting April 13. Since then, branches have been allowed to open gradually for specific transactions, with prior appointment, and complying with certain health and safety requirements. Meanwhile, all other banking activities are performed through digital means.

To mitigate the economic impact of this health crisis which resulted in a mandatory shelter-in-place and shutdown of non-essential businesses, the government and Central Bank adopted a series of social aid, monetary and fiscal measures. As you can see on the left side of this page, some of these measures include:

- A freeze on inflation-adjusted mortgages on permanent residences and auto-loan installments and suspension of mortgage foreclosures until the end of September.
- Postponement of credit card loans maturing between March 19 and April 30th and personal loans due through the end of June, with penalty interest on unpaid balances waived between April and the end of June.

- Fees on ATM transactions are also waived until the end of June.
- Additional initiatives include several lending programs such as loans to SMEs at a 24% annual rate, zero interest rate financing to some eligible customers, and automatic refinancing on unpaid credit card balances due before the end of April in several installments and with a three-month grace period.

Concurrently, the Central Bank also established measures aimed at encouraging bank lending. For example,

- Lowered minimum reserve requirements for loans given to SMEs at preferential rates for salary and working capital needs;
- Set limits on holdings of Central Bank notes, or LELIQs, to provide added liquidity for SME lending; and
- Eased debtor classification and provisioning until the end of September providing an additional 60-day grace period before a loan is classified as non-performing. This applies to all commercial, consumer and mortgage loans.
- Finally, while all time deposits carry a minimum interest rate of 26%, the Central Bank also introduced easing on minimum reserve requirements on time deposits.

A detailed list of measures affecting our industry can be found on our press release.

Slide 4

Please turn to slide 4 to review the recent actions we have taken to address this pandemic. We are rapidly advancing on three key pillars.

First, ensuring the health of our people is our outmost priority. As I noted earlier, over 95% of non-branch employees were working from home in advance of the mandatory lockdown with some of our subsidiaries working 100% remotely, leveraging our IT resources.

In our branches, teams were divided into two groups that rotate every 15 days and stricter sanitation and health procedures to protect employees and customers were also established.

Second, we have made many operational adjustments to support our current and future customer needs including accelerated digitalization and a series of measures to promote safe banking.

We are recognized leaders in the senior citizen segment which is an important part of our customer base. Making special accommodations to help this vulnerable group, we added features on the mobile app to reduce the need for in-branch banking. We adapted and moved to our 24-hour lobbies our existing biometric recognition technology to withdraw money from the ATMs without a debit card. Additionally, we enabled biometric passcode generation for cash withdrawals without a debit card in the national ATM network. To facilitate adoption among this group of clients we are encouraging the use of our digital channels across all communication platforms.

Another important customer group is the SME segment. Here, we are supporting their payroll and working capital needs through loans promoted by the government; and have launched specific credit lines for SMEs in the health and transportation sectors.

We are also adding new digital functionalities across our other segments, maintaining our best in class cybersecurity standards.

Our third key pillar is ensuring long-term business continuity. Here we are working on several fronts. We are continuing to proactively monitor our credit portfolio. And, while results for the quarter showed no material impact from the COVID-19 pandemic on our P&L, we expect to make provisions in the near future contingent upon the depth and length of the quarantine and related government measures.

As always, we are maintaining our strong focus on cost controls and efficiency while enhancing our differentiated strategy to capture growth opportunities and remain flexible. While our longer-range plans always considered a shift to a lower touch environment, we are now rapidly adapting to the new normal customer behavior, and continue to provide customized and elevated level of service that distinguishes Grupo Supervielle.

Slide 5

On slide 5 you can see how the use of digital channels has consistently accelerated across our customer segments between April and February.

We are observing growth rates that range from the high twenties in usage to nearly doubling in some channels, with consumer finance channels posting even higher increases.

Just to name a few:

Use of our recently launched groundbreaking **senior citizens app** with face recognition increased over 60%.

Personal mobile banking usage increased 84%.

Invertir Online – our online broker – saw an increase of over 85% in new account openings.

Visits to our bank's institutional website increased 97% reflecting higher traffic around customary transactions as well as new requirements in this low-touch environment such as online appointments to conduct branch transactions. Visits to the **consumer finance website** were up over 400% in the same period.

In addition, transactions through our **check deposit App** increased 179%, while the number of customers using our app more than doubled during this period.

We are even seeing much higher growth rates in our **consumer finance digital channels**, reflecting the successful migration of the call center operations to an automated chatbot and full automation of consumer finance banking transactions. Higher self-management of banking transactions is also contributing to higher operating efficiency.

Between January and May, we drove self-service banking transactions to give customers new ways to interact with us. These efforts resulted in an over 150% increase in loan origination across **our non-branch channels**. These types of transactions are helping us achieve greater efficiency across the business.

In this environment of accelerated digital adoption, we are rapidly advancing on our strategy of transforming our company into a cutting edge, cost efficient player serving the evolving needs and aspirations of our customers.

Slide 6

Moving to slide 6, we are committed to assisting our communities in Buenos Aires, Mendoza and San Luis in the fight against Covid-19.

With this goal in mind, we have made donations to well-recognized social agencies purchasing medical equipment and supplying food for the most vulnerable communities in our key markets.

Slide 7

On slide 7 we discuss the macro environment. Economic activity experienced a sharp contraction in March; down nearly 12% year-on-year. As we enter the third consecutive recessionary year, the impacts were deepened by the lockdown to contain the COVID-19 outbreak.

Increased government social assistance together with financial relief for some affected companies, has significantly accelerated monetary expansion.

In this context, monetary policy interest rates continued to decline reaching 38% at the close of the quarter, down from 55% at year-end. Inflation dropped below expectations to 7.8% in the quarter and declining to 1.5% in April, kept in check by the recessionary environment. In the meantime, the gap between the blue-chip rate and the official exchange rate continues to widen.

Slide 8

Now, please turn to slide 8. Note that in the next two slides covering financial system loan and deposit trends, we are presenting figures as published by the Central Bank which are before adjusting for inflation.

Starting with loans, system demand remained weak during the quarter, with industry loans to the private sector growing below inflation both sequentially and year-on-year.

Industry peso denominated loans were up nearly 7% sequentially mainly driven by commercial loans.

US dollar system loans in original currency declined nearly 13% sequentially, driven by lower commercial loans following the trend observed over the past two quarters.

Our total loan book was unchanged sequentially before adjusting for inflation.

Slide 9

Turning to slide 9, system liquidity remains high, both in local currency and in US\$ dollar deposits.

On a sequential basis, Argentine peso deposits increased above inflation, while we saw a slowdown in the outflow of US denominated system deposits.

Overall, total system deposits were up nearly 18%, as a 25% increase in peso deposits more than offset the 7% decline in US dollar denominated deposits measured in original currency.

Our deposit base increased nearly 53% sequentially reflecting our asset and liability strategy. Peso deposits were up 74% sequentially while US dollar denominated deposits in original currency fell 13%, slightly below the drop experienced in the fourth quarter.

In April, industry deposits were up 5% sequentially, with peso deposits up nearly 7% and US\$ deposits down nearly 2% in original currency.

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

Slide 10

Jorge Ramírez, CEO & Vice Chairman of the Board

Thank you, Patricio. Good day everyone. As Ana noted earlier, remember that this quarter we have adopted rule IAS29 and for ease of comparability we have also restated 2019 figures to reflect this.

Now turn to slide 10. We decided to re-leverage our balance sheet this quarter taking advantage of higher spreads of the 7-day LELIQ securities issued by the Central Bank.

This drove a 22% sequential increase in total assets back to 3Q19 levels.

This brought the share of LELIQ securities to 21% of total assets up from nearly 5% in the prior quarter and 18% in 3Q19.

Slide 11

Turning to our loan book on slide 11, total loans contracted 7% sequentially reflecting the economic contraction and overall uncertainty.

We experienced high-single digit declines in both peso and US\$ denominated loans in original currency. Overall, we saw sequential declines in the range of 6 to 9% across our loan segments.

Note also that starting January 1st and to align our SME business to our heightened implementation of digitalization already in place among individual customers, we transferred our SME loan book from Corporate Banking to the Personal & Business Banking Segment. This newly created segment includes SME loans, which this quarter accounted for 5% of total loans, plus our traditional Retail Banking operations. The Corporate segment now includes middle-market companies with annual sales between Ps.700 million and Ps.2.5 billion and large corporates with annual sales over Ps.2.5 billion.

Slide 12

In April, our total loan portfolio was up 3% sequentially. Growth was mainly driven by SME loans at a 24% interest rate, reaching 5 billion pesos and accounting for 5% of our loan portfolio at the end of April.

Also, 3% of total loans with maturities subject to regulatory refinancing, requested stop debit in line with the central bank program to defer installments as Patricio explained earlier.

The loan breakdown by industry remained stable over the last few months.

Coverage increased slightly close to 110% in April with the total NPL ratio down 30 bps to 6.4%.

Excluding the regulatory franchise, coverage was 94% and the total NPL ratio stood at 7.5%. However, I do want to reiterate what Patricio touched on earlier with regards to provisions. While we do not show material impacts this quarter as a result of COVID-19, and have not observed any significant changes in asset quality to-date, we are reviewing our predictive models and expect to take additional provisions in the near future once we have greater visibility into the unfolding depth and magnitude of the quarantine and related government measures.

Slide 13

Turning to funding on slide 13. Core retail and corporate peso deposits remained strong, up close to 15% QoQ.

This quarter we also more than tripled institutional deposits to fund investments in Central Bank 7-day high-yield LELIQs. Remember that at year-end we had sharply reduced institutional funding deleveraging the balance sheet.

As a result, total deposits in the first quarter expanded sequentially by nearly 42%, with the peso loan to deposit ratio dropping to 62% from 108% in 4Q19.

At the same time, US dollar deposits in original currency declined 8% sequentially, with the US dollar loan to deposit ratio reaching 97% compared to 92% in the prior quarter. The liquid assets to deposit ratio stood at 60% in pesos and 61% in dollars.

Slide 14

Now on to the P&L on slide 9. Comparable Net Financial Income increased nearly 1% to 7.4 billion pesos sequentially despite the sharp decline in market interest rates. Remember 4Q19 benefited from a 1.3-peso billion non-recurring gain from price improvements in our holdings of reprofiled treasury notes.

The sharp decline in the average yield of Central Bank LELIQs, was slightly more than offset by lower cost of funding following the continued decrease in market interest rates, while interest on loans benefitted from lagged repricing.

In turn, Loan portfolio NIM expanded 220 basis points sequentially to 23.9%. Comparable Total Net Interest Margin, however, was down 180 basis points to 22.8% reflecting a strong increase in assets, principally higher-spread LELIQs, funded through wholesale deposits.

Slide 15

Turning to slide 15, Net Service Fee income was up 15% sequentially, driven by higher deposit account fees resulting from the repricing of bundled products above inflation and higher asset management revenues.

Income from Insurance Activities was down in the low teens sequentially, driven by declines in both written premiums and claims.

Slide 16

Moving on to Asset Quality on slide 16.

Note in the first quarter we began progressive adoption of expected losses as per rule IFRS9 issued by the Central Bank which became effective starting January 1st except for smaller entities including our consumer finance segment.

While IFRS9 takes into account the forecast of certain macroeconomic variables such as wages, GDP and inflation, the model only provisions a non-material amount in connection with the potential impact of a COVID-19 type economic disruption and related regulatory measures.

Reflecting IFRS9, cost of risk increased sequentially by 180 bps to 6.8% with loan loss provisions up 32% in the quarter to 1.6 billion pesos.

The total NPL ratio was down 70 basis points sequentially to 6.7%, driven by declines of 80 basis points in Personal and Business Segment NPLs and 720 basis points in Consumer Finance NPLs. This performance benefited from the Central Bank regulatory easing on debtor classification amid the pandemic which consisted of a 60-day grace period before these loans are classified as non-performing and the suspension of the reclassification of customers that are non-performing with other banks, but performing at Supervielle.

While, the Corporate Segment NPL ratio was not impacted by these easing measures, levels remained unchanged QoQ at 9.8%. Colletarization increased to 61% of total loans at quarter-end, up from 58% at year-end and 20% at the end of June of last year.

We closed the quarter with a coverage ratio of nearly 100%, up from 83% in the prior quarter, driven by the higher loan loss provisions and benefiting from the regulatory easing on debtor classification Patricio mentioned earlier.

Excluding the easing in Central Bank regulations in terms of debtors, the NPL ratio would have been 7.7% and the Coverage ratio 88%.

Again, as a reminder while we do not show material impacts this quarter as a result of COVID-19, we are reviewing our predictive models and expect to take additional provisions in the near future as we gain greater visibility into the depth and magnitude of the quarantine and related government measures.

Slide 17

Moving on to expenses on slide 17, we delivered improved operating efficiency in the quarter with the ratio at just over 60%, down from a comparable level of nearly 67% in the prior quarter, when excluding extraordinary severance and early retirement charges in 4Q19.

This was mainly driven by the ongoing benefits of actions taken in 2019 to streamline operations and strict cost controls, while revenues were flat.

In terms of personnel expenses, note that this quarter we have increased salaries by fixed amounts that on average have followed inflation, while we maintain ongoing conversations with the labor unions.

Slide 18

Looking at the bottom line on slide 18, profitability improved significantly this quarter.

Pre-tax income reached nearly 800 million pesos. Several factors contributed to this good performance:

- First, lower expenses following the cost control measures implemented over the past year.
- Second, volatility arising from inflation. As per the adoption of IAS29, we reported a smaller inflation adjustment loss of 869 million pesos reflecting lower inflation this quarter of 7.8%. This compares to a 1.9-billion-peso inflation adjustment loss in 4Q19 when inflation peaked at 11.7%; and
- Third, results also benefited from higher net fee income this quarter.

This was partially offset by lower net financial income as 4Q19 results benefited from price improvements in government short-term treasury notes that had been reprofiled in 3Q19 and higher loan loss provisions this quarter arising from the adoption of expected losses as per rule IFRS9 as I just discussed.

As a result, ROAE improved both sequentially and year-on-year to nearly 8% this quarter from negative 13% in 4Q19 and negative 20% in the year ago quarter. Excluding the impact of IAS29 on all quarters, ROAE would have been nearly 26% in 1Q20 compared to close to 28% in 4Q19 and 13.6% in 1Q19.

Slide 19

lease turn to capitalization on slide 19. The Tier 1 capital ratio increased 200 basis points to 13.3% in the first quarter.

The ratio benefited from the initial recognition of the IAS29 adjustment on non-monetary assets which contributed with 110 basis points in capital creation, and an inflation adjustment in the first quarter which added another 90 basis points.

In addition, the regulatory easing on provisions amid this pandemic contributed with 50 basis points in capital. As mentioned earlier, the Central Bank now allows banks to consider as Tier 1 Common Equity, the difference between the provisions recorded under the expected losses model according to IFRS9, and provisions recorded at November 30, 2019 under the previous accounting framework.

This was slightly offset by the increase in risk weighted assets, which includes the impact of the currency devaluation.

At quarter end, the bank's consolidated financial position showed a solvency level with an integrated capital of 18.6 billion pesos, exceeding total capital requirements by 7.5 billion pesos.

Slide 20

Looking ahead, there is little visibility at this time on when the inflection point for economic recovery will take place as it is dependent on a number of complex factors including, the depth and duration of the global health pandemic, the government's measures to contain the outbreak, actions to mitigate the economic impact, and the outcome of the Argentine sovereign debt restructuring.

However, I am confident that we have a sound foundation in place to navigate through this crisis, as we did during prior periods.

We continue to develop new products and businesses as we expand our franchise. A few of the areas we are currently seeing opportunities to strengthen our competitive position include the value chain of larger global corporate names operating in Argentina. We are also focused on cross-selling non-credit products among our customer base.

The adoption of digital is increasing across our customers as we rapidly roll out new functionality on our websites and through our apps. We will look to continue to invest in these important initiatives as part of our overall digital transformation process, which is also resulting in our ability to continue to enhance operating efficiency.

Finally, as a result of a prudent management culture, we have strong liquidity and capitalization levels. This coupled with a highly experienced and agile management team focused on anticipating the current and future needs of our customers, will ensure the long-term sustainability of our business.

This concludes our prepared remarks. Operator, now please open the call for questions.

Q&A

Operator

At this time, we will be conducting a question-and-answer session. If you would like to ask a question now, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. So that we may address questions from as many participants as possible, we ask that you limit yourself to one question and one follow-up. If you have additional questions, you may re-queue, and time permitting, those questions will be addressed. One moment, please, while we poll for questions.

Thank you. And our first question is from Ernesto Gabilondo with Bank of America.

Ernesto Gabilondo

Hi, good morning Patricio, Jorge, Alejandro, Alejandra and Ana. Thanks for the opportunity to take questions. My first question is on loan growth. Just wanted to know how are you perceiving the environment for corporate loans. Are you seeing companies with growing credit lines to improve liquidity? Are you implementing structural lending to privileged asset quality over loan growth? And how should we think about the loan growth for the year, or if we can have kind of a trend for the rest of the year?

Jorge Ramírez

Good morning Ernesto. Thank you for your question. I hope you and your loved ones are safe, as I wish for the rest of the people who are listening in today.

We have seen in a couple of things throughout since the whole pandemic crisis started and throughout April and May. In the first place we saw very large corporates increasing loan demand for liquidity purposes and we were able to lend to some of these companies and being very selective in terms of the credit quality and both at the company in itself by their own merits but also in terms of the sectors that we are supporting. Mostly we saw some increases in value chains related to agricultural production and food production mostly, which is something that we believe is pretty safe amid this whole pandemic crisis.

The second thing that we saw in terms of loan demand is increases in demands by SMEs following these programs of the Central Bank and the government have put in place, the 24% credit lines, 24% annual rate credit lines. A substantial portion of them carry a guarantee from FOGAR, which is a fund which is administered by BICE, which is a public-owned bank, and we continue to be very selective in terms of credit quality and to which companies we do help and assist amid this crisis.

In terms of the second part of your question, looking ahead, it's very difficult to say how our loan growth will be for the rest of the year. I think it's going to be highly dependent on when restrictions of the mandatory shelter in place and lockdown of the economy are lifted and how gradually or how fast the economy starts to reopen. We are coming from two years of a pretty deep recession, so one of the things that I think make the whole situation for Argentina different to some other parts of the world in terms of the unwinding that you saw, is that the companies had already deleveraged a lot in the past two years, mostly because of the very high interest rates we had since 2018 and most importantly in 2019. So, we have a pretty unleveraged market. The total size of the Argentina market as a percentage of GDP is closer to 9% of the GDP. So it's a pretty small impact.

So, how fast this will recover and the percentage of growth for the year, it's clearly very, very difficult for me to tell you at this point because it's going to depend on factors which are very difficult to predict accurately at this stage.

Ernesto Gabilondo

Thank you Jorge. And my second question is in asset quality. We noticed you have created additional provisions based on expected losses, except for the consumer portfolio. So just wanted to know which are the macro assumptions that you are considering to build your expected loss model and when do you expect the peak in provision charges. Just considering how the relief programs are structured, probably you will not see defaults from some clients in some quarters. So just wondering when do you see the peak in provision charges. And within your portfolio, which are the industries that you think would be suffering the most?

Alejandra Naughton

Thank you Ernesto. Alejandra speaking. Yes, as you mentioned, we are from this quarter applying IFRS9 and as you know that IFRS9 make us calculate expected losses, considering the past behaviors of our customers and the looking forward behaviors. So, it's pretty difficult to assess as of March, the adjustment. As you may have read, we didn't introduce a much higher provision connected specifically with COVID-19. It has to do with the fact that the past does not teach us a lot about which could be the effects on COVID because COVID is a very, very new situation happening all across the world and looking forward, again, it's difficult to assess because in looking forward assumptions what we have done is a slight adjustment to the assumptions that we have already put in place as of December, adding additional impact on GDP, let's say, a decline of GDP by 5% in real terms. However, to be completely sincere, this is a continuing update because the longer the lockdown the higher the impact on GDP on economic activity. So, up to now I will say that we didn't change dramatically our assumptions because of lack of visibility, but however what is clear is that along the month we will be updating that model. We do not discard to observe higher provisions.

Regarding activities, one thing that makes us think that we are okay as of March, again, it has to do with—that we do not have exposures on those economic activities that have been identified as the most affected because of the pandemic, like airlines, like entertainment or tourism. So, all in all, what we are doing is concentrating our commercial efforts on those activities that we consider to be the less impacted, like, for example, agribusiness activities that had had a good dynamic during April and May, for example.

So I think that—I don't know if I answered your question, but all in all all the pieces moving behind the calculation of expected losses. We will be monitoring and of course it's clear that the economic activity will be worsening along the month so we will be taking actions in terms of positioning our balance and be prudent regarding the building of our loan loss provisions.

Ernesto Gabilondo

Thank you very much Alejandra.

Alejandra Naughton

You're welcome.

Operator

Thank you. Our next question is from the line of Jason Mollin with Scotia Bank. Please proceed with your question.

Jason Mollin

Hi. Thank you for the detailed presentation and Q&A session. My question is based on what you described or describing the Central Bank and government measures, freezing mortgage and auto loan payments, postponing credit card payments, the loan support programs for SMEs at 24% annual interest rate. Can you talk about the operating cash flow implications of this? I mean, I imagine this means that you're not collecting any payments on these products for the next months. You did talk about your liquidity metrics which sounds positive. But how are you managing the Bank in terms of cash flow in this construct, and maybe you can give us some sense of the size. You showed growth in SME loans. I presume it's 24% interest rate. But if you can just talk us through about operating a bank in this environment in terms of cash flow. Thank you.

Jorge Ramírez

Good morning Jason. Thank you. Yes, you are right in terms of impact that that has in terms of extension of installments. In the case of the inflation adjusted mortgages, what essentially is happening is that the adjustment that occurs in the period in which this is frozen has to be collected in three consecutive installments starting October this year. So, they're being added up—I mean, you're still collecting but you're not collecting the adjustment. Okay?

The way we're managing mostly the cash flow is we keep a very close eye to liquidity. The Central Bank simultaneously with these easing measures for debtors has also released a lot of liquidity into the market, so the liquidity at the cash flow of the bank has not been heavily impacted. And I must say not just for us but in general for the banking system has not been heavily impacted by these deferment of collections. Actually, we have increased our liquidity levels since the whole crisis started for the first time as a precautionary measure; on the second hand, also because of the Central Bank measures in terms of injecting more liquidity into the market.

So my take on that is those are reasonable measures that the Central Bank has taken because I think they're understanding what the challenges are, and if you're asking the whole population to stay at home for a long period of time, it is only logical that you try to provide some relief.

Regarding the question about the SMEs, we have increased, or more or less by around Ps.5 billion our portfolio by the end of April. Currently, probably, it stands at around, slightly above that. It's probably around Ps.6 billion. The amount outstanding under those programs it is more or less 6% of our total portfolio. So it's—I mean, the effective interest rates that we get out of those loans because of the reliefs we get in terms of minimum cash reserve requirements is closer to a 30% mark, 32% mark. And it's also enabling us to get other ancillary businesses from these companies.

So, all in all, we believe it's a reasonable size compared to the overall size of our portfolio and I think we're handling it okay.

Jason Mollin

So these loans that have been rescheduled, if you want to call it that, or postponed payments, the interest is being accrued but without penalties, or how is that being reflected in the financial statements?

Jorge Ramírez

Yes, that's correct. The contractual interest—I mean, you have two different situations. If it's a loan, you continue accruing the contractual interest rate. If it's a credit card loan, the Central Bank has imposed a cap on interest rates on the credit cards which stands at 43% per annum. Originating was 49% and they lowered it to 43%. They're accruing that contractual interest rate. There is no penalty interest rate.

Jason Mollin

Okay. A separate question related to what you show on Slide 7, where you show the gap between the blue chip swap rate and the official exchange rate at 77%. How do you expect that to proceed or be worked out and what are the implications for the economy and in your Bank?

Jorge Ramírez

That's a million dollar question. If you look at past history, normally what tends to happen is that at some point in time both rates tend to converge and what past history in Argentina shows is that normally the one that is below goes up, another one that is above that comes down. However, we could—it's very difficult to establish the timing on this situation because it depends on the level of reserves that the Central Bank has. And I think that in this particular situation it will depend a lot in terms of the agreement or not that Argentina makes in terms of restructuring its foreign sovereign debt.

So, we might see large gaps between the official exchange rate and the blue chip swap rate for a prolonged period of time. That's probably one situation. Secondly, the Central Bank has been taking a lot of measures in terms of trying to put this under control. Yesterday night, the Central Bank issued a new regulation stating that if a company or a person has assets abroad or has dollars in cash in Argentina, not deposited in a bank account, they cannot access the official exchange market. Okay? So all these measures are taken in terms of the Central Bank trying to make the gap converge and reserves increase by year, by increasing the bank deposits through this measure if you want to access the official exchange rate market, or by preventing people from getting reserves to the Central Bank in order to make foreign payments if they do have U.S. dollar liquidity available, mostly outside of Argentina, or in cash within Argentina.

So, we're seeing these measures practically every single week. I mean, if you look at when this whole lockdown started, back on March 19, we've had in 70 days, which is 10 weeks, 97 Central Bank regulations. So that's practically an average of 10 regulations per week. And we believe that this might continue for a while, until the situation starts normalizing.

Operator

Thank you. Our next question comes from the line of Yuri Fernandes with JP Morgan. Please proceed with your question.

Yuri Fernandes

Thank you Patricio, Jorge, Alejandra, Ana. Hope you are all well.

My first question is regarding margins. It's a follow-up to a previous one. So if I understood correctly, we should not see a pressure on NII, the second Q. The Bank will continue to recognize the interest on those renegotiated loans. My question is what to expect in the future, right, because many of those loans at some point they may

be defaults and those NII accrued they may never be real. So how do you think about that? Should we see impairments in the future that will come through higher provisions? How should we read this?

And my second question regarding margins, we saw some changes on deposits that now banks need to offer inflation linked deposits to small amounts. I know that the spread banks make on deposits are pretty important for your NII. So my question is, how should we see margin behaving? We have this deposit, a new regulation, in addition to the credit card cap, the 55% that as you said today is 43% given it's mandatory renegotiation for credit cards. So how should we think about margins in this kind of environment? How will banks be able to make money in this kind of scenario?

My third question is regarding expected losses. I got you are not being anticipating provisions for COVID, but do you plan to build in the second Q or something ahead of the losses? Thank you.

Jorge Ramírez

Good morning Yuri. Regarding your first question is, in our Consumer Finance company, one of the things that we're doing is, despite the Central Bank grace extended—of 60 day extension, we continue provisioning following the prior rules. So, we're taking advantage of this situation to increase coverage as a way of not getting a bad surprise in terms of—once we go back to normal in terms of how many of these loans actually we end up rescheduling as bad loans rather than good debtors. So we're taking that as a precautionary measure. And more or less let me tie this answer to your last question regarding expected losses.

As we mentioned during the presentation, we are reviewing the models to try to reflect within the models expected income—expected impact of COVID-19. The problem you have with the expected losses models is that they're based on statistical experience that you get from the past and there's nothing we can resort to that is comparable to what's happening worldwide with this COVID pandemic.

So in many ways when you are—or the way the COVID pandemic has been—or pardon me, of expected losses that's been implemented in Argentina is that you need to review the models in order to be able to expand your coverage. And we definitely are trying to do that because we wanted to increase our coverage levels during the second Q to reflect this whole potential impact on our balance sheet. And clearly, we've just mentioned also that—we gave you some highlights in terms of April numbers, and if you look at April numbers and compare them to the prior rule, is our coverage now stands at 94%, and we ended last year with a coverage of 85%. So even with the prior rules, we have increased our total coverage by 9 percentage points and we're planning on continuing to increase this to be able to support any impact that comes from the COVID-19 pandemic.

And this also is more or less indirectly related to your margin question. I think that there is probably a different answer. Not necessarily a different answer but some shades of difference in the answer that will apply to Banco Supervielle and that might apply to other banks in the system. That has to do with the fact that we have always traditionally had because of our loan portfolio and our business segments higher margins than the rest of the market. Even though our margins in the first Q show a 180 basis point drop, they're still very high at 22.8%. So, for us, the drop in interest rates has been quite beneficial in terms of the capture that we've done of these margins. Probably for other banks in the system that might not be exactly the same case because they replaced low margin lines with high margin LELIQ investments and when the whole margins of LELIQs come down they would go back to more reduced margin levels. So you might find a different situation in other banks compared to us.

When you look at the mandatory deposits, time deposits adjusted by inflation, they're still a very small percentage, not just for us, but for the whole industry. So we don't expect much pressure on that. But the other thing that has happened is that simultaneously the Central Bank has either provided relief on minimum cash reserve requirements, or on top of that, they have increased the percentage of excess LELIQ positions that banks can have. So if you were able to compensate some of these increased interest rates by means of being able to invest or have a larger investment in LELIQs. So many of these measures have been neutral or marginally positive for our Bank.

Operator

Thank you. As a reminder everyone, if you would like to ask a question, you may press star, one from your telephone keypad.

Thank you. At this time, it has come to the end of our Q&A session. I will turn the call back to Ana Bartesaghi for closing comments.

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 stay safe and healthy.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. We thank you for your participation.