

November 16th, 2018

Transcript - 3Q18 Earnings Conference Call

Supervielle Third Quarter 2018 Earnings Call Opening Remarks

Operator

Good morning and welcome to the Grupo Supervielle Third 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.

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 who will review our strategy and 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.

Slide 3

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.

We reported solid results in the quarter. Net income more than tripled sequentially and increased over 50% year-on-year.

We also achieved higher operating efficiency and protected asset quality as we took corrective actions to adjust to the sudden changes in the macro economic environment.

For the next few minutes, I am going to provide an overview of the key macro indicators which changed significantly over the past few months. This will put into context how this is impacting the Argentine financial industry as a whole, and more specifically our company.

Jorge will then discuss our strategic initiatives and the positive results we are achieving in greater detail.

Slide 4

Turn to slide 4. Third quarter macroeconomics was dominated by:

- A 40% devaluation, and
- A new agreement with the IMF, which resulted in a commitment by the government to reach a primary fiscal balance in 2019. The agreement also introduced a tight monetary policy based on monetary aggregates and a pre-determined non-intervention exchange rate zone with the goal of lowering inflation and reduce FX uncertainty.

Slide 5

As shown on slide 5, we also experienced significant increases in minimum reserve requirements, which impacted our business. In demand deposits, which account for over half of our deposits, minimum reserve requirements doubled between June and September, reaching 41% at the end of the third quarter, and standing at 44% today. For time deposits, minimum reserve requirements increased at a similar pace to 35% by the end of the third quarter and stand at 38% today. Importantly, only 13% and 18% of the minimum reserve requirements for demand and time deposits, respectively, are remunerated.

The new program included the unwinding of the LEBAC stock with the aim of terminating these securities by year-end. Note, this dynamic is also driving overall higher deposit from non-financial entities as LEBACs unwind. The Central Bank is using short-term LELIQs, to monitor the interest rate and manage the monetary base.

Since the implementation of the IMF program:

- The monetary policy rate has declined to low sixties from a high of 74% in early October, and
- The average BADLAR rate, the benchmark rate for the Argentine financial system, remains relatively stable in the low 50s.
- Importantly, the exchange rate has also begun to stabilize, trending towards the lower boundary of the non-intervention zone.

Looking forward market consensus anticipates a scenario of further declines in inflation and interest rates.

As Jorge will discuss in his presentation, we have quickly been adapting our business to these new challenging conditions in order to protect asset quality and profitability.

Slide 6

Moving on to the Argentine financial sector, on slide 6. In the current macro environment, system loan growth decelerated during the quarter, with peso denominated loan growth slowing to 2.4% sequentially and contracting over 1% in October. System dollar denominated loans measured in US dollars, in turn, contracted over 2% both quarter-on-quarter and in October.

Industry deposits continued to expand above loan growth, with peso denominated deposits up 7% sequentially in the quarter and almost 6% in October.

Importantly, US dollar denominated deposits measured in dollars continued to increase and were up 2% sequentially, with the stock of total US dollar denominated deposits at the highest level of the past 16 years and almost 3 percent below the maximum level reached in 2002.

We experienced a similar trend in loans, while we expanded deposits significantly above market growth rates.

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

Slide 7

Jorge Ramírez, CEO & Vice Chairman of the Board

Thank you, Patricio. Good day everyone.

Turning to slide 7. While our growth in our loan book decelerated to 10% sequentially and was stable on an FX neutral basis, our ability to adapt our business model to a rapidly changing environment, allowed us to expand our asset base by 21% sequentially.

As the Central Bank continued to unwind LEBAC stocks, 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.

Also, as Patricio mentioned earlier, minimum reserve requirements more than tripled and a portion of the above mentioned LELIQs were applied to meet minimum reserve requirements.

Slide 8

Moving on to slide 8,

In a weaker environment together with our heightened focus on asset quality, peso denominated loans rose 4%, while FX currency loans measured in US dollars were down 11%.

In line with current market conditions, we continued to reduce our exposure to the consumer finance segment which now represents less than 10% of our total portfolio, compared to 11% in the second quarter and 12% in the first quarter.

While we also tightened credit scoring across segments, the higher share of corporate loans which now represent 54% of the portfolio was mainly due to the combination of lower growth in consumer finance loans and the FX impact on US dollar denominated corporate loans.

Slide 9

Turning to slide 9, reflecting the FX dynamics I just explained, the total Corporate book was up 16% sequentially as reported, while our peso denominated loans posted high-single digit growth.

As we further tightened credit scoring standards, we also experienced a deceleration in retail loans to 8% sequentially. We also saw lower demand for mortgage loans in the current environment.

Our consumer finance loan portfolio contracted by 3% sequentially as we continue to align our risk appetite to the current environment.

Finally, as you can observe in more detail in our earnings report, our portfolio remains well diversified across a broad range of economic sectors and highly atomized, while keeping good collateralization levels.

Slide 10

Moving on to funding on slide 10, we reported robust expansion of our deposit base, up 28% sequentially and significantly above industry growth.

Mitigating the effects of current market dynamics, including weak loan demand along with steep interest rate increases and higher non-remunerated minimum reserve requirements, we significantly expanded Sight Wholesale Deposits to fund investment in high-margin 7-day Central Bank securities. This drove an increase of over 70% in Special Checking Account deposits.

The share of FX deposits increased by 400 basis points sequentially to 33% of total deposits reflecting a higher mix of US dollar denominated deposits and the sharp currency devaluation in the quarter.

Reflecting the strong expansion in deposits, the loan to deposits ratio adjusted down to almost 86%.

Let me also call out the decline in loans to assets which was down to 57% from almost 63% in the prior quarter as a result of the increase in minimum reserve requirements and the investment in Central Bank securities.

Slide 11

As you can see in more detail on slide 11, our AR\$ denominated deposit base increased 21% sequentially.

As a result of the dynamics I just explained, the share of wholesale deposits rose to 41% this quarter, from 26% in the second quarter. Retail and senior deposit represent a 40% share while corporate deposit accounted for 19% of deposits.

Non-interest bearing deposits still account for a sizeable portion of our total deposits, representing 37%.

Slide 12

Moving on to the P&L on slide 12, Net Financial Income was up 21% sequentially, with net financial margin expanding 80 basis points to 18.2% in the quarter.

Our strategy to invest in high-margin short-term Central Bank securities to mitigate the effects from recent steep interest rate increases and higher non-remunerated minimum reserve requirements, resulted in NIM from our investment portfolio increasing close to 37% from 25% in the prior quarter.

This strategy more than offset softer margins from our banking business which is impacted by lagged loan repricing. This resulted in a 160 basis points decline in loan portfolio NIM to 16.6%.

Note that net financial income from all FX operations resulted in a gain of 285 million pesos.

Our loan book is gradually repricing, starting with the corporate portfolio. And we remain confident that as our portfolio reprices, our banking business will continue to gradually capture interest revenue from the higher interest rate environment.

Slide 13

Moving on to slide 13, we saw soft growth from Net Service Fee Income, impacted mainly by lower fees charged this quarter as activity was impacted by the weaker current environment.

Income from insurance activities, in turn, was up 26% sequentially, benefitting from easier comps as the prior quarter included one-time provisions to adjust to new regulatory guidelines.

Slide 14

Moving on to asset quality, on slide 14, we proactively took the decision to step up total coverage to 94% from almost 90% in the prior quarter and 85% a year-ago. The increase in coverage was mainly done in the consumer finance business, while coverage for our banking business stands relatively stable at higher levels of 129%.

The increase in coverage brought up the cost of risk to 5.9% in the quarter from 5.6% in the second quarter.

However, excluding the 120 million pesos in additional voluntary loan loss provisions, cost of risk would have been 5.3%, slightly down sequentially, and reaching 5.1% for the nine-months.

We are also pleased to see that the initiatives implemented earlier in the year are delivering good results. The NPL ratio remained relatively stable sequentially amid a slowdown in loan growth as we further tightened credit scoring standards. In consumer finance, a contraction in loans to this customer base drove a 50 bps QoQ increase in this segment's NPLs. And while Retail and Corporate loans NPLs each rose 20 and 30 bps sequentially, respectively, they still remain at historically low levels.

Taking a closer look at our retail book, the 90 days plus delinquency ratio of the blended book remains over 100 basis points below the NPL ratio.

Slide 15

Looking at asset quality for the consumer finance business, as you can see on slide 15, 3-month vintage data shows a continued improvement in credit quality of new loans commencing in March of this year under tighter credit scoring and continuing thru the quarter.

NPL creation in this segment also decreased sharply in the quarter, and continued to decline in October reflecting our initiative to tighten credit scores which is turning in good results.

Slide 16

Now moving on to expenses, on slide 16, we delivered a sequential improvement of 700 basis points in the efficiency ratio reaching 59.3%.

Personnel and administrative expenses increased below inflation reflecting the implementation of cost cutting and containment measures along with our ability to quickly streamline the business.

Importantly, this was achieved even as we faced additional personnel expenditures from the reorganization of our consumer finance business, which resulted in non-recurring costs of 93 million pesos for the quarter. We expect that some of this impact will be offset through lower personnel costs in 4Q18.

Excluding the reorganizational charges and additional headcount from the recently acquired Mila and Invertir Online, personnel expenses would have increased almost 11% sequentially.

Slide 17

Next, slide 17.

We reported robust growth in profitability in the quarter – both sequentially and year-on-year.

Higher net financial income was driven by investments in high-margin central bank securities and the continued repricing of our loan book, principally in the corporate portfolio.

This more than offset softer loan growth, lagged loan repricing, and our decision to reduce our exposure to the consumer finance segment in this context.

Stable loan loss provisions, excluding the additional provisions to step up coverage and effective cost controls that largely absorbed the costs incurred in the reorganization of our consumer finance business, also contributed to profitability.

ROAE for the quarter reached 22.4%, recovering from a low of 12.6% in the prior quarter, while ROAA improved sequentially to 2.7% from 1.8% in the second quarter.

Slide 18

Moving on to capitalization on slide 18, we reported a consolidated pro-forma Tier 1 Capital ratio of 12.5% at the close of the quarter, compared with 13.1% in June. This includes a 70 basis points impact on Tier 1 capital resulting from the sharp FX depreciation at the end of the quarter.

A total of 2.0 billion pesos remain at the Holdco for future capital injections. This includes a 100 million pesos capital contribution made this week in our auto loan subsidiary Mila, and a one billion pesos injection planned for Banco Supervielle before year-end.

Slide 19

Moving to the outlook on slide 19, we maintain our guidance for 2018, this includes:

- Loan growth in the range of 40 to 50%, and most probably closer to the low-end of the range,
- Cost of risk between 4.6 to 5.1%, excluding the additional voluntary charges to step up coverage,
- NIM ranging between 18 – 20%,
- An efficiency ratio of between 59 to 63%,
- Attributable comprehensive income in the range of 2.9 to 3.3 billion pesos, and
- A Tier 1 ratio between 12 to 13%.

Note we are keeping our guidance despite weaker macro indicators for the year, as per market consensus as you can see on this slide.

Our guidance is supported by the flexibility of our business model to adjust to a rapidly changing macro environment context, and further supported by the positive results from recent corrective actions, including additional tightening of credit standards, cost cutting measures and streamlining of our consumer finance operations. The gradual repricing of our portfolio as we capture the higher interest rates is also contributing to our expected performance.

In sum, we delivered solid results. The quarter was not without its challenges, but our team was up to the challenge as we rapidly made adjustments to our business model. We need to continue to closely monitor credit quality as we are not expecting major positive shifts in the near term, but we are confident that corrective actions being undertaken will be successful. At that point we will have emerged as an even stronger financial institution. We are now ready to take questions. Operator, please open the line for questions.

Q&A

Operator:

Thank you. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two if you'd 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. Please ask one question and one follow-up question and then re-queue for any additional questions.

Our first question comes from the line of Gabriel Nobrega from Citi. Please proceed with your question.

Gabriel Nobrega:

Hello Patricio, Jorge, Alejandra and Ana. Thank you for the opportunity to ask questions. During this quarter we saw that you increased a lot your special checking account deposits and in my understanding it was in order to be able to invest in government securities. What I really want to understand is if loan demand continues to decrease, do you expect to invest all that you were expecting to grant out as a loan into these government securities? And also, how easy would it be to rotate out of this when interest rates begin to come down in 2019? And I'll ask a second question afterwards. Thank you.

Jorge Ramírez:

Yes. Thank you Gabriel. Yes, as you very well described it is with this current interest rate environment loan demand has come down and to be honest it's healthier. It's really healthy that companies aren't borrowing that much at these interest rates levels because there's only so much time that you can be able to withstand the

impact of these high interest rate levels. So one of the dynamics that we're seeing throughout this 4Q already is that interest rates are coming down and they're coming down sort of rapidly. I mean, we're 10 percentage points down from the peak in the Leliqs rates and our estimation or our view is that we might see interest rates in the month of December coming below the 60% floor that is including the IMF agreement, especially since we're expecting that in the beginning of December we might be seeing two consecutive market consensus and surveys stating declines in—expected declines in inflation rates and that was pre condition for interest rates to come down below the 60% mark.

So everything is poised and heading towards a smaller—or lower interest rates levels in December. And if inflation continues to come down and interest rates continue to come down, we expect that once the situation normalizes companies and individuals will go back to borrowing and as a result of that we will start inflating our exposure to Central Bank securities and go back to lending to companies and individuals probably at the very beginning it's going to be working capital financing, and then further along the road we might see other longer term line for mortgages coming back into the picture. But we need those dynamics to play out.

The only other addition I would like to make is that we saw increase in the special checking accounts. Partly is opportunistic but we believe there is a fundamental start to shift in the mutual fund industry in the sense that the mutual fund industry has shifted from maintaining its short-term liquidity in Central Bank notes and moving towards maintaining it in special checking accounts in the bank. So as the situation normalizes, part of these deposits might go but our estimation is a substantial portion of them will stay within the banking industry and we have a first mover advantage in this business. We took—we move very quickly and took advantage of—we were seeing that this unwinding of the Lebacs will result in additional deposits coming from the mutual fund industry so move very quickly to capture them and that is why I think a substantial portion of them will remain going forward in the bank.

Gabriel Nobrega:

All right, that's very clear. And if you'll allow me to do a second question. During the quarter we saw that your NPL ratio has actually deteriorated and this is already to be expected due to the recent macroeconomic challenges. What I want to understand with you is that from what you have been seeing so far, is there more space for NPL ratios to keep on increasing or do you believe we are close to the top? Thank you.

Jorge Ramírez:

I mean, we're seeing the impact of the very tight monetary policy just starting to unload, so it will be only logical to expect some further deterioration industry wide in the NPL ratios and really we'll be—we're part of that and we will see—we expect to see some further deterioration. The thing though is that if you look at the composition of our NPL, the good news in this quarter was that all the measures that we're taking to put under control the NPLs in the Consumer Finance business, which have been increasing substantially in the first two quarters of the year, have come under control and have seen the peak, and if you look at the slide in which we show the NPL creation, the NPL creation is dropping sharply and even if you expand the quarter for the October figure it's below the 13 figure. So we're having positive news on that front. We're having slight deterioration on the Company's front—on the corporate front.

And the other thing that we'd like to point your attention to is our NPL ratio on our retail lending portfolio because the NPL ratio we have to report because the central bank rule is higher than the actual 90 days+ delinquency and this has to do with the fact that on 67% of our customer base collect their monthly paycheck either in pension or payroll with us. So a substantial portion of these customers may be delinquent or a portion of these customers account for 1% of the portfolio may be delinquent with other banks but they are still current with us. Okay? So there are still gaps of 100 basis points between the actual delinquent rate and the one we have to report.

So all in all, I mean, we remain cautious on the NPL front. We believe that the worst is still not over but it's reaching or it's closing the—it's getting closer to peaking at some point in time between the four Q and the first Q of next year.

Gabriel Nobrega:

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

Operator:

Our next question comes from the line of Mario Pierry with Bank of America. Please proceed with your question.

Mario Pierry:

Good morning everybody. Congratulations on the quarter. Let me ask you two questions as well. The first one is about your loan repricing. When I look at your rates on your loan book. It went up to 33.8% from 30.4% one year ago. I understand that it takes longer for the loan book to reprice, but I was just wondering if you are being conservative and not trying to pass too much of increases on the rates of your loans in order not to have asset quality problems, because when I look here the breakdown when I look at retail banking, personal loans, the average interest rate that you're charging or that you're getting to the 43% and it was 41% one year ago. So my question is how much of this is related to your strategy and how much of this is related to the fact that it just takes longer for the loan book to reprice?

And then the second question that I have is related, as you mentioned, the Consumer Finance NPLs seems to have stabilized, but on the other hand the corporate NPLs went up to 0.8%. This is a significant increase from 0.2% one year ago. If you can give us a little bit more details what kind of sectors you're having problems with, is this related to the construction sector? So I'm just trying to get a little bit of more color on the corporate NPL deterioration. Thank you.

Jorge Ramírez:

Okay. Good morning Mario. Regarding the loan repricing, it's a combination of factors. I mean, on the other hand is with the rise of interest rates on retail, the first thing that happens is that you can automatically lend less principle to the same person because of the hike of interest rates, so what we're currently doing is we're rolling over what is maturing so it's taking time to reprice essentially because the weight of the stock is still much more important than the new loans that we're granting. So that is why we have that. We are also tightening our credit underwriting standards that also is playing a role in terms of a new loan origination. Clearly the book that reprices faster is the corporate book and on that one we've been able to pass that through.

The other thing you have to consider is that with the current environment of high interest rates, you have a negative yield curve in Argentina rather than a positive one so long-term interest rates for some loans are lower than the short-term interest rates. So that is also playing a factor.

So are we being cautious in terms of—as part of our strategy in order to drive further deterioration on the credit quality of the portfolio? Not that much. I mean, we're working more on the tightening of the credit underwriting standards and being very cautious in terms of not overindebting also in individuals which is one of the concerns we have.

Moving to your next question, yes, you're right. The NPL moved from a 0.2% to a 0.8% year-on-year. I mean, the 0.2% was an extraordinary low figure and it also has to do with the rate at which we were growing at that time, so it might be a little bit deceiving on a more stable basis.

In terms of the sectors, it's not a specific sector. We're not seeing problems on the construction, and especially definitely nothing to do with the notebook scandal, if that's where you were aiming at. I would say that in the industries that are suffering are the ones that are related to—are either higher indebted or the ones that are highly dependent on financing for their sales.

But the good news on this front is that this turmoil or all the events that transpired throughout 2018 in Argentina at the very beginning of the credit cycle. So it's not that we're having this crisis at the end of five or nine year or ten year expansion, credit expansion cycle. So companies and individuals are still—have still low leverage levels and that is good news in the sense that, while we expect some further deterioration in the ratios, we do not expect this to come—or to be the dramatic thing going forward.

Mario Pierry:

Okay. That's very clear. Just a follow-up then on the interest rates that you're charging on the loans. I do get it, right, the fact that you have a bigger balance in stock or loans and that impacts your ability to reprice. But if I were to compare today the interest rates that you're charging on your credit card, how does it compare to one year ago and the interest rates on let's say on auto loans just to get an idea?

Jorge Ramírez:

This year it's closer to 90%. Last year I think it was closer to...

Mario Pierry:

Ninety?

Jorge Ramirez:

90% per annum APR this year and I think last year was something around the 40 something level.

Alejandra Naughton:

(Inaudible)

Jorge Ramírez:

(Inaudible)?

Alejandra Naughton:

(Inaudible)

Jorge Ramírez:

Yes, but that's—okay, but I don't think that's the question Mario's asking. Mario is asking what's the weight of charging customers to do revolving on the average rate of return. Okay. Yes, it's the levels. As I mentioned, it's 90% nowadays, it used to be close to 50% last year—between 50% to 40% last year.

Mario Pierry:

Okay. So it means then we should continue to see then this loan book continue to reprice upwards. Do you think we're going to get to a level—when do you think your net interest margin on your loan book starts to expand?

Jorge Ramírez:

I mean, as we reach stability in the liabilities rates and that's when I think—and we'll see—I mean, we're starting to see the rates of the Central Bank notes coming down. That still needs to get into liabilities rates and so probably if the trend that we're seeing since the beginning of October sustains itself in the next couple of months, I think that that is when we will start seeing some capturing of higher margins.

Mario Pierry:

Okay, perfect. Thank you very much.

Jorge Ramírez:

My pleasure.

Operator:

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

Yuri Fernandes:

Thank you gentlemen. Actually it's a follow-up on Mario's questions on the net interest income for loans. Can you also give more color, what are you expecting for the next quarter on this margin because as you said the Leliqs has been coming down and I understand there is a delay for the Badlar, the cost of your time deposits, but the spread between the Leliqs and the Badlar had been narrowing. What I mean, like the Badlar had been stable at those 53%, 54%, while the Leliqs moved from about 70% to 60% lows. So how that may impact your total NII by the next two quarters because most of your growth on NII they came from secureds and my concern is this can be a pressure. So that's the first question.

The second question is on your coverage. It moved higher and you had been guiding that in the previous call. My question is just where you allocate that higher provision. It seems that it was on the credit cards. I saw a big increase on the provision of your credit card and the NPL didn't increase that much. But just to be sure if that was the case. And also if you plan to continue increasing your coverage ratio going on. Thank you.

Jorge Ramírez:

Yes. Okay. Let me start with the last question. Clearly our goal—and we have provided guidance to reach 100% coverage by the end of next year. If possible we'll try to accelerate that. So that is something that we'll be doing fine tuning in the next quarters to see if we can get faster to 100% coverage level. We will try to get faster to that, okay?

In terms of where this was allocated, a portion of this was allocated in the Consumer Finance business and the remainder is voluntary provisions at the bank level. We're seeing deterioration in other the lines. It's not concentrated on the credit card portfolio in itself. So no, we don't see a special concentration coming from credit card portfolio.

Regarding your second question in terms of margins, there is a dynamic that you have to bear in mind, which is explaining the narrowing between the Badlar rate and the Leliqs rate, which is as of—for the fourth quarter any increase on time deposits compared to the baseline of the end of the third quarter in time deposits can—all the minimum cash reserve requirements can be set up using Leliqs. So that means that practically if you get a marginal additional peso in time deposit that peso doesn't have any reserve requirements, a minimum reserve requirement. So that is explaining the narrowing of the gap on this which doesn't necessarily mean that you lose margin because the counterpart to that is that the Badlar rate prior to September was non-remunerated and now it's 100% remunerated. So the margins are going to benefit from that part.

On the other hand, the rate that is adjusting much more quickly is the rate for the special checking accounts. So we're keeping a spread—I mean, the spread remains pretty much fixed, when it moves it's the absolute levels of the Leliqs rate and the rate we paid for those deposits.

So in terms of margins, the outlook from where we're standing today is that they should be good and probably increasing in the 4Q rather than compressing.

Yuri Fernandes:

Okay, so margins would increase quarter-over-quarter from this even though we see this pressure because you are able to manage your special checking account. That's the message?

Jorge Ramírez:

That's right. Yes, that's the message, and on top of that, the time deposits thing that I explained.

Yuri Fernandes:

Thank you and congratulations for the quarter.

Jorge Ramírez:

Thank you.

Operator:

Once again, if you would like to ask a question, please press star, one on your telephone keypad.

Our next question comes from the line of Carlos Gomez from HSBC. Please proceed with your question.

Carlos Gomez:

Hello. Good morning and thank you for taking the question. Actually two brief ones. The first one is if you can give us an update as to how you will deal with inflation adjustments. We understand that you will have to do inflation adjusted accounting for your 20F. Can you give us a timeline and whether you have set on a particular way to do it. And I know it's very early and it is still November and things change in Argentina, but what do you expect for next year in terms of loan growth and perhaps rebounds? Thank you.

Alejandra Naughton:

Okay. Thank you Carlos. Alejandra speaking regarding inflation accounting. You know that even though according to IFRS Argentina fulfills the characteristics of hyper inflationary environment. Actually the panorama remains unclear in Argentina because it's important to know that from 2003 it's still in effect. Argentine companies are not allowed to file financial statements adjusted by inflation. So this is a situation that we are facing and I would say that according with information that we have up to now, under local regulation, we will keep 1% in our numbers without the adjustment of inflation accounting; however, as you mentioned, because of this reality of Argentina, with evaluation with our presentation of our 20F from the—in front of the SEC we will—we'll have to adjust our numbers.

So facing that situation, we have two options. One option is to use—to keep 1% in our financials and US GAAP reconciliation and applying the methodology of US GAAP that is different because it's in place to apply dollar denominated currency or to apply IFRS full compliance as the SEC requires. You know, in Argentina we do not apply IFRS compliance in full because we are not applying yet IFRS 9. So this is a challenge because as we do not present in Argentina IFRS compliance in full, these financials are not compliant with requirements of SEC.

So summing up, we are considering two options. We did not make the decision yet, but the two options are either present under—to our 20F two options. One, US GAAP reconciliation, including the adjustments for inflation

accordingly with US GAAP reconciliation, or IFRS full compliance. We are now working on that decision. We didn't make it yet.

Carlos Gomez:

Can I ask you, is it a decision that each company will make illegally (phon) or is there a discussion to do it collectively for all the listed banks in Argentina?

Alejandra Naughton:

No, no, of course each company has the decision, the—of course we have conversations in the banking association but anyway at the end of the day of course it's the decision of each company but you need to bear in mind that each decision have different implications in order to adapt your IT processes, your calculations. So I think and I know that each company has completely different situations in terms of the execution of the adjustment. So the thing is that the legal framework in the SEC allows two options. So one company may prefer one and another prefers another. But anyway, each company has its right to decide how to present their financials. On local up to now—locally we will present in local GAAP without inflation adjustment.

Carlos Gómez:

Thank you.

Jorge Ramírez:

Carlos, this is Jorge. Regarding your second question, it's really—are still working on the numbers and we're not providing guidance of 2019 yet.

Carlos Gómez:

Thank you very much.

Operator:

Ladies and gentlemen, we have reached the end of the question-and-answer session. I would like to turn the call back to Ana for closing remarks.

Ana Bartesaghi:

Thank you for joining us today, and 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:

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