

May 10, 2019

Script 1Q19 Earnings Conference Call

Supervielle First Quarter 2019 Earnings Call Opening Remarks

Slide 1

Operator

Good morning and welcome to the Grupo Supervielle First Quarter 2019 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.

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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 and Alejandro Stengel, Chief Operating Officer of the Bank. 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**.

During the quarter we delivered results that tracked in line with our expectations for the year. When we spoke last quarter, we provided annual guidance that anticipated a slower first half in 2019 – basically mirroring what was happening in the economy.

The flexibility and resilience of our franchise is helping us navigate a macro scenario of low credit demand and economic challenges. In this context, we achieved higher revenue generation, despite soft loan demand and against a seasonally strong fourth quarter; and expanded our deposit base above market growth. This excess liquidity is being invested in short-term Central Bank securities.

Profitability, however, was impacted by one corporate loan that was fully provisioned maintaining 100% coverage; and we will discuss this in more detail shortly. In any event this was anticipated in our 2019 guidance. Excluding this specific situation, attributable net income would have increased 30% QoQ and 32% YoY.

We continue to closely monitor our loan portfolio and to maintain a cautious approach in this challenging and volatile environment. As we anticipated in our previous call, we expect system NPLs to peak on or around the second quarter of the year, which could also impact our business. However, we are not anticipating situations of the magnitude we saw this quarter considering the composition of our portfolio.

A key strategic initiative for us is to create a more efficient organization. An important component of this was to create a leaner and more agile management structure that facilitates synergies across the platform. Following last year's reorganization of our consumer finance division we have completed a similar process at the bank subsidiary early April.

At the same time, in today's marketplace, it is very important that we are able to meet our customers banking needs wherever or however, they choose to bank with. We seek to enhance the customer journey and build loyalty to the brand. Our digital transformation is the cornerstone of this. We are still in the early stages and have identified specific areas of opportunity ranging from enhancing the user experience, costs savings and income generation.

During my remarks this morning, I will first discuss the key macro indicators that are a measure of the economy's health and the financial industry. Afterwards, I discuss how these have impacted our results during the first quarter and what we are doing to mitigate the impact, where possible.

Jorge will then discuss our results for the quarter in greater detail and our outlook for the remainder of the year.

Turn to slide 4. This was a mixed quarter from a macroeconomic perspective, with January and February experiencing stronger dynamics.

The good start to the year changed in March. At that time, we saw further FX depreciation and last twelve-month inflation rising to 55% - above expectations - prompting a pick-up in interest rates, following the decline experienced in February.

- The monetary policy, or LELIQ rate, declined from 59% at the end of 2018 to 50% in February, but rebounded to 74% at the close of April.
- The average BADLAR rate, the benchmark rate for the Argentine financial system, also declined in the first two months of the year reaching 37% in February, down from 50% at year-end. But spiked again to 53% in April.

To contain FX and inflation volatility, towards the end of April, and with IMF support, the Argentine central bank changed its FX intervention strategy. Under the new framework, the Central Bank can now intervene in the spot market inside the band on a discretionary basis reinforcing the contractionary monetary policy.

Consensus expectations for GDP in 2019 have been adjusted downwards in last month to a 1.3% contraction compared with a 1.2% decline expected earlier. It's becoming clear that the recovery will be slow, impacted by the contractionary monetary. Additionally, the political environment also makes for a more cautious scenario. We believe that now the Central Bank's capability to intervene in the FX market, should curb down volatility.

Market consensus expectations for inflation increased to 40% from the 32% discussed in our prior earnings call. Similarly, monetary policy rates expectations call for a LELIQ rate of 70% until May, declining to 50% at year-end, compared to earlier expectations of 37%.

Minimum reserve requirements remain pretty much unchanged at 45% of demand deposits and 35% of time deposits. Remember that our outlook for the year does not assume any reduction in these minimum reserve requirements.

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Now looking at the Argentine financial sector, on slide 5. The system remains at highly liquid levels in a high interest rate environment. Total industry deposits in currency of origin continued to expand above loan growth - up 7% in pesos and 3% in US\$ dollars.

Deposit growth denotes sound financial sector dynamics despite currency volatility. Note that the stock of total industry US\$ dollar deposits remains at the highest level of the past 16 years.

Reflecting overall weak demand, system peso denominated loans for the quarter contracted in the low single digits sequentially and again in April. By contrast, dollar denominated loans measured in currency of origin, increased in the low single digits quarter-on-quarter.

We experienced a relatively similar trend in deposits, as we expanded total deposits above system growth rates. While our US\$ deposits were flat sequentially, pesos denominated deposits increased nearly 16%, more than doubling system growth.

Before I turn the call to Jorge, I also want to inform you that pursuant to an estate planning process I have decided to convert 65,000,000 Class A common shares (entitled to 5 votes per share) into Class B common shares (entitled to 1 vote per share).

The purpose of this conversion of shares is to create a family legacy program to ensure the future continuity of my children as shareholders of Grupo Supervielle. They have all reached the age of majority and I want to prepare them to be responsible shareholders. The distribution of shares will start in 2020 and will roll out gradually in the following years under the terms of a proposed shareholders agreement to ensure political control.

On May 9, 2019, the Argentine Securities and Exchange Commission authorized the conversion request, following the approval of the Board of Directors of Grupo Supervielle.

The conversion increases the actual number of listed shares, but does not result in an alteration of the total number of shares of Grupo Supervielle, which remains unchanged.

Upon registration of the shares conversion, I will continue holding a controlling interest in Grupo Supervielle with total voting rights exceeding 58,00% of the share capital of the company. I will also remain as the only holder of Class A shares.

I have no plans to make additional conversions of Class A shares.

I am not selling and I have no plans to sell the shares that I hold in Grupo Supervielle. I believe in the value of the current portfolio and its potential to create long term value.

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

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Jorge Ramírez, CEO & Vice Chairman of the Board

Thank you, Patricio. Good day everyone.

Turning to slide 6, total assets were up 16% sequentially and nearly 70% year-on-year. This was mainly driven by larger holdings in high-margin 7-day LELIQ securities issued by the Central Bank, which almost tripled quarter on quarter.

Peso assets now represent 72% of total assets, up two percentage points from 4Q18 levels.

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Now, please turn to slide 7. Weaker loan demand together with our cautious approach in a recessionary environment resulted in low single digit sequential declines, both in peso denominated loans and FX currency loans measured un US\$.

In this challenging context, we continued to reduce our exposure to the consumer finance segment. At this time last year we began tightening credit scoring standards as we saw the economy begin to weaken. Now, at 9% of our total portfolio, the share of consumer finance loans are down 100 basis points sequentially and 300 basis points year-on-year.

The share of corporate loans remained at 50%, reflecting the impact from the AR\$ depreciation on US dollar denominated corporate loans, together with a reduction of this portfolio measured in its currency of origin as we further adjust our risk appetite. The combination of these two factors resulted in higher share of larger corporate loans.

January and February saw some increased demand for loans in our retail segments, particularly senior citizens. However, this weakened during March.

For the full year, we maintain our loan guidance range of 21 to 31% for 2019.

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Moving on to slide 8, the corporate loan book contracted 2% sequentially reflecting lower loan demand for both peso and US\$ denominated loans. In currency of origin, peso loans were down 14% while our US\$ denominated declined 4.5%.

As shown in the middle chart, retail loan growth has continued to decelerate – increasing slightly less than 1% quarter-on-quarter on the back of lower consumer sentiment.

For third consecutive quarter, consumer finance loans contracted, down 5% sequentially reflecting our lower risk appetite in this economic context along with lower consumer demand.

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.

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Moving on to slide 9, we reported strong expansion of our deposit base, up 16% sequentially, significantly outpacing industry growth of 11%.

Mitigating the weak loan demand, we took Wholesale Deposits to fund investments in high-margin 7-day Central Bank securities, which drove a 26% sequential increase in Special Checking Account deposits.

Our liquidity management strategy along with weaker loan demand and higher holdings of Central Bank securities continued to weigh on the loans to deposits and loans to assets ratios.

At the same time, while FX deposits measured in US\$ were flat sequentially, the share of FX deposits over total deposits declined 30 basis points quarter on quarter to 32.7% reflecting the strong increase in peso denominated deposits.

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Now, turning to funding on page 10. As we increased wholesale and institutional deposits, the share of retail and senior citizens' deposits declined 200 basis points to 42% of total deposits. Similarly, the share of corporate deposits declined to 18% from 20% in 4Q18.

We are actively managing our wholesale & institutional deposit base to maximize spreads in this challenging environment.

As a result, while the share of non- or low-interest bearing deposit balances accounted for 32% of total deposits compared with 35% in the prior quarter. Average balances of these deposits in the first quarter were 41% flat quarter on quarter.

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Turning to the P&L on slide 11, Net Financial Income rose 4% quarter on quarter, driven by higher average volumes of assets and deposits.

The net interest margin of our AR\$ loan portfolio increased by 70 basis points sequentially to 23.2% in 1Q19. Repricing in loans to individuals and lagged repricing in consumer loans, together with lower cost of funds from the decline in the Badlar rate contributed to this improvement.

Despite this, total NIM in the quarter was down 120 basis points sequentially to 19.1%, tracking in the mid-range of our 18.5 to 20.5% guidance for the full year. The drop this quarter was driven mainly by a sharp decline in the AR\$ investment portfolio NIM, reflecting tighter marginal spreads of higher volumes invested in Central Bank LELIQs.

Slide 12

As you can see on slide 12, we saw a pick-up in Net Service Fee Income which rose 15% QoQ, despite soft loan origination. This compares with low single digit sequential fee growth reported in the prior quarter.

Improvement in net fee growth was mainly driven by re-pricing on fees charged on bundled financial services and to a lesser extent in non-credit related insurance products. This more than offset softer credit card volumes

and the regulatory decline in debit card merchant rates applicable in 2019, as well as higher commissions paid mainly to debit and credit card processors.

We also saw a better performance in Income from Insurance, which rose 13% sequentially following the low single digit drop reported in 4Q18 when we experienced seasonally higher claim ratios. Income from insurance is also impacted by the run-off of our credit related policies. All this resulted in a 230 basis points improvement in the combined ratio of our insurance business.

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Moving on to asset quality, on slide 13, loan loss provisions increased 37% sequentially, mainly as a result of fully provisioning a commercial loan that became delinquent in the quarter, and we maintained the 100% coverage. We made a voluntary provision of \$462 million for this loan in excess of the 25% regulatory requirement.

Total impact on provisions resulting from this commercial loan was \$616 million. This brought cost of risk to 9.9% in the quarter.

Note that this provision was fully embedded in our guidance for the year.

Excluding the 75% voluntary provision on this loan, in excess of the 25% regulatory requirement, cost of risk would have been 7.5% in the quarter. Now, fully excluding this delinquent loan, cost of risk would have been 6.7% in the quarter, as we saw some marginal deterioration in our consumer finance and retail segments which remain impacted by high inflation and steep interest rates.

As anticipated in our year-end call, we expect system delinquency to peak around the second quarter, which could also impact our business. However, we are not expecting situations of the magnitude we saw in the first quarter given the composition and atomization of our loan portfolio.

While during the year we can see a higher cost of risk in a specific quarter, we maintain our cost of risk guidance range of 5 to 5.8% for the year.

The NPL ratio increased 120 basis points sequentially to 5.3%, impacted mainly by a 190 basis points increase in corporate segment NPLs. Excluding this delinquent commercial loan, corporate NPLs would have been 1.5%.

At the same time, while we saw a slight deterioration in retail and consumer finance, retail banking posted a 90 days plus delinquency ratio of 2.3%, below the 3.8% NPL ratio for the quarter supported by the large share of payroll and pension customers.

The consumer finance NPL ratio increased 160 basis points quarter on quarter reflecting lower loan origination and the impact from the recession in Argentina on consumers' disposable income.

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Please turn to slide 14 for a deeper look at asset quality in the consumer finance business – which was the sector most negatively impacted by economic conditions in the country.

Our strategy to tighten credit scoring standards in 1Q18 continues to deliver good results, even as we navigate this challenging macro backdrop.

We are seeing a better performance in 3-month vintages following the peak reached in February of last year. This is also an improvement from the deterioration experienced at year-end which reflects the sharp increase in inflation between September and November 2018.

At the same time, Consumer Finance NPL creation showed a sequential decline. This offset the increase we saw in the retail segment resulting in flat NPLs QoQ.

We remain focused on protecting asset quality.

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Moving on to expenses, on slide 15, we achieved a sequential improvement of 290 basis points in the efficiency ratio reaching 59% in the quarter. This is below the low end of our 61 to 63% guidance range for the year.

While improving efficiency is one of our strategic objectives, the full impact of salary increases given resilient inflation impose a challenge to keep this quarter's levels. We expect to have better visibility in the following quarters.

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Looking at profitability on slide 16, the additional provisions made this quarter cloud the good revenue growth and stable operating expenses achieved this quarter.

This brought net income down by 17% QoQ to \$589 million.

When excluding the \$462 million voluntary provision in excess of the 25% regulatory requirement, made to maintain our 100% NPL coverage ratio, our bottom line was up 32%.

ROAE for the quarter declined sequentially to 13.6% and ROAA to 1.5%. Excluding the voluntary provision, ROAE would have increased to 21.6% and ROAA to 2.4%.

In sum, reported net income for the quarter tracks in line with our guidance range for the full year of 3.3 to \$3.9 billion pesos in the year.

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Turning to capitalization on slide 17, consolidated pro-forma Tier 1 Capital ratio declined 80 bps to 12.1% at quarter-end, but stood well above the top end of our 10.6 to 11.1% target range.

Capital creation contributed with a 100 basis points increase in Tier 1, above the 80 basis points consumed by the growth of our business in the period.

Additionally, Tier 1 capital for the quarter also reflects a 40 basis points capital consumption from deferred taxes, as well as 10 basis points each from IFRS 16 adoption and the impact of the peso devaluation on our credit risk weighted assests between year-end 2018 and the close of 1Q19.

A total of 913 million pesos remain at the Holdco for future capital injections.

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Moving to the outlook on slide 19, as we just mentioned, we are maintaining our guidance for 2019.

Note we are keeping guidance even as full year visibility and macro indicators, as per market consensus, are turning out to be weaker than originally anticipated.

However, our business is showing its resiliency and flexibility to adapt to this more volatile environment and it is demonstrating its good revenue generation capacity.

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

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.

Q&A**Operator:**

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 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 key. One moment, please, while we poll for questions.

As a reminder, if you would like to ask a question, please press star, one on your telephone keypad. As a reminder, if you would like to ask a question, please press star, one on your telephone keypad. One moment, please, while we poll for questions.

Our first question comes from the line of Marlon Medina with JP Morgan. Please proceed with your question.

Marlon Medina:

Hi everyone. Thank you very much for the opportunity of asking questions. My question comes in terms of asset quality. I know you are keeping your guidance but are you seeing any potential problematic cases in the following quarters? Also, I have a question on margins. How are you thinking on margins for the rest of the year? Thank you.

Jorge Ramirez:

Thank you. Good morning. Before answering your question just let me make a clarification. I may have made a mistake in one of the percentages growth when we look at loan loss provisions. They increased 37% sequentially due to the large voluntary provisioning we did in order to maintain 100% coverage.

Going to your questions, in terms of asset quality, as I mentioned here in the call, we believe that the bulk of the provisioning coming from the corporate portfolio was done in this quarter as a result of this large loan that we had to do the voluntary provisioning. The mandatory provisions are 25% of the loan but to maintain 100% coverage we increased voluntary provisions by 75%, the remainder of the 75% of the loan.

When we look at the composition of the rest of the portfolio and the type of companies and the situation they have, we have been proactive in many cases in terms of helping companies that have had tighter financial situation or might have some difficulties in terms of facing large interest rate payments given the current high interest rate environment by helping them restructure and increasing collateralization. In many cases we did inflation adjusted plus loans mid term or long term to help them navigate this difficult environment. We've been very, very proactive in terms of how we've been tackling our portfolio.

We're not expecting any further surprises of this magnitude going forward, and we're working in terms of trying to work out this large credit.

Talking about margins, we're still maintaining our NIM guidance for the full year. Remember that, given the composition of our loan portfolio, which is different to what some of our competitors have, we have a larger proportion of personal loans, so even if we expect to see some reductions in interest rates going forward, the bulk of our Retail portfolio's margins should actually tend to increase as we are slowing repricing it at the new interest rate levels. When interest rates drop we should capture higher spreads there and that should more than

compensate any impact we may see in terms of reduction of margins in our central bank securities portfolio or in our corporate loan which reprices substantially faster than the rest of our loan portfolio.

In sum, we're maintaining our guidance for the rest of the year between 18.5% and 20.5% in NIM.

Marlon Medina:

Very clear. Thank you very much.

Jorge Ramirez:

A pleasure.

Operator:

As a reminder, if you would like to ask a question, please press star, one on your telephone keypad. As a reminder, if you would like to ask a question, please press star, one on your telephone keypad. One moment, please, as we poll for more questions.

Ladies and gentlemen, we have reached the end of the question-and answer-session. I would like to turn the conference back over to Ana Bartesaghi 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:

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