

Transcript 3Q20 Earnings Conference Call

Supervielle Third Quarter 2020 Earnings Call Opening Remarks



Operator

Good morning and welcome to the Grupo Supervielle Third 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 2

Ana Bartesaghi

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

Speaking during today's call will be Patricio Supervielle, our Chairman & CEO and Mariano Biglia, our Chief Financial Officer. Also joining us are Alejandro Stengel, Second Vice-Chairman of the Board and Bank CEO and Jorge Ramírez, First-Vice Chairman of the Board. Alejandra Naughton, board member of several of Grupo Supervielle's subsidiaries will also be joining us for today's call. All will be available for the Q&A session.

Note that starting 1Q20, as per Central Bank regulations, we began reporting results applying Hyperinflation Accounting, in accordance with IFRS rule IAS 29. For ease of comparability, we have restated 2019 results, to reflect the effects of inflation adjustment. Therefore, all results in this presentation are adjusted for inflation as of September 30, 2020, unless otherwise noted.

For your convenience, our earnings report filed yesterday after market close, also includes managerial results in nominal terms as well as more details on Hyperinflation Accounting.

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 3

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

If you're following the presentation, please turn to **Slide 3**. Starting with our **financial performance**:

- We delivered double digit ROAE in real-terms this quarter, despite the continuing challenges presented by Covid-19 restrictions, a recessionary macro environment and a changing regulatory framework.
- In this context, given our flexibility we continue to balance the profitability-risk equation while managing the credit cycle, achieving satisfactory net financial margins. Despite lower loan and deposit growth, note that average peso deposits and assets increased sequentially.
- We made additional Covid-19 anticipatory provisions this quarter that increased coverage following a further in-depth top down analysis of certain industries that we believe could be highly impacted by the pandemic given the current outlook. We also continued to review our expected loss models, and are closely monitoring our loan book and risk models to adjust accordingly as the situation evolves.
- We kept our expenses below inflation levels, the result of strict cost controls, achieving a 90 basis points sequential improvement in the efficiency ratio to 61%.
- Finally, with strong liquidity and our Tier 1 Ratio expanding to 14% on an increased capital base, we are well positioned to continue to navigate this complex and rapidly changing environment.
- Turning to our **strategic initiatives**, we are advancing on different fronts to better position the Company to rapidly seize growth opportunities. Namely our digital transformation, the launch of IUDU, and evolving our service model in our branch network.

Slide 4

Now, let's take a closer look at our digital transformation on slide 4.

In this context, clients continue to adopt digital across our business. To give you a flavor of how this is evolving, I'll highlight some of the metrics on this slide:

- **Transactions at non-automated banking tellers** consolidated at historical low levels of 7% despite the gradual relaxation in Covid-19 related measures and significantly below the 19% of total transactions observed in 4Q19.

- 76% of total **time deposits** in October were made through our digital channels, up from 70% in July and only 47% in January.
- SMEs also continued to rapidly embrace the digital adoption since July with e-checks nearly doubling while e-factoring increased by 60% during the same period.
- Finally, **our** online broker **Invertir Online** continues to deliver robust growth with new accounts up over 150% between February and October and transactions more than doubling.

Slide 5

On page 5 we outline our branch transformation initiative.

We continue to evolve our branch network by introducing additional technology to enhance the customer experience, extend service hours and productivity. This includes full self-service formats and increasing self service areas in other branches, while also broadening our service offerings to better reach SMEs.

With this initiative, we aim at increasing the number of customers operating through 24 hours self-service lobbies, improve NPS and foster digital customer acquisition.

Slide 6

Please turn to slide 6.

As announced yesterday, we have rebranded our consumer finance services subsidiary to IUDU and launched a new digital banking services platform.

This transformation aims to enhance customer experience, capture deposits, broaden our offering to address additional client needs by plugging into the Supervielle ecosystem, while driving efficiency.

In this first iteration, the App allows customers to obtain personal loans, credit cards and car loans. In a second phase, during 1H 2021, our consumer finance business will undergo a fundamental change as IUDU will start taking deposits. IUDU will also evolve in segment acquisition from its traditional middle to low-income segments to a multi segment approach.

We are also plugging-in the Supervielle ecosystem into the IUDU digital platform, starting with IUDU Pago, mobile point-of-sales, e-wallet, prepaid cards and e-bills. At a second stage, we will include Bancassurance, FX and investment platforms.

Finally, on the partnership front we will be rebranding the Walmart partnership card. At a later stage we plan to add multi-partnerships and correspondents.

Slide 7

As you can see on slide 7, the Argentine economy continues to show some signs of recovery since the sharp drop in industrial production recorded last March and April.

Industrial production posted a sharp increase in September, extending the rebound started in May and driving annual performance into positive territory as social distancing measures continued to relax gradually. This was further supported by a number of fiscal, monetary, and credit stimulus measures. We are also seeing higher prices for agricultural commodities strengthening the trade balance.

In turn, domestic demand is expected to remain weak as labor conditions deteriorate further and services dependent on close contact continue to struggle, with consensus expectations calling for an 11.6% contraction in GDP for 2020.

October inflation figures deteriorated while the gap between the blue-chip rate and the official exchange rate continued to widen, resulting in the Central Bank raising 1-day repo rates from 19% in early October to 32% through mid-November.

Looking at 2021, we expect a recovery in GDP of around 5%, following the sharp contraction this year, along with the resumption of IMF negotiations and a series of governmental measures tending toward some fiscal restraint for 2021.

Let me now turn the call to Mariano Biglia, our CFO. Please Mariano, go ahead.

Slide 8

Mariano Biglia, Chief Financial Officer.

Thank you, Patricio. Good day everyone.

Please turn to slide 8. Total loans declined nearly 5% sequentially on weak overall demand coupled with our cautious approach to lending in the current uncertain environment. Peso loans were relatively stable, while US\$ denominated loans in original currency, contracted following the overall industry trend observed in Argentina over the last year.

Preferential rate loans to provide relief in the pandemic accounted for 10% of our total loan book at quarter-end. This includes nearly 10 billion pesos at a rate of 24% granted to SMEs, of which 4 billion pesos were in short term factoring transactions

Slide 9

Please turn to slide 9. Total funding slightly fell over 3% sequentially, with total AR\$ peso deposits declining below 2%, while US\$ deposits in original currency were down almost 10% over the same period. This was mainly driven by higher seasonal balances in June resulting from the 13th salary, together with a drop in precautionary balances held during the first months of the lockdown, as social distancing measures started to be gradually lifted this quarter.

Despite the lower deposit balances at quarter end, note that average balances of AR\$ deposits, increased 10% QoQ.

The total loans to deposits ratio declined 110 bps to 61% in the quarter, with the peso loan to deposit ratio remaining relatively stable at 57%.

Importantly, we maintain strong liquidity levels both in pesos and dollars.

Slide 10

Moving to the P&L on slide 10. Net Financial Income was relatively stable quarter-on-quarter at nearly 10 billion pesos.

Total NIM, however, contracted 230 basis points sequentially to 21.2%. This was mainly due to higher cost of funds resulting from the increase in market interest rates and the floor rate on time deposits, which reduced spreads.

Peso loan NIMs were down a bit more - 330 basis points - reflecting higher cost of funds along with increased volumes of loans granted to SMEs at a 24% preferential interest rate.

Slide 11

Now on to Asset Quality on slide 11.

With our conservative approach to risk management, we increased provisions by nearly 12% sequentially to 2.7 billion pesos this quarter as we continued to revise our expected loss models. This included 1 billion pesos in Covid specific provisions, which amounted to 2.5 billion pesos on an accumulated basis.

Note that the ratio of **total provisions to our total loan book** increased by 40 basis points sequentially to 8.1% in September. On the top right side of this slide you can see the breakdown of the trend in the provisioning ratio by key customer segment.

We observed a sequential decline in **NPL ratios**, mainly reflecting the write-off of a commercial loan that was delinquent since the third quarter of last year. In turn, **coverage** increased to 181% from 127% in 2Q20, mostly reflecting the anticipatory Covid-19 provisions I just mentioned.

Overall, the NPL and coverage ratios continued to benefit from Central Bank regulatory easing on debtor classification amid the pandemic. NPLs for the quarter may have also benefitted from the Central Bank relief program that allows debtors to defer their loan payments maturing until December 2020.

Excluding regulatory easing, coverage increased to 158% in September from 108% in June and 83% in December as we continued to refine our models and conduct top down industry analysis as the lockdown was further extended.

As usual, we will continue to closely monitor events as they could potentially impact our loan portfolio and risk models and make the appropriate adjustments.

Slide 12

As you can see on slide 12, we have a well-diversified loan book, with minimal exposure to higher-risk sub-segments, such as travel & tourism, entertainment and restaurants.

Agribusiness, food & beverage and wine, which make up a larger portion of our portfolio, are performing well in this context.

We are also adding new clients among value chains of large corporates operating in Argentina.

Only 13% of our portfolio is concentrated in higher-risk sectors, mainly construction, and to a lesser extent in retail and transportation with around 60% of these loans guaranteed.

As shown on this slide, nearly half of our commercial loan portfolio remains collateralized, with collaterals on non-performing commercial loans increasing to 78%. Similarly, loans to lower-risk payroll and pension clients accounted for 73% of our total loans to individuals.

Now please turn to slide 13, for some brief remarks on our views for the near term.

Slide 13

While we are still suspending guidance given the limited visibility ahead, the perspectives outlined on this slide present our overall views on the key drivers of our business for the remainder of the year and into early 2021.

An expected mild rebound in economic activity should drive **loan** growth above inflation, with **deposit** growth supported by FX market restrictions and the regulatory floor on interest rate paid to time deposits. If the challenging macro environment continues, **asset quality** may further deteriorate, particularly in the sectors we outlined earlier together with the fact that grace periods are due in January on the rescheduled loans. We expect our prudent approach to lending in this environment together with the strengths of our portfolio, should help to mitigate the impact of a potential worsening environment.

At the same time, we expect **NIM** to remain pressured by higher cost of funds and lower yields on loans, while **Fee Income** is anticipated to remain impacted by regulations prohibiting repricing until February, along with caps in place for next year in addition to a weak economic environment.

On the **Expense** front, salaries are anticipated to grow at or below inflation while we continue to move ahead on accelerating our digital transformation.

Finally, **Capital & Liquidity** are expected to remain at adequate levels supporting long-term sustainability.

This concludes our initial 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, 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 for you to pick up your handset before pressing the star keys. Please limit yourself to two questions and feel free to jump back in the queue for more. One moment while we poll for questions.

Our first question comes from the line of Ernesto Gabilondo with Bank of America. You may proceed with your question.

Ernesto Gabilondo

Hi, good morning, Patricio, Mariano, Alejandra, Jorge, Ana and good morning everyone. Thanks for the opportunity and for the presentation. My first question is on NPLs. After ending the relief programs, when do you expect the peak of NPLs and what should be the level of that NPL ratio next year?

Then my second question is on the deferred portfolio. Can you elaborate what is the percentage of clients that have resumed payment during September and October, and what is the percentage of clients that will resume payments in the next month? And so far, how has been the behavior of those payments and what is the percentage of delayed clients?

And just a last question. Can you provide any updates regarding regulation? You mentioned something about caps. So anything related to that will be helpful. Thank you.

Patricio Supervielle

Thank you very much. I would like to ask Mariano Biglia to answer those questions.

Mariano Biglia

Thank you, Patricio. Hello, Ernesto. Regarding your first question regarding NPLs, we've seen a decline so far, partially explained by the write-off of our commercial loan but also because the relief programs of the Central Bank are still in place. The deferral of loans, which is an option for debtors, is still in place for loans until December, as it has been extended—it was extended two times. The last one lasting until December this year. And for credit cards, there was a deferral of balances that were due in April. These deferrals have a three month grace period and then they start paying nine consecutive installments at a 43% interest rate. And then there was a second deferral for credit cards in September.

So credit cards started paying after this grace period, started paying in August, then there was a new deferral. So we still have very little information on the behavior of deferred loans, because we only have a couple of months off the first deferral of credit cards, with the second deferral starting paying in January and all of the deferrals for loans, both individuals and corporations, will start also paying in January.

So, this also explains the decrease in the NPL, and it may peak somewhere between the fourth quarter and the first half of the year when these loans start paying or showing some delay. We are building up provisions in advance of this event using our expected loss models. So that's where we increased our coverage to 181% which includes a 32% provisioning ratio for this deferred loan.

So, we'll still have some time ahead to see what the final NPL will be, but we expect to peak somewhere during the first half of next year. And that is related also with your second question related to the behavior of the deferred portfolio. But it's important also to highlight that this was an option for customers, so we don't expect very high past due loans after they start being due. Nonetheless, we built up these provisions just in anticipation.

Ernesto Gabilondo

Okay.

Patricio Supervielle

I would like to complement on Mariano's answer. Sorry to interrupt you. Also, I think it's important to consider the overall risk model we have or the risk situation we have for the individual business because we have 73% of our loans for individuals at Banco Supervielle that are provided to payroll and pension clients. So, it's a cash flow base lending, and I think this is an important mitigating factor when we navigate an uncertain scenario.

Sorry. Please go ahead with your—I think you wanted to ask something more.

Ernesto Gabilondo

Yes. No, thank you, Patricio and Mariano. So, just regarding the NPL ratio, as you mentioned, the write-off and the relief programs have held the NPL ratio to be low, but considering that most of the clients will resume payments in December, I would like to know when did you have past due loans, when you have past 30 days, 90 days, just to understand when we can start to see the NPLs going up? And we have seen NPL ratio at levels of 6%, 7%. Do you think that could be the level that could reach next year? And I know that you have already built in anticipation provisions to this NPL cycle, but just want to understand when will be the peak of NPLs and how the loans are past due in your case.

Patricio Supervielle

Mariano, do you want to...

Mariano Biglia

Yes. Let me add, as I mentioned before, this part of the relief program is still in place, so we are not having much new past due loans, we only have loans that were past due before the relief program. So they may continue to have more days past due, but this is only a small part of our portfolio. So, when we start to see the maturities of these new installments in credit cards but also when loans resume paying, all installments of loans that haven't been paying this month, will be added as a final installment at the end of the loan. So, in January, they will start paying the installment of the original schedule.

The peak, it's still difficult to estimate, but it could be in the levels we had at the beginning of the year, but then decreasing. We don't expect that high NPLs at the end of 2021, certainly.

Ernesto Gabilondo

That's perfect, thank you. And then anything related to updates on regulation?

Patricio Supervielle

Can you repeat that, to update on what?

Ernesto Gabilondo

In regulation. You mentioned something about caps in interest rates. So anything you have as an update regarding regulation will be helpful.

Patricio Supervielle

Yes. Alejandro, please do you want to answer that?

Alejandro Stengel

We expect the Central Bank to keep strong and heavy regulation and we see some easing in as much as the recent economic rebound and recovery. But we think that what we've seen so far in terms of flows on deposit rates, caps on commissions, subsidized credit will continue to be the norm. Maybe, Mariano, you want to add on that? But I think that's basically the picture going into 2021.

Mariano Biglia

Yes, exactly, Alejandro. Right now we have the floor on term deposit interest rates, we have caps on commissions, and we have mandatory lines at preferential interest rates, and most of them at the 24% interest rate. So there are some new lines of between 30% and 35% interest rates. We expect that to continue for a while until we'll see some rebound in the economy.

So far, we've seen some offsetting of these measures with lower minimum cash reserves requirement, but caps and floors on commissions or interest rates may stay still for a while. That's my opinion.

Ernesto Gabilondo

Okay, perfect. Thank you so much.

Patricio Supervielle

I would like to add also that the Central bank issued a regulation on caps and fees for the beginning of next year and that's another important piece of regulation. They set up a maximum and we can increase our fees 18% in February next year. That's another cap we have at this moment.

Ana Bartesaghi

Yes. Ernesto, just a small comment. In our press release in Page 57 on two or three pages, then you have a whole set of other regulations that are now and are in place now and affect each of our P&L lines. So I think you have there in a two-page report a detailed, easy to read summary of regulations impacting the balance sheet.

Ernesto Gabilondo

Perfect. Thank you Ana.

Operator

Our next question comes from the line of Rodrigo Nistor with AR Partners. You may proceed with your question.

Rodrigo Nistor

Hi, good morning, and thank you for taking my question. Once again, congratulations on the level of detail in your disclosure. That's much appreciated. So, my first question is regarding loan and deposit balance for 2021, what are you expecting for next year in terms of the mix, where growth should come from? And then more a high-level question, maybe we expect spike in inflation and a sharper peso depreciation in the short term. So my question is how banks, in particular Supervielle, can protect from that scenario, what tools the Bank has, and are you already acting to minimize the effects of that scenario? Thank you.

Patricio Supervielle

All right. Let me answer you first of all the last question on inflation. First of all, well, our capital is being hedged against inflation and we are 100% hedged in terms of we have 50% of our equity in real estate and all none monetary assets. Also, we have a portfolio which is equivalent to 40% of our equity in mortgage and commercial loans that adjust by UVA, and also we have 10% of equity which is invested in treasury bonds that adjust by CER. In addition to that, we also have some coverage against devaluation in dollars and dollar-linked bonds that represent approximately 22% of our equity.

But in the overall picture, inflation it's never good news for banks. It is key to move fast and we have to adapt—in case inflation arises to adapt to a rapidly changing scenario and we have a very highly seasoned team doing that, particularly when the moving parts of Argentine's abilities in order to preserve good spreads or high margins, let's say. We would—in high inflation we would focus on the funding side, developing cash management services, attracting cash and deposits. We will also work on, for individuals, in credit cards and personal loans, but reducing in the case of loans, generally speaking, would reduce the tenures also, because it's important in inflation to have the flexibility to move and also, we would—for instance, will work in factoring.

Regarding your first question, I would like to have Mariano answer it. I understand it's loans and deposits expectations for 2021. Do you want to answer that, Mariano?

Mariano Biglia

Sure, Patricio. Hello, Rodrigo. Well, regarding loans, we think we're going to end this year 2020 with a growth below inflation, but we see some recovery for 2021 growing above inflation. Our estimates for inflation are 36% this year and 47% next year. So, we expect to see some rebound of the economy and also some rebound of credit demand. We are starting to see something in personal loans, and we expect that to continue in 2021, with the commercial loans.

Regarding deposits, they have been increasing widely above inflation this year, and they will finish the year with a very high increase as liquidity has increased in companies and individuals. We've seen a very high increase in all types of deposits, sight deposits and time deposits, both from individuals, corporations and institutional.

And for next year, the growth will be softer but still also above inflation.

Rodrigo Nistor

That was really clear. Thank you so much.

Alejandro Stengel

Maybe I would like to add on a little bit just to where the growth would be coming from. Rodrigo, good morning. This is Alejandro.

Rodrigo Nistor

Good morning.

Alejandro Stengel

The overall consensus right now is that the economy should be rebounding at 5% GDP next year, and when you look at the impact that the COVID has had, it's basically the supply side shock over this time basically depleted inventories. So most sectors will be working and creating—increasing activity levels to replenish inventories. In particular, export sectors also they will be picking up, particularly the agri business sector. As you know China is one of the few countries that has grown, has had net growth during 2020 and its positioned to grow at about 8% in 2021, and they are a big trading partner of our country. Therefore, agro commodities in particular, as well as other sectors that were very well positioned in the wine industry and the citrus industry, are probably likely to be significant drivers of growth and help the economy pick up.

Rodrigo Nistor

Very interesting. Thank you.

Operator

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

Yuri Fernandes

Hi, Ana, Alejandro, Jorge and Mariano, Patricio. Good morning everyone. I have a first question regarding margins. What is the outlook here? I guess you provided this off the guidance that margins will be under pressure, but how big should this pressure be? Should we see additional 200 bps contraction in the coming quarters? What is the view here? My concern is regarding the minimum remuneration rights. I guess now it's 37%. And for me, if you have to pay that for the time deposits, it makes it very hard to make money on the spread on deposits, right, because you have the reserve requirements, you need to allocate 5% of time deposits to BOTES. So, my question is, how big should be the margin pressure considering the stage 3 loans that should keep increasing as we start to see those reliefs ending? So, what's the outlook here for margins?

My second question is regarding dividends. If you can provide us an update? I know there are regulations regarding the Bank, the Bank cannot pay dividends, but you have other subsidiaries. So, if you can provide us some color here about dividends, if you have any idea if you should pay next year? And also, how would you do that for the ADR holders? This was a topic I was discussing with Ana, but I just would like to know what is the outlook for dividends and what's the outlook for dividends for the ADRs. Thank you very much.

Patricio Supervielle

Okay. Thank you Yuri. I would, first of all, give you a general idea on margins, and then pass it on to Mariano.

Our franchise is working particularly with high margin clients and that has been our case and this is the characteristic of our franchise. When there is—in a situation when there is loan growth, the demand that starts to rebound, eventually with the economic rebound next year, even with the pressure on margins, which we expect—we do expect the pressure on NIMs, we believe that we will have some shield, we will be able to defend these NIMs. Because, in our case, we will continue working with providing loans with high margin clients and reducing maybe LELIQs, whereas all the banks they would reduce LELIQs but they will work with clients that provide lower NIMs. So in this sense, we are better—typically in a pressure of NIMs, we have this type of protection. But I would like to—a more specific answer to have Mariano, please, complement.

Mariano Biglia

Yes, Patricio. Good morning, Yuri. Well, effectively, regarding NIMs, cost of funds is rising with floors for time deposit interest rates. So we'll see definitely some pressure in the fourth quarter. On the other hand, the increase in interest rates due to expected higher inflation, gives us some more profitability on sight deposits and in all of the deposit side of our balance sheet. So, we still can sustain an adequate net interest margin levels, although, lower than, for sure, the second quarter where we see a big margin because of all the liquidity in the market which gave us increased sight deposits.

Then, for the longer term, as Patricio explained, we will substitute lower yield assets with higher yield assets, such as loans to—personal loans and loans to SMEs so we will be able to sustain net interest margins even when interest rates decline, and at the same time, that should be in a context where cost of risk will be also declining. Now we have very high net interest rate margins, but high cost of risk because we are creating anticipatory provisions. For the longer term, we might see some contractions in NIMs but at the same time a lower cost of risk.

Yuri Fernandes

That's very clear. Can you remind us what is your stage 3 loans nowadays as a percentage of your portfolio, and how this should evolve? My point is, for the next year—I guess, today, you are recognizing NII from the loans you released, right, like those credit cards that they are likely rescheduling the loans for next year, you are still recognizing NII off of those loans. So I think there is a relationship between stage 3 and those loans. Can you just provide more color here on those release, because that could be a headwind for the next year too, right?

Mariano Biglia

We are accruing the interest rate at 43% interest rate in credit cards rescheduled, and accruing the same loan interest rate for rescheduled installments of loans to individuals or corporations. So, next year we'll continue to accrue that interest rate as long as loans and credit cards mature, and if they enter stage 3, then we stop accruing interest. But at that same point, any unpaid installments of these loans or credit cards have only a time between when they stop accruing interest and they are eventually all collected or written off.

So I don't see a very high pressure to net interest margin on that side.

Yuri Fernandes

Very clear. And regarding dividends?

Patricio Supervielle

Mariano, do you want to answer the question on dividends also, please?

Mariano Biglia

Well, regarding dividends, in fact, they're still in place, an authorization required from the Central Bank to pay dividends from the Bank, that is for us to receive dividends from the Bank at the holding company. But we have other sources of dividends from the insurance company, the asset management company, and the other subsidiaries which are not subject to Central Bank regulations on dividends. Also, at least during this year, we expect to reinvest profits at the Bank level regardless of Central Bank regulation to maintain our capital ratio, but if we decide to pay any dividends at the holding level, we have that source

of liquidity from the other subsidiaries, which, in fact, that's what happened in past years. All dividends that we paid from the holding company to investors have a source of funding from dividends of the other subsidiaries paid to the holding company. We never received dividends from the Bank in the last year.

So that limitation doesn't make really a point for us.

Yuri Fernandes

And for the ADR, can you use the official fx or you should use the blue swap?

Ana Bartesaghi

I can comment on that, if you want, Yuri. If we want to access the market, having the official exchange rate, we need to request authorization through the Central Bank. This year, we requested that authorization. We didn't get it because we know that companies in general they are not getting those authorizations. So we paid anyway and the same did many other companies in Argentina at the blue chip swap rate.

And we're also—in 2020 dividends, we gave all the shareholders, not only the ADR holders, the option to collect their dividends in dollars or in pesos, but if they accepted or if their option was in dollars, also that went through a blue chip swap rate. But that's the way we did it this year. Other companies as well did that because we are not getting any authorization to access the official market.

Yuri Fernandes

That's very clear, Ana. Thank you very much everybody. And again, congratulations on the disclosure. You have best-in-class disclosure in Argentina. Thank you.

Operator

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

Our next question comes from the line of Alejandra Aranda with Itaú. You may proceed with your question.

Alejandra Aranda

Hi, good morning. My question is, could you explain a little bit what happened with taxes during this quarter and what would be the effective normalized tax rate for next year that we should be expecting?

Patricio Supervielle

All right. I will refer this question on taxes to Mariano. Thank you.

Mariano Biglia

Yes, good morning, Alejandra. Effective tax rate as you can see was very low in the third quarter, as we took some special income tax deductions arising from guarantees extended to SMEs. And in addition, some differences derived from the adoption of inflation adjustment reduced our deferred tax liabilities and hence reduced also the income tax expense.

So, looking forward, we expect to end the year 2020, the full year, with an effective tax rate maybe similar to what we can see in the nine month period, which is lower than 20%. But, for 2021, we expect it to be closer to the statutory tax rate, which is, right now, 30%.

Alejandra Aranda

Okay, thank you. And just a brief follow-up on coverage that you answered before. Do you have a number where you feel comfortable with?

Patricio Supervielle

We are constantly assessing our risk models and this is—there is constant monitoring of the risk we have on our loans. So, at this stage we are—our provisions—we are fully comfortable with the provisions we have. But of course, this in the future will depend on the evolution of the economy and of our clients, and it will evolve. It might happen that we might continue to build provisions in the fourth quarter and first half of 2021. I don't know, Mariano, if you want to add on that. Maybe talk about the way, the changes that have occurred in the expected loss models.

Mariano Biglia

Yes. Right now, we are comfortable with our coverage ratio at 180%. We update our expected loss models constantly. We updated the macroeconomic variables that we use as an input. We did so in the second quarter, and then we update the portfolio as of each quarter end and will again revise the model in December. There's not a fixed number where we should reach or where we should stay, that will depend on many factors. Right now, the coverage ratio is also somehow distorted by two factors, which are the loans and credit cards that are being deferred, and the adding of 60 days to each debtor classification, which affects our NPLs.

So we also look at our total provisioning ratio, which is right now at 8.1%. That's definitely a high number. We expect that at some point in 2021 to decrease. But it will be evolving because we build up provisions and we might start to see some new NPLs in the fourth quarter or in early 2021 when deferred loans starts maturing.

So, at the end of the day, coverage, whether measured by total provisioning ratio or coverage on NPLs, will be evolving with these provisions that we build up, new NPLs and also write-offs that we need to do as we did this quarter.

Alejandra Aranda

Okay. Thank you very much.

Mariano Biglia

Thank you.

Operator

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

Carlos Gómez

Hello and good morning. Let me also congratulate you on the results and on the disclosure, which as my colleagues have said, is the best in the system and we hope that everybody emulates it. So thank you, thank you very much for that.

Two questions. First, regarding the protection of capital that you have with inflation-linked assets or instruments. You mentioned real estate at 50%, CER at 20%, and I think there were another two elements. Correct me if I'm wrong, this is new, right? You did not use to have such exposure to real estate. When did you accumulate it and how effective do you think that they will be protecting your balance sheet going forward?

Second, you have a large business of lending to retirees and public sector workers. We see that real pensions are going to go down because inflation adjustment has been removed and is now more discretionally. Will that eventually have an effect on your asset quality or your total volume of business? Thank you very much.

Patricio Supervielle

Mariano, do you want to answer that?

Mariano Biglia

Yes. Hello, good morning Carlos. Let me answer your first question regarding inflation protection. We have a 50% hedge with real estate and other non-monetary assets. That's a total of the non-monetary

assets part of our balance sheet. And approximately half of that or between 25% and 27% of our net equity, is real estate. We have this real estate, which are some owned branches, where we own the building, and some investment properties, and we own almost the same assets since last year. We may have some other assets but not very—not material. The main change with 2019 is that now we have adopted inflation adjustment. So, maybe real estate assets were very undervalued in our books, because they were at historical cost in our books in 2019, and now they have been updated for inflation.

We do reevaluate now our investments in real estate, but we are also adding inflation. And then we have the other 50% of our equity, which is hedged with UVS and investment in bonds also that adjust for inflation. UVA loans also come mainly from last year and many of them from 2017 when we granted mortgage loans, and what we did increase during this year was our position in inflation adjusted bonds and then in dollar-linked bonds.

Alejandro Stengel

Regarding your second question, Carlos this is Alejandro speaking. Good morning - when we look at the behavior of our retiree franchise, we find it actually to be one of the anchors of our performance. In relative terms in this context, their income levels have not had as much volatility as the rest of the economy. Their income has been relatively stable, and this has proved to be a significant strength. Going forward, the fact that their income will be indexed with different criteria than inflation, might have some effect and we've seen a little bit of that in terms of the overall sight deposits that they leave that we see. There's still a significant appetite for credit and personal loans. And in terms of the asset quality, we are very careful in those segments to maintain a good coverage and the relationship of the size of each installment to the overall income. And that has proved to be very effective in containing NPLs even through recessions.

So we expect that protection to be effective towards the end of this year. And as the economy picks up next year, we think it also will continue to work.

Carlos Gómez

Can I ask, are the loans fixed rate or variable rate?

Alejandro Stengel

No, they are fixed rate.

Carlos Gómez

Thank you. Thank you so much.

Alejandro Stengel

Maybe personal loans, fixed rate, yes.

Carlos Gómez

Okay. Thank you.

Operator

Our next question comes from the line of Juan Recalde with Scotiabank. You may proceed with your question.

Juan Recalde

Hi, good morning. Thank you for taking my question. My question is related to the asset management business. So we have seen strong growth in the new accounts and transactions in InvertirOnline. In other markets in the region we have seen the asset management industry grow significantly. So, I wanted to ask, what's your outlook for the asset management industry in Argentina, and in your business in particular? And how much—what part of the total earnings of the group do you think that may come from that business? Thank you.

Patricio Supervielle

All right. Well, InvertirOnline has benefited from I think the same phenomena that is occurring in other parts of the world in terms of rapid—a very rapid expansion of trading during the pandemic. We positioned last year in order to become, let's say, the most relevant digital player in Argentina and by providing, let's say, simple access to investment possibilities, and among these, we did some several strategic moves.. But in terms of there were reductions of commissions, but one particular move was also remunerating the idle average balances that were in the accounts, which we are in fact the only brokerage house that does this.

So, these strategic initiatives have produced—the Company today almost has 200,000 clients, starting from 17,000 clients last year. But regarding the context of the brokerage business and asset management, this is in Argentina, it's a difficult context. I mean, because, basically, savings are not there, because people don't like to have pesos and they want to turn it into dollars. And so that's a fact, unfortunately, and as long as this continues, we will have to live with that.

So, basically, this platform is helping people eventually to defend the purchasing power of their savings. And it's not—in terms of revenues, your question in terms of revenues for the Company, for the Grupo Supervielle, I don't know if maybe Mariano wants to answer that, because it's a profitable company but still it is small. But, please, Mariano, you can answer that question.

Mariano Biglia

Yes. Between the brokerage business and the asset management company, we have approximately 15% of our revenue. The brokerage company is still a small company, but growing very fast; while the asset management company is more mature and dependent more on the growth of the Bank customers and balance sheet. But that's approximately the percentage of those businesses in the group.

Juan Recalde

Very clear. Thank you.

Operator

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

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Ms. 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 stay safe and healthy.

Operator

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