

November 9th, 2017

Transcript - 3Q17 Earnings Conference Call

Supervielle Third Quarter 2017 Earnings Call Opening Remarks

Operator

Good morning and welcome to the Grupo Supervielle Third Quarter 2017 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 Chief Executive Officer and Chairman of the Board of Directors and Jorge Ramírez, Vice Chairman of the Board of Directors. 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 CEO, Patricio Supervielle.

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 delivered another solid quarter, driving efficiency and profitability gains.

On the back of improved economic dynamics across all sectors of the economy, we achieved broad-based accelerated loan expansion, along with continued growth in deposits.

While the total NPL ratio posted a slight sequential improvement, we saw an increase in cost of risk in connection with consumer finance loans confidence is lagging behind economic recovery in the context of persistent inflation and soft job recovery. We keep a vigilant focus on credit risk and are closely monitoring our loan portfolio in this segment.

Based on our solid performance to-date, increased capital from our recent equity follow on and our expectations for a positive economic environment ahead, we are revising our guidance for the year upwards, and I will discuss this in more detail shortly.

Turning to slide 4, an important event in the quarter was our follow-on equity offering. And this comes just 16 months after we completed our IPO, which is reflective of the success we have shown in growing the business over the past year and half.

Investors also recognized this success as the offering was three times over-subscribed.

The investment bankers exercised the greenshoe, so that in total, the proceeds to the Company were US\$342 million. The additional equity has further strengthened our balance sheet, while the proceeds give us more flexibility to enable us to continue to grow to meet the accelerated demand we are seeing in the Argentine financial sector.

Another important benefit from the offering was the increase in our trading liquidity. Our free float is now 64%, which should enhance liquidity and enable us to further diversify our shareholder base.

Moving on to the macro environment on slide 5, economic activity in Argentina continues expand at a solid pace, with positive dynamics across most industry sectors. Construction – up 13% - continued to lead growth, driven by public sector expenditures in infrastructure. Manufacturing and service sectors also posted a pick-up in activity, followed by agriculture and other primary activities. Consumer demand, however, continues to lag behind still posting soft retail sales in the period.

Furthermore, while the disinflation process remains on track, inflation is proving to be more persistent than targeted by the monetary authority. As a result, the Central Bank raised the monetary policy rate by 150 bps to 27.75% in October and to 28.8% last week.

Turning to the Argentine financial sector, in slide 6, market friendly regulations and sound fiscal and monetary policy are driving strong loan growth to the private sector - up 12% sequentially and 48% year-on-year above annual inflation.

Corporate loans continued to post strong growth, up 14% quarter-on-quarter – showing faster growth in US\$-denominated loans. Retail loan also performed well, while Mortgage loans expanded by a significant 27% reflecting the new economic conditions in the country.

System deposits resumed growth this quarter, up 5% sequentially following flat performance last quarter. Year-on-year deposits were up 41%.

Moving on to slide 7, on the back of positive economic dynamics and supported by the funds from our equity offering, we delivered robust loan growth - expanding our loan book up 60% year-on-year, as we continue to grow above system rates.

Sequentially, loan growth accelerated to 20% from 8% in the prior quarter.

Our strategy of developing an integral relationship with corporate customers with the goal of becoming their principal bank, continues to drive strong growth in this segment, with corporate loans increasing their share of total loans to 49%, up from 47% in the prior quarter and 35% at pre-IPO levels. SMEs & Middle Market keeps pace representing a stable 65% share of our corporate loan book.

In line with our differentiated strategy, we have introduced new products into the market this quarter to further increase our customer base, offer a tailor-made value proposition and build long-term relationships. For example, we launched a new product offering dedicated to franchisees aimed at promoting the adoption of technology, training and professionalism into their businesses.

Turning to slide 8, we achieved accelerated loan growth across all segments of our loan portfolio posting double digits growth.

Factoring, our largest corporate loan product and the second largest overall, was the main driver behind the strong growth in corporate loans – which was up 24% sequentially and 79% year-on-year.

Retail loans, also showed a solid pickup – up 14% sequentially and 42% year-on-year. Personal loans posted solid dynamics while credit cards remain stable in line with industry trends.

Let me highlight the solid performance in mortgage loans we have experienced throughout the year. While we are coming from a very low base, mortgage loans expanded over an impressive 170% sequentially.

After many years in which mortgage loans were practically non-existent in Argentina, we are seeing strong growth supported by declining inflation and expectations of continued improvement in economic dynamics.

With the view of becoming one of the market leaders, we are taking a holistic approach to Mortgage underwriting:

- We have established exclusive agreements with leading brokers, as well as online mortgage platforms, including leading players with regional or nationwide reach.
- We are also forging alliances with leading real estate developers, providing construction loans which provides us a platform for future mortgage clients.

We offer a very competitive value proposition, and see attractive cross selling opportunities with home remodeling loans, lease guarantees, insurance and other banking products.

As we seek to drive efficiencies across the organization and maximize growth opportunities, we have also reduced mortgage processing times.

Today, based on our internal estimates, we rank among the top five mortgage originators within private sector banks, holding a 10% market share, and are very excited about the growth opportunities we see in this segment.

Growth in consumer finance loans bounced back this quarter – up 13% sequentially, mainly driven by a solid performance in personal loans while credit card loan growth remained weak in the quarter. The gross intermediation margin in this segment doubled YoY and was up almost 20% sequentially pricing the higher cost of risk reflecting the marginally higher risk we are seeing in consumer finance loans.

I will now hand off the call to Jorge Ramírez, who will review our funding and P&L and afterwards I will discuss guidance. Please Jorge, go ahead.

Jorge Ramírez, Vice Chairman of the Board

Thank you Patricio, good day everyone.

Moving on to funding on slide 9, sustained growth in deposits along with funds from our equity offering supported the significant AR\$8 billion loan origination in the quarter – which represents a fifth of our loan book.

Deposits expanded 55% year-on-year and 10% sequentially – doubling market levels in the quarter.

Our loan to deposit ratio, however, increased sequentially to 109% from 99% in the prior quarter mainly reflecting the equity offering proceeds to fund loan growth.

Please turn to slide 10. Our robust retail franchise continues supporting a highly atomized deposit base. 54% of our total deposits are from individuals.

This, aligned with our cash management strategy results in 56% of our total deposits bearing either zero or low interest rates.

Headway in this strategy in our corporate segment continues to drive sequential growth in checking account deposits.

Moving on to the P&L on slide 11, gross financial margin increased 10% sequentially and 50% year-on-year.

While at strong levels, total NIM, contracted 130 basis points sequentially – to 18.5%. The key drivers behind this were:

- A 90 bps sequential decline in the AR\$ loan portfolio NIM to 23.4%. This was mainly due to a higher share of corporate loans.
 - This, along with an increased share of US\$ denominated loan impacted the total loan portfolio NIM in the quarter.
 - Also, while the Badlar rate increased 120 basis points, cost of funds remained stable. Note that loans typically tend to reprice on a lagged basis.
 - Finally, lower trading gains drove a 210 basis point decline in the average yield on the investment portfolio to 24.2%.
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Moving on to slide 12, net service fees increased 42% year-on-year, above inflation.

Fees repricing, and strong growth in deposit account fees, along with progress on our strategy to drive cross selling across the company were the main drivers behind net service fee income growth.

The net service fee income ratio, contracted 130 basis points to 30% in the quarter. This lower ratio is a result of relatively higher contribution of net margins to our overall revenues.

Income from insurance activities continues to reflect the year-on-year phase out of our credit related products resulting from regulatory changes introduced in September last year. Sequentially, gross written premiums of voluntary insurance products grew 11% QoQ, almost compensating the lower credit related premiums. We continue to broaden our product offering in this business line with the launch this quarter of home, technology and ATM insurance. Year-on-year, voluntary insurance premiums were up 55%.

Now moving on to asset quality, on slide 13. While total NPLs declined slightly in the quarter – down 10 basis points to 2.8%, cost of risk increased 20 basis points to 4.4%. This was mainly driven by higher NPLs in the consumer finance segment where consumer confidence is lagging behind economic recovery in the context of persistent inflation and soft job recovery.

Because of this, while we are seeing a seasonal improvement in the quarter, lagged delinquency remained at a higher relative level. This is consistent with what we are seeing for the rest of the industry in the consumer finance segment. In any event, the higher risk in this segment is fully priced in our gross intermediation margin.

In terms of expenses, on slide 14, we continued to drive efficiency improvements in the quarter contributing to higher profitability.

The efficiency ratio improved 310 basis points sequentially and 60 basis points year-on-year and, reaching 61.9% in the quarter. This compares with pre-IPO levels of 73.8% in 1Q16.

Administrative expenses were up 3% QoQ, reflecting mainly:

- The wage increases from the collective agreement implemented at our non-banking subsidiaries since April,
 - A 2% increase in our headcount in indirect commercial channels – mainly in our sales force - to support growth, along with
 - A 6% increase in non-personnel expenses driven mainly by higher security services and maintenance expenses.
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Please turn to slide 15 to review profitability. Net income for the quarter rose 43% year-on-year as we continue to make headway in executing our growth strategy.

On a sequential basis, net income rose 7% as non-recurring gains from the sale of two non-core assets for a total of 73 million pesos, impacted the comparability of results. Excluding these items, net income would have increased 23% quarter on quarter.

ROAE for the quarter was 27% compared with 31% in the prior quarter, with the temporary dilution reflecting the recent equity offering which resulted in an increase of almost 70% in equity – equivalent to AR\$5.6 billion.

In terms of capitalization, as shown on slide 16, after our successful equity follow on, which added proceeds of US\$342 million to the Company, the consolidated pro-forma TIER1 Capital ratio increased to 19.5% at the close of the quarter, from with 11.6% at the close of 2Q17.

As a result, funds at the Holdco – which are invested in low-risk, mutual funds and central bank notes, and available for further capital injections in subsidiaries reached 6.5 billion pesos at the end of September. This also allows us to take advantage of tax losses carried forward at the Holdco.

Note that in September, we made capital injections of 150 million pesos in our consumer finance business. We expect to make further capital injections at Banco Supervielle this quarter and in the first half of 2018 to continue supporting the positive organic growth dynamics we are experiencing in our market.

I would now like to turn the call over to Patricio to discuss guidance and then we'll open the floor for questions.

Patricio Supervielle, Chairman & CEO

Thank you Jorge.

Moving on to our outlook on Slide 17, we are revising our guidance for the year.

Three key factors are driving our upwardly revised guidance

- **first** – is the additional capital we received from our most recent equity offering that will support further loan growth
- **second** – more recent data indicates that some macroeconomic assumptions embedded in our original guidance have changed. For example, let me highlight inflation that is expected to end up by 23%, instead of the 20% initially considered, with the consequent tightening of monetary policy is moving the Badlar rate to current levels of 22.6%, from the 19% originally expected by year-end 2017
- **and third**, as I discussed earlier in my presentation, sentiment in the consumer finance segment is still lagging behind overall Argentine economic recovery. This segment has remained more cautious in view of inflation not coming down as fast as expected, along with a soft job recovery. In this framework, we are experiencing a slight change in the past typical seasonality patterns, which is consistent with what we are seeing for the rest of the industry in the consumer finance segment.

So, based on the factors I just discussed, let me outline the key Guidance points:

- Our loan growth guidance, remains unchanged. Remember we had increased this in our prior call to a range of 43 to 50%, from our original target of 38 to 45%.
- Our cost of risk guidance now ranges between 3.9% to 4.2%, from our previous expectation of 3.2% to 3.6%. Again, this is mainly due to the changed consumer behaviors in our consumer finance segment. And as I mentioned earlier in the call, this is fully priced in the gross intermediation margins of these loans.
- We are also tightening our NIM and efficiency guidance ranges:
 - NIM is now expected in the 18 to 20% range from our previous 17 to 20%
 - Efficiency is anticipated to range between 63 to 66% from our previous target of 63% to 67%

- At the same time, we are increasing our net income guidance range to 2.4 to 2.6 billion pesos, from our previous guidance range of 2.2 to 2.4 billion pesos, which calls for an implicit return on average equity of between 25% and 27%.
- Finally, our Tier 1 Ratio is now expected to range between 18% to 19% instead of our Tier 1 outlook prior to the equity follow of 10.5% at 11.2%.

We are now ready to take questions please. Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator:

Thank you. We will now 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 need to remove your question. For participants using speaker equipment, it may be necessary to pick up your handset prior to pressing the star keys. Once again, star, one on your telephone keypad. We also ask that you please limit your questions to one question and one follow-up, please.

Our first question comes from Frederic De Mariz with UBS.

Frederic De Mariz:

Good morning everyone. Thank you for the call and the opportunity to ask questions. I have a few questions following your presentation. First one on growth. We saw the revised loan growth guidance with the top of the guidance at 50%. 3Q was very strong, so I'm wondering what you're seeing, what you're expecting in the fourth quarter. We're already almost in the middle of the quarter. Are you expecting a deceleration or do you just want to be a bit conservative on your guidance for loan growth. So that would be the first question on volumes. On the growth, if you can mention what sectors would be the most—presenting the most growth.

Second question on asset quality. There was a bit of an increase in the cost of risk. I think you explained very well in your presentation the impact on consumer finance. My question is more on the coverage ratio. You have a lower ratio than peers. What are you expecting here? Do you plan that ratio to increase and what would be a good level considering your operation?

Third, final question on the margins. There is a regulatory change on the directed lending rules for small companies. So we're seeing that that requirement from the central bank is being phased out, is fading away next year. I just wanted to understand how should we think of it, what's the impact for your margins. Thank you.

Jorge Ramírez:

Good morning Frederic. Okay. In terms of loan growth, we are not expecting a deceleration in terms of the rate of growth. However, having said that, not necessarily we might be repeating the same percentage growth we had in this quarter. This was, as I explained when I was talking to this, the growth we experienced in the third Q represented one fifth of our total loan book. So hopefully if we can continue delivering that kind of growth, and we'll try to. So we're sticking to our revised guidance in the previous quarter for the year, probably will—we might be ending up in the upper level of the range.

Regarding your second question, in terms of coverage, we currently are at 88.9%. Our target for the full year, as we have expressed in previous calls, is to be around 90% coverage and we're expecting to reach 100% coverage by 2019 and early 2020, probably. So that's the—I mean we have a plan in terms of progressively reaching that level and our plan is to continue increasing quarter by quarter the level of coverage we have as we progress going forward.

Going back to your earlier questions, you asked in terms of the sectors, what we see loan growth coming from, currently we're mostly seeing growth coming from all the different sectors. Definitely construction agri-business and energy continue being the most solid sectors driving the economic recovery, but we're seeing other sectors that continue showing good recovery, like automobiles, like motorcycles, and clearly mortgages has been the star in terms of percentage-wise the growth for the industry in the year. Still is a very small percentage of the total loan portfolio but it's growing at a very, very high rate and that's essentially for all—in all industry.

Your final question was? Okay, yes. The central bank announced the elimination of this so-called productive lines. This is a positive announcement for the industry as a whole because it will—we no longer will have to lend long term below market rates. The way we expect these might impact us is we have a Ps. 7.1 billion exposure to these lines, of which 10% of them are mortgages and mortgages were at market rates so there shouldn't be any impact on that end. For the remainder, approximately Ps. 3 billion—from the remaining Ps. 6.4 billion, approximately Ps. 3 billion are from factoring. These are short-term lines which were at average rates probably around 21%, 22%, so below Lebac rates. Those are lines that should reprice fairly quickly because they are between 30 to 90 days average tenure. So we should see some repricing there.

For us since factoring is a very strong business, and has always been one of our specialties, we expect that we might see—it's still too be seen—but we might see some banks that have entered into this business only as a way of protecting themselves from the—instead of having to lend long term below market rates enter this short-term market as a strategy to reduce the impact of these productive lines on their NIMs, we might see some of them leaving this market arena and margins going back to much more normal levels.

The remainder of the portfolio is long term so it will reprice as the portfolio runs off. So it will take some time. Probably a year, a year and a half at the most.

Frederic De Mariz:

That's very helpful. Thank you. The overall impact, would you be able to quantify it of this direct lending rules? Would it be a few basis points, one percentage? Do you have any thoughts on this?

Jorge Ramírez:

No, not yet. We're still making our calculations. We'll probably be able to give you a little more visibility on this next quarter.

Frederic De Mariz:

Okay. Sounds good. Thank you very much, that was very helpful.

Jorge Ramírez:

Pleasure, Frederic.

Operator:

Our next question comes from Alvin Chew with Trend Capital.

Alvin Chew:

Hey, good morning Patricio and Ana. Thank you for the presentation and the results for the quarter. My first question relates to the net interest margin guidance you've guided. Net interest margin to be higher, right, for the full year. Now, can I know how you intend to achieve this against a backdrop of higher policy rates and also increased lending by the other RG (phon) banks.

Jorge Ramírez:

I'm not sure I understood your question. Your question is how we foresee for the fourth Q and going forward the NIM because of the increase in the funding costs and the competitive pressure at large in the banks? Was that your question, Alvin.

Alvin Chew:

Yes, correct. Basically you're guiding for higher net interest margins, right. How are you planning to achieve this against a backdrop of higher policy rates and increased competition for loans?

Jorge Ramírez:

Okay. Yes, it's a fair question. One thing you have to remind is that our business model we have a larger proportion of personal loans than other banks and we have a lower proportion of credit cards, okay. Personal loans tend to have higher spreads and we're able to fix that for longer periods of time than credit cards which tends to be repriced on a short-term basis. Clearly, the increase in funding costs their short term might have a marginally negative effect, but again we have a highly resilient and very high margin level so we're very confident in terms of the NIM guidance we're giving.

In terms of competitive pressure, we're seeing that and it's not different from what we saw in the past. I mean it's not that all of a sudden everybody is waking up. We've been seeing this kind of competitive pressures all along for several quarters already, and again, if you look at the other banks which have even a different mix than the one that we have, what you will see there is that even in their cases the NIMs are also resilient, probably with the exceptions of those banks that have a much larger exposure to U.S. dollar loans, which have much lower NIMs. But again, in general, margin loans for loans in the industry tend to be quite resilient.

Patricio Supervielle:

I would like to add something to what Jorge said. Another way that we have to defend our NIMs is on the liability side. Because we are—a very important strategy for us is trying to become the principal bank of our medium sized companies and SMEs, then this is bringing us a very strong growth since we started the strategy at the IPO, it's bringing us a strong growth in checking accounts. So this is another way to defend our NIM also.

Jorge Ramírez:

Yes. Just two additional comments to what Patricio is saying is that—elaborating on what he just said is remember that 56% of our deposits are either zero interest rate or very low interest rates. So that's a very, very cheap funding base. On the other hand, the use of follow-on proceeds helps our NIM and it helps offset in the short term the increase in the Badlar rate because those are funds that from—in our income statement come at zero interest rate.

Alvin Chew:

Okay. Thank you. Just another question. Patricio, could you comment quickly on the consumer finance NPLs which has remained stubbornly high going to third quarter which breaks with the historical pattern, right, which basically the consumer finance NPLs tend to trend downwards after the wage negotiations in March/April. So is this completely linked to inflation? So if you see inflation rate coming down in Argentina, will consumer finance NPL internal rates begin to trend downwards? Could you provide us with additional color on this, please, Patricio? Thank you.

Jorge Ramírez:

Sure. I'll take this question, Patricio, if you don't mind.

Patricio Supervielle:

Yes.

Jorge Ramírez:

Alvin, if you look at Page 13 of the presentation, you will see that we have our consumer finance lagged delinquency both for personal loans and for credit cards. As you will see there is the pattern is repeating itself. I mean it's not that it didn't come down in the quarters in terms of lagged delinquency, the problem is that it did so at a higher level and it did not come down as we originally had expected it would come down, okay. This has to do with I would say a couple of things.

Number one is inflation has proven to be more resilient than what everybody was expecting so it's taking even longer to bring it down. That has a direct impact on this segment essentially because inflation tends to impact worse the lower income levels than what it does in mid income and the high income levels.

Second thing is, the job recovery has been softer. Even though the economy's recovering, I wouldn't call it job recovery because we are seeing some industries in which they're operating at full job capacity, like construction, an example, but it's mostly driven by investments by corporates and public sector investments in public works. So it's not a consumption-led recovery, and therefore that also impacts this segment.

The third thing I would like to mention is that remember that 80% of our volume in our consumer finance company is tied to the Walmart business, okay. Walmart in line with all the other hyper (phon) markets or large supermarket chains in Argentina suffered a bit in terms of lower sales compared to 2016 in unit terms. This segment has been replaced by consumers by going to smaller wholesalers which offer cheaper prices. The industry, the supermarket industry has reacted to this. It was in the late third Q offering new price offerings and attracting customers back to their supermarkets, to their stores.

If you look at—if you have the press release in front of you, you can take a look at Page 17. On Page 17, we have a table in which we open up the NPL ratio by product and segment. When you look at the consumer finance segment what you will see is that we saw marginal improvement in the personal loans NPL ratio from 18.4% to 18.1% but we saw worsening of the NPL in the credit card loans from 8.9% to 10.1%, and this is related to two things—one is that the credit card portfolio remain relatively flat for the Company and also reflects what I was just telling you in terms of lower sales at the Walmart supermarket chain.

So the point of all this, result in higher cost of risk even though the pattern, as I was explaining at the beginning of my answer, even though the pattern more or less follows the same trend it did in the previous years, it is at a higher level of—than what it was last year.

In any event, as we stressed also throughout the presentation, this higher cost of risk is fully priced in the margins that we charge to the segment. I mean they double year-on-year and therefore we're pricing in the higher cost of risk. So it's showing a higher cost of risk but it's a much more profitable business, the one that we're having now, than the one that we had in the first half or the first three quarters of last year.

Alvin Chew:

Got it. Thank you very much gentlemen. Really appreciate it. Thank you.

Jorge Ramírez:

Pleasure.

Operator:

Our next question comes from Carlos Gómez with HSBC.

Carlos Gómez:

Hello, good morning. Two questions for me. Number one, you gave us a guidance for this year of about 50% loan growth, perhaps more or at least in the higher end. What do you expect for next year? On both for inflation and for loan growth, how much do you expect in real terms? Second, your loan to deposit ratio is now above 100%, 109%, I believe. At what level would you think that it can start to constrain your loan growth? How much higher would you expect to have your loan to deposit ratio? Thank you.

Jorge Ramírez:

Okay. Regarding your first question, we're still working on 2018 numbers. Currently we're working on the assumption of inflation between 14% to 15%, probably on or above the 15%, but that's still a work in progress and we are not yet giving growth guidance in loan growth for next year. We're planning on doing that when we reach our fourth Q figures.

Regarding your second question—okay, the loan to deposit ratio, there are two things impacting this ratio this Q. Number one is the really very high growth that we experienced in the quarter in terms of loans and deposits grew at twice the rates than the market did but it was still half of what our loan book grew.

Part of that lower growth also has to do with the second reason, which is we have the proceeds of the follow-on. It's used as liquidity and cancelling on some of our wholesale deposits, okay.

So that in combination explains these high rates. Going forward, we expect—I mean we have a very solid deposit franchise, which has proven to grow at even—at well above market rates so far, and we have a strategy in place in terms of increasing our checking account deposits through our strategy of gaining more cash management business in our corporate segment. That should help us in terms of continuously reporting our future growth of loans with deposits.

In any event, we believe that loans might continue to grow at a faster pace than what deposits will grow. So our plan for that is to finance that through our corporate bonds issuance in the international capital markets, and we still see lots of appetite for those kinds of financings and you might see some of that coming in the next couple of quarters.

Carlos Gómez:

All right, but it's still—going back to my question, 109%. Would you be comfortable with 120%, 150%, 170? Is it a level where...

Jorge Ramírez:

No.

Carlos Gómez:

...

Jorge Ramírez:

We don't believe this going to 150%

Jorge Ramírez:

Yes, it should be more or less on or around these levels.

Carlos Gómez:

The current levels you mean.

Jorge Ramírez:

Yes.

Carlos Gómez:

But again, to be at the current levels you need to grow your deposits as much as your loans.

Jorge Ramírez:

Yes. Going forward, yes, you're right. I mean probably what you will see is in some quarters some increases in this ratio but then as deposit growth catches up it should go back to these levels. So it will be variable. This is not an issue that concerns us because again the other thing you have to consider is that in many other cases it's—we have a larger proportion of loans compared to the rest of the industry. A very easy way of us bringing this ratio down would be investing in government securities rather than lending money. We don't believe that that's a good way of building our franchise, so therefore we continue to see an opportunity for us to establish ourselves and continue gaining market share and continue building the franchise with the private sector which is at the center of our strategy going forward.

So again, we have a franchise that was able to double deposit growth in the industry. If the full industry hits a growth wall (phon) with deposits, then probably the whole industry will have to minimize the growth in loans. But we do not see that that is going to be a problem for us. I mean, again, as I said, we're not overly concerned with this ratio.

Carlos Gómez:

Thank you very much.

Jorge Ramírez:

Pleasure, Carlos.

Operator:

Our next question comes from Alejandra Aranda with Itaú.

Alejandra Aranda:

Hi, good morning Jorge and Patricio. Most of my questions have been answered but I was wondering if you could comment a little bit on the mix of deposits and how do you see it evolving.

Jorge Ramírez:

Good morning Alejandra. The mix of deposits you can see that on Page 10 in the presentation. We have a very strong retail franchise in deposits. Fifty four percent of our deposits are from retail. Approximately two thirds of our time deposits they come also from individuals so they are—and those come in at rates which are below Badlar rates. So it's also a very cheap funding source. As I mentioned, approximately 56% of our deposit base is either zero or low interest rates.

So in terms of how we expect these going forward, we would expect checking accounts to continue growing its relative importance as we continue to deliver our strategy of growing our cash management business, and if inflation continues to come down we would expect both savings accounts and retail time deposits to continue growing as disposable income for the individuals continues to climb because of the drop in inflation rate, and at some point in time the current situation of Lebac rate being higher than the interest rate for deposits should reverse, probably—not sure if it's going to be a 2018 event but going forward that's the logical thing to expect. If that's the case, part of the liquidity that currently in the central bank is absorbing should go to the banks and should start to—continue the climb in our time deposits.

Alejandra Aranda:

Okay. So this event you see most likely after 2018.

Jorge Ramírez:

It's more a matter of how successful the government ends up bringing down inflation and turning full interest rates in the economy to a positive level. Clearly, if at some point in time, as Carlos was asking earlier, if deposits at some point in time is starting a constraint for future growth in the industry, we might see some pressure on that end as well. In that respect, we

feel very confident of the strength of the franchise we have because again we have a highly optimized deposit base and we have a very cheap funding source of deposits because of the mix we have. So it shouldn't affect us that much as it might affect other banks which have a much more wholesale or institutionally-based deposit franchise.

Alejandra Aranda:

Okay. Thank you very much Jorge.

Jorge Ramírez:

A pleasure, Alejandra.

Operator:

Thank you. Ladies and gentlemen, we've now reached the end of our Q&A session. I would now like to turn the floor back over to Ana Bartesaghi for closing comments.

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:

Thank you. Ladies and gentlemen, this concludes today's conference. You may disconnect your lines at this time. Thank you all for your participation.