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Script 4Q19 Earnings Conference Call

Supervielle Fourth Quarter 2019 Earnings Call Opening Remarks

Operator

Good afternoon and welcome to the Grupo Supervielle Fourth 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.

Slide 1

Ana Bartesaghi

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

Speaking during today's call will be Patricio Supervielle, our Chairman of the Board of Directors who will discuss the overall macro environment, and Jorge Ramírez, our Chief Executive Officer and Vice Chairman of the Board of Directors who will review our results for the quarter. Also joining us is Alejandra Naughton, Chief Financial Officer and Alejandro Stengel, Chief Operating Officer of the Bank. All will be available for the Q&A session.

Before we proceed, I would like to make the following Safe Harbor statement. Today's call will contain forward-looking statements and I refer you to the forward-looking statement section of our earnings release and recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances.

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

Slide 2

Patricio Supervielle. Thank you, Ana. Good afternoon everyone and thank you for joining us today. If you're following the presentation, please turn to **Slide 2**.

Starting with net financial income which was up 45% sequentially as we benefitted from lower cost of funding and price improvements in Argentine government bonds, which had been re-profiled during the third quarter. On the macro front, we really did not see much improvement during the quarter. And, in this context, we are pleased with the results that we were able to deliver.

Asset quality improved in the quarter, both sequentially and year on year with cost of risk down in both periods. This was driven by lower loan loss provisions reflecting lower bad loan formation in the corporate and consumer finance segments.

We continued to face upward pressure on the cost base in the quarter primarily due to mandatory salary increases. As we have discussed in the past streamlining our operations is a key strategic priority for us and we continue to make progress. This improvement, however, was masked as we incurred some non-recurring severance and early retirement charges. Excluding these, we would have reported an improvement in the efficiency ratio even when taking into account the mandatory salary increases I just mentioned.

During the quarter we made the strategic decision to deleverage our balance sheet sharply lowering institutional funding and managed liquidity at year-end, which resulted in a 13% decline in peso deposits. Importantly, the liquidity ratio in US dollars was up 270 basis points sequentially to slightly over 60%.

While the recent quarter and year, has certainly not been without its challenges, we remained focused on implementing our key strategic initiatives on both the growth and cost efficiency fronts. We dedicated considerable efforts this year to improving execution and exercising financial discipline, and we are encouraged by our results for the quarter and year.

Slide 3

Moving on to the macro on slide 3. The fourth quarter was marked by the uncertainty around the presidential elections and the transition period which saw tighter foreign exchange controls.

Inflation and international reserves stabilized towards the end of the year with interest rates declining down to 55% at the end of December from a high of 83% at the close of August.

GDP is expected to have declined 2.6% in 2019, the second consecutive recessionary year.

Slide 4

Turning to the financial system on slide 4. System loans to the private sector remained soft during the quarter – up 1.8% sequentially and 15% year-on-year reflecting the prevailing weak economic environment.

Industry peso denominated loans were up nearly 12% sequentially mainly driven by a sustained pick-up in credit card financing driven by the government initiatives to promote consumer consumption, further supported by commercial loans.

US dollar loans in original currency declined 19% driven by lower commercial loans in line with the prior quarter trend.

Supervielle's total loans to the private sector grew slightly above industry levels at nearly 5% sequentially.

Slide 5

Moving on to deposits on slide 5, the system remains highly liquid and well capitalized. We are encouraged that we saw stabilization in system US dollar deposits in December.

The outflow in deposits that began last August stabilized by year-end resulting in a 7% sequential drop in total private deposits.

A 13% increase in peso denominated deposits was more than offset by a 9% sequential decline in US dollar denominated deposits measured in original currency.

In this context, our total private sector deposits declined nearly 13% sequentially. This was driven by a 13% drop in peso deposits as we decided to deleverage our balance sheet this quarter. US dollar denominated deposits, in turn fell nearly 16% sequentially.

In January, industry deposits were up 6% sequentially, while our deposit base expanded 29%.

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

Slide 6

Jorge Ramírez, CEO & Vice Chairman of the Board

Thank you, Patricio. Good day everyone.

Please turn to slide 6. total assets contracted nearly 8% quarter-on-quarter, which reflects reduced US dollar deposits at the Central Bank following US dollar deposit outflows together with our decision to deleverage the balance sheet in the quarter.

Accordingly, the share of high-margin 7-day LELIQ securities issued by the Central Bank declined this quarter to nearly 5% of total assets from 19% of total assets in 3Q19.

Slide 7

Please turn to slide 7. Our loan portfolio increased 5% sequentially, driven mainly by an increase of nearly 14% in peso denominated loans. By contrast, US dollar denominated loans in local currency declined 16% sequentially reflecting the translation impact from the FX devaluation. In original currency, US dollar denominated loans were down 19% in the period.

The corporate loan book increased 2% sequentially. Peso denominated corporate loans were up 25% more than offsetting the 21% decline in US dollar denominated loans in original currency. Overall, the corporate loan book accounted for 50% of total loans compared to 52% in the prior quarter.

Retail loans were up just over 10% sequentially, increasing their share of the loan book by 2 percentage points to 43% of total loans. Growth was mainly driven by the 12 and 18 non-interest-bearing installment plans partly subsidized by the government to support consumption which continued to drive higher credit card volumes.

Our cautious approach to consumer finance along with weak demand resulted in a 6% decline in loans to this segment. Consumer finance loans accounted for nearly 7% of total loans, in line with the prior quarter and down from 10% in 4Q18.

Slide 8

Now moving on to funding on slide 8. We operate a strong franchise with core retail and corporate deposits up nearly 9% sequentially. Total deposits however were down nearly 13% in the period.

This was mainly due to a 13% decline in peso deposits as we undertook a deleveraging of our balance sheet sharply lowering institutional funding and managed liquidity at year-end. Consequently, the peso loan to deposit ratio increased to 107.6% from 82.2% in the third quarter.

In turn, US dollar deposits down nearly 16% with the liquidity ratio in US dollars up 270 basis points sequentially to slightly over 60%. The US dollar loan to deposit ratio declined 380 bps to 92.1%.

Importantly, the proforma liquidity coverage ratio increased to 150.3% at year-end from 141.7% at the close of 3Q19.

Slide 9

Now on to the P&L on slide 9. We delivered improved performance during the quarter, reporting a 45% sequential increase in net financial income reaching 7.7 billion pesos.

This was mainly driven by lower cost of funding following the decrease in market interest rates, while interest on loans benefitted from lagged repricing. In addition, we recorded a 1.1 billion peso gain from price improvements in our holdings of Argentine government short term peso and US dollar notes that had been reprofiled in August 2019. As you recall, this was a negative impact to our financial results in the third quarter.

As a result, total Net Interest Margin increased to 28.6% while comparable NIM excluding the gain from price improvements on reprofiled government debt stood at 24.5%, still reflecting a 40 basis points sequential increase when compared with adjusted NIM.

Slide 10

Moving down the P&L on slide 10, Net Service Fee remained flat sequentially.

Growth in net credit card fees, was offset by lower revenues from the asset management business as well as weaker loan related fees as we continue to operate in a recessionary environment.

Income from Insurance Activities was up sequentially in the low single digits as gross written premiums increased 2% while claims contracted 8%.

Slide 11

Please turn to Asset Quality on slide 11. Asset quality improved in the quarter, both sequentially and year on year with cost of risk down 320 basis points sequentially and 60 bps annually to 6.4%. This was driven by lower loan loss provisions.

Importantly, loan loss provisions declined nearly 32% sequentially to 1.4 billion pesos reflecting lower bad loan formation in the corporate and consumer finance segments.

The total NPL ratio was up 50 basis points sequentially to 7.4%. This was mainly due to a 100% collateralized commercial loan to a company in the sugar cane sector that became delinquent in the quarter, which brought the corporate loans NPL ratio up 150 basis points to 8.7%. Overall, corporate loans were impacted by weak activity levels and high interest rates prevailing throughout the year.

Depressed consumption in the current weak economic environment continues to impact the retail loans, resulting in a slight sequential increase of 10 basis points in retail segment NPLs reaching 4.1%. The 90-day delinquency ratio, however, declined sequentially by 10 bps to 2.5% and was well below the NPL ratio, reflecting the large share of payroll and pension customers who continue to perform better with us than with the rest of the system.

By contrast, consumer finance NPLs continued to show consistent improvement, down 310 basis points sequentially to 17.2%.

We continued to increase the level of collateralization of our loan portfolio to 58% of total loans at year-end, up from 55% at the end of September and 20% at the end of June of last year. Given higher collateralization levels, we closed the year with coverage at 83%. Note that current level of provisioning and coverage converge to the levels required by the implementation of IFRS9 ruled by the Central Bank effective January 2020. We expect to foreclose and divest those collaterals in the upcoming quarters and continue to closely monitor our asset quality in this sustained difficult environment.

Slide 12

Turning to the next page, as you can see on slide 12, asset quality at our consumer finance lending business improved throughout the year reflecting tighter credit scoring standards and improved collection practices we implemented early 2018.

Consumer Finance NPL creation was down for the fourth consecutive quarter, well-below the peak levels experienced in 2Q18 and below 4Q18 levels.

Let me also note that NPL creation in the quarter reached the lowest level of the last 10 quarters.

Cost of risk for the consumer finance segment was down 170 bps sequentially, to 12.8%.

We are pleased with the improvement we have been able to deliver in this line of business every quarter throughout 2019.

Slide 13

Moving on to expenses on slide 13, while revenues for the quarter were up nearly 31% year-on-year, total expenses increased over 32% reflecting a one-time 785 million peso charge in connection with severance and early retirement expenses. This led to a deterioration of the efficiency ratio which reached 71.3% in the quarter.

Excluding this non-recurring charge, personnel expenses would have risen by nearly 13% sequentially reflecting mandated salary increases in the quarter and total expenses would have increased close to 15%. Comparable efficiency ratio would have been 61.8%, improving both QoQ and YoY despite mandatory salary increases in an inflationary environment.

We continue to implement our plan that will allow us to drive scale efficiencies as loan growth resumes.

Slide 14

Moving on to our bottom line on slide 14, we delivered improved profitability, with ROAE of 28.4%, improving from 6.2% in the prior quarter when results were impacted by the Argentine debt re-profiling. We also achieved a year-on-year improvement in ROAE up from 17.1% in 4Q18.

Pre-tax income reached 1 billion pesos, a significant improvement from the 117 million pesos pre-tax loss in the prior quarter, supported by higher net financial income and lower loan loss provisions this quarter. This was partially offset by 785 million pesos in non-recurring charges as I just explained.

Attributable net income for the quarter, which includes a \$438 million benefit from recognizing inflation adjustment in the income tax provision, almost quadrupled sequentially to \$1.5 billion, from \$301 million in 3Q19.

For the full year, attributable net income increased 66% to \$4.3 billion, up from \$2.6 billion in 2018. ROAE increased 600 basis points year over year to 22.6%, while ROAA increased 50 basis points to 2.7%.

Slide 15

Please turn to capitalization on slide 15. Tier 1 capital ratio was 11.4% in 4Q19 compared to 11.8% in the prior quarter.

Capitalization would have been 12.1% in the quarter - 76 basis points higher than the reported ratio – when adjusting for inflation as per rule IFRS29 which is effective January 1, 2020.

Capital creation and dividends contributed with a 60 basis points increase in Tier 1. This was slightly offset by the increase in risk weighted assets, which includes the impact of the currency devaluation.

A total of \$ 645 million remain at the Holdco for future capital injections.

At year-end, the bank's consolidated financial position showed a solvency level with an integrated capital of \$15.0 billion, exceeding total capital requirements by AR\$4.4 billion.

Before turning the call to Patricio final remarks, let me comment several measures introduced by the Central Bank last night. First, a 55% interest rate cap on credit card loans. Second, the amount to be reduced on minimum cash reserve requirements for entities participating in the Ahora 12 government credit card financing program was increased to 35% of the volumes financed under this program, up from 20%, with a cap of 4% on peso liabilities subject to reserve requirements, up from 1.5%. Third, the monetary policy rate was reduced 400

bps to 40%. Fourth, increases in retail fees and commissions will be frozen for 180 labor days except those already informed to the Central Bank. Finally, recurrent direct debits of loans on third party financial entities accounts were banned.

Our first take on the impact of these measures on our company is that they will be mostly neutral. The reduction on minimum reserve requirements and the reduction in the leliq rates which we expect to result in lower cost of funds, is anticipated to mitigate the above mentioned cap. Regarding fees, most of our planned increases for the first half of the year were already announced and informed to the Central Bank. We will continue assessing full impact in the upcoming days.

We are fully confident on the strength and potential of our franchise and we continue to adjust to changing and volatile market conditions to ensure it continues to get stronger. In closing, I wish to thank all of our employees for their hard work over the past year.

Now let me turn the call to Patricio Supervielle who will comment on our big picture macro views for 2020 as well as provide some color on our strategic initiatives.

Slide 16

Patricio Supervielle. Thank you, Jorge. Now please turn to slide 16.

From a macro level - while some of the concerns that arose after the primary elections have eased following the presidential inauguration on December 10th, there is still one large outstanding item which is the government debt restructuring. Until this is resolved, we can expect ongoing overhang on the potential for an improving macro environment. This, in turn, keeps pressuring loan demand, even though interest rates are declining.

We are starting to see an improvement in inflation when compared with the prior months. This provides room for the Central Bank to further reduce interest rates.

Jorge has just discussed our initial views on the recent Central Bank measures, which we expect will be mostly neutral for our Company.

On the strategic front, we are pursuing focused initiatives to transform our company into a modern, leading edge, cost efficient player and position our business to serve consumer's evolving needs and aspirations. And while we ran into some external headwinds last year, we remained focused on executing our strategy to grow our brand and improve operating performance. Key to this are the items shown in the third box on this slide.

We have made significant progress on Digital Transformation. Increasingly, customers want and expect to engage with us anytime from anywhere. Our digital strategy is aimed at answering that demand. We have a three-pronged approach:

- First, transformation of core businesses (banking, consumer finance and insurance) to drive customer experience, agility and efficiencies. For example, we recently launched a groundbreaking senior citizens app which addresses their transactional needs and also launched a 100% digital onboarding platform for new customer acquisition.
- Second, we are developing digital attackers to broaden access to financial services. This includes Invertir Online - an online broker - and a new digital brand to be launched in the coming months which will refocus

our strategy in the consumer finance business and allow acquisition of multisegment clients with full digital financial services.

- And Third, developing an ecosystem by building traffic from financial services into new spaces enhancing and deepening customer engagement.

We continue to strengthen the franchise and improve the customer experience. We are working hard to give customers new ways to connect with us. This includes our online chatbot in consumer finance with over 20,000 conversations monthly and our enhanced mobile app for our Walmart partnership customers.

Additionally, we are consistently adding new products and services which increase our value proposition to customers. A few to mention include: insurance products for entrepreneurs and small businesses, online FX purchases within InvertirOnline which has enabled us to almost triple our customer base for this subsidiary, and the refocusing and re-styling of the car sales platform DeAutos.com which we acquired last June. These are just a few examples of the initiatives that will enable us to grow our customer base as well as drive cross-selling opportunities.

Importantly, throughout the year we will continue to redesign processes with two goals. First, making life simpler for our clients and enhancing customer experience and satisfaction. Second, extending processes automation to achieve achieve greater efficiency.

Lastly, as we work to further strengthen our business, we are confident that we are taking the appropriate steps today to position the company for long-term success.

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

Q&A

Operator

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

The first question is from Gabriel Nóbrega with Citi. Please proceed with your question.

Gabriel Nóbrega

Good afternoon everyone and thank you for the opportunity to ask questions. My first question is actually on the level of activity. We've already seen some banks talking about loan growth maybe being even above inflation, if you consider it to be around 45% before the end of the year, while we have also seen the contrary and other banks are saying that it could be maybe 5% or 10% below inflation. So, here I would just like to pick your brain to understand what do you believe is needed for us to see a pick up in loan demand, be it in the corporate side or on the retail side, and I'll ask a second question afterwards. Thank you.

Jorge Ramirez

Good morning Gabriel. As we mentioned in the presentation, we believe that—I think Patricio just mentioned that in his closing remarks, I think the biggest pending issue we have on the economic front is the renegotiation of the sovereign debt, and that has in our view a big potential impact on expectations and is in many aspects creating a wait-and-see type of attitude by many of the players in the market.

So, if I have to point to one thing, I would say that is one of the most important things that needs to get resolved or clarified before we can see an improvement in the macroeconomic scenario.

Gabriel Nóbrega

All right, that's very clear. Thank you. As for my second question, thank you for talking about and going through your new initiatives mainly on the digital front. I understand that fintechs are starting to emerge in Argentina as well. So, here I would just like to maybe understand when should you be collecting synergies from investing in this and if you believe that maybe op ex could be pressured over the year. Even though we still have high inflation and you have to do adjustments to the salaries, do you believe that maybe op ex could be even above inflation because you will be investing in these initiatives? And do you maybe believe that you will already be able to collect positive tail winds from these new initiatives in 2020 or do you believe this is something for maybe 2021? Thank you.

Jorge Ramirez

I'll take that initial response and then I'll have Alejandro Stengel, COO of the Bank, to answer part of this question as well.

In terms of your question regarding opex, we're expecting opex more or less in line with inflation essentially because of the impact of devaluation on general and administrative expenses. In salaries, we believe they will be slightly or marginally below inflation, as at least those were the initial indications that the government has been giving in terms of what to expect on salaries.

We are working on this digital transformation and several initiatives in different companies of the group. As you probably know, every time you work on this digital the first work tends to be not easily recognizable until they reach a hockey stick turning point and they start showing above normal level. We believe that 2020 will be—definitely the first half of the year, mostly a part of that transition, and depending again on the macro, we might see some of these bearing increased growth by the second half of the year.

I don't know, Alejandro, if you would like to expand on that?

Alejandro Stengel

I think Jorge's quite right. Basically we are focused now on production of NVPs on a series of fronts, and I think that as we move in our priorities to adoption in the second semester, we will start seeing some of the synergies you were asking about.

Gabriel Nóbrega

All right. That's very clear. Thank you.

Operator

Our next question is from Ernesto Gabilondo, Bank of America. Please proceed with your question.

Ernesto Gabilondo

Hi, good morning Patricio, Jorge, Alejandro, Ana. Thanks for the opportunity to ask questions. I have three questions. The first one is a follow-up in your loan growth expectations. Do you see loan growth below industry levels due to the strategy of reducing the exposure in Consumer Finance? And then what do you think could be the downside risk for your loan growth expectations? Is it will it be contracting? A potential default in the Argentine debt? Any color on this will be appreciated.

Then my second question is on hyperinflation accounting. I think you will be reporting this next quarter. Have you estimated how was your 2019 ROE including hyperinflation accounting?

Then a final question, and this is a difficult question for you, Patricio, we have seen banks such as Banco Macro willing to evaluate M&A opportunities. I remember that you have mentioned in the past that you would like to be in the long term in the Argentine banking industry. I was just wondering, do you continue to feel the same way and can we discard Supervielle to be for sale, or do you think it could make sense at a reasonable price? Thank you.

Jorge Ramirez

Good morning Ernesto. Regarding your question on loan growth, we are—I mean, we still believe that it's very difficult to project full year growth in terms of percentages because there are still lots of moving pieces and parts in the macroeconomic front. As I said earlier, the debt restructuring is still an overhang on potential growth and potential recovery of the economy. Therefore, we were setting our goals for this year is we want to grow loans in line or up to 5% above or around 10% above with the market growth, and even though we've been decreasing the exposure to consumer finance, that was essentially under a scenario in which lending to this segment of the population, because of the very high levels of interest rates and because of the deeply recessionary year, was not a attractive risk/return proposition.

However, we have streamlined the Company, systematically reducing bad loans and bad loan portfolio and already the NPL ratio is showing substantial improvement, which means that our NPL portfolio is reducing faster than our overall credit loan portfolio, and depending on where and when the recovery starts, we expect that these might be a line of business that in the year might recover or be one of the first ones to recover. Clearly lower interest rates favor this activity substantially because the amount of money you can lend to a person with the same salary is substantially higher with lower interest rates than with higher interest rates. So that has a big impact in terms of potential growth in this business.

Even if there's a downside, I think that—I mean, again, this is Argentina so you have to be open to potential surprises. I think that a lengthening of the economic—pardon me, on the renegotiation of the sovereign debt that drags on for too long, that might be a downside for potential growth.

Thinking in terms of, let's say worse case scenario, Argentina going into a default. It's still an open question whether that will have a dramatic impact on the loan growth for our loan portfolio because if you'll remember our growth story, between 2001 and 2002 and 2015, Argentina was in default and we were able to multiply by 25 times the market share, so we were able to grow our loan portfolio substantially despite the default. So, it's not necessarily 100% correlated. Clearly, a successful negotiation and friendly negotiation that would enable Argentina to go back to the markets sooner rather than later is definitely a much more desirable scenario than one of a default, but again the downside might not be as directly correlated to the default as in paper beforehand might seem to be the case.

Regarding inflationary accounting, I will address the question to Alejandra,

Alejandra Naughton

Hello Ernesto. Yes, as you mentioned, inflation accounting methodology is being applied actually from January 2020, but we have some numbers regarding the financial period closed in December 2019. In that case, the shareholder equity would have amounted to a number close to Ps. 24 billion, 10% above the one that's recently released, and the return on equity would have been close to a number amounting 7% to 8%.

Patricio Supervielle

Yes. I will go to the question you made. This is Patricio. First of all, I'm a strong believer that all the initiatives that we are taking in terms of transformation of the business and the quality of our franchise will give fruit and basically will achieve what—or enhance a much better relative valuation, vis-à-vis other peers in the next 24 to 36 months. So I believe that some of the things that maybe affected us in the last two years we've been working hard and we continue to work hard, particularly on digital transformation, that will bear fruit in the next 24 to 36 months and this will help us recover much better relative valuations, vis-à-vis other banks.

On the other side, I personally as a shareholder am fully committed to continuing the business, in the banking business, because I love this business and I think that I can contribute to, let's say to the growth of our financial business. So I will continue to be committed as a shareholder.

But having said that, at the same time I'm also a believer in consolidation. I believe in consolidation. Not only organic consolidation, but also inorganic consolidation. So, I will always be open to opportunities of consolidation and if this means better value for all the shareholders, basically.

So I think this is my answer to your question. I hope I have answered your question.

Ernesto Gabilondo

No, no, very detailed, helpful. Thank you Patricio. Thank you Jorge and Alejandro. I appreciate it.

Operator

As a reminder, we are now conducting a question-and-answer session. 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 next question is from Yuri Fernandes, JP Morgan. Please proceed with your question.

Yuri Fernandes

Hi Jorge, Patricio, Alejandro, and thank you for the opportunity here. Another follow-up on guidance. Regarding ROEs, again, I know it's challenging. Yesterday the Central Bank measures they may add some additional uncertainty here. But what should we expect for ROEs for the year 2020? Do you think you will be able to deliver ROEs positive in real terms or should we continue to see ROEs on the negative side on real terms? That's my first question.

My second question is regarding margins looking ahead. This quarter was good on securities, but looking into loans you had a good improvement on cost of funding. My point is if this is really sustainable. Looking to the drop in deposits, especially in local currency, my question is if the Bank at some point may need to increase the cost of funding, pressuring margins to attract more deposits? So basically, how are you seeing the competition for liabilities (phon) in Argentina? How could Supervielle attract more deposits? Thank you.

Jorge Ramirez

Hi Yuri. Regarding the question of ROE, nominal ROE for the year we expect it to be below inflation. How that will turn out at the end of the day in terms of ROE adjusted by inflation depends on several issues. So we don't know yet in terms of how that will turn out to be.

Regarding your second question about margins, we expect margins to remain pretty consistent to what we saw in the 4Q, essentially because remember that we always had loans in our loan portfolio with high margins because we were mostly concentrated on personal loans rather than credit cards or other lower margin lines.

We do not believe that funding and competition for funding in Argentina will be an issue, certainly not in 2020. The tight foreign exchange controls explains one part of that. The second part of that is remember that considering our customer base, our customer base was very hard hit by the recessionary environment and by the sharp increase in public utility tariffs in the past couple of years, so as inflation goes down and some of the mitigating measures that this government has introduced, will enable, we believe, our customer base to have higher disposable income. That higher disposable income means a balance in accounts, especially savings accounts, should tend to grow at a faster pace than they were growing in real terms in the last couple of years.

So, we do not expect to see sustained pressure on the funding side, and definitely not an increase—quite the contrary, we're expecting a lowering in our cost of funding as interest—as the Central Bank continues to lower interest rates, and therefore margins to remain more or less at the same levels we saw on our 4Q.

Yuri Fernandes

So just to see if I got the message regarding margins. We may see some decrease in margins but because the LELIQs are coming down, because interest rates are coming down and you have like some repricing, it may be not related to higher cost of funding or something like this? It should be more a repricing and a decrease on security portfolio than anything else.

Jorge Ramirez

Yes. I mean, remember one thing is—I think you have this very clear in mind, but we are a bank with a fairly different business model in terms of other publicly listed peers, so we have a lower share of credit card businesses and lower share of corporate businesses with low margins. Our competitors were able to replace low margin loans with high margin LELIQs. In our case, what we replaced were high margin personal loans with LELIQs.

So, we believe that we will be able to compensate and defend our margins by translating cost of funds on the deposit side, and second, as I explained in an earlier question, as interest rates come down we are able to lend more money to the same customer base. So that should drive some increase in consumer loans, both at the Bank and at the Consumer Finance division, and therefore those should replace the margins we might be losing—as interest rates come down the margins we would be losing from the LELIQs.

Yuri Fernandes

No, super clear Jorge. Thank you very much.

Jorge Ramirez

A pleasure.

Operator

We have reached the end of the question-and-answer session. I will now turn the call 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.