

Grupo Supervielle 3Q23 Earnings Conference Call Transcript

Slide 1

Ana Bartesaghi

Good morning, everyone and welcome to the Grupo Supervielle Third Quarter 2023 earnings call.

This is Ana Bartesaghi, Treasurer, and IRO. A slide presentation will accompany today's webinar, which is available in the Investor section of Grupo Supervielle's investor relations website.

Today's conference call is being recorded. 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. If you want to ask a question, you need to be connected to the zoom platform from any device. We will not be able to answer questions if you are connected from a phone line. Also, please make sure your first and last name appear in the zoom platform you are using. You will be able to ask a question by voice, or send questions in written form via the Q&A box in the zoom platform anytime during the call.

Speaking during today's call will be Patricio Supervielle, our Chairman & CEO and Mariano Biglia, our Chief Financial Officer. Also joining us is Alejandro Stengel, First Vice-Chairman of the Board and CEO at Banco Supervielle. All will be available for the Q&A session.

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As a reminder, today's call will contain forward-looking statements based on Management's current expectations and beliefs and subject to several risks and uncertainties. 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.

Patricio Supervielle, our Chairman and CEO will start the call discussing the key highlights for the quarter and progress achieved to-date on our strategic priorities for the year, as well as an update on macro views. Afterwards, Mariano Biglia, our CFO will take a deeper look at our performance and near-term perspectives. This will be followed by a Q&A session.

Patricio, please go ahead.

Patricio, Chairman and CEO

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

I will begin my presentation with Slide 3.

The momentum gained in the first half of the year carried on through the third quarter allowing us to deliver a ROE of 18% in real terms.

This good performance was supported by our effective asset and liability management, which contributed to a high NIM, significant growth in fee income across our business, and a prudent approach to lending leading to record low NPLs. Our efforts to streamline operations over the past years have also yielded improved efficiency, contributing to higher profitability.

For the first nine months, our ROE increased to 13% from negative low single digits during the same period last year, reflecting the successful execution of our strategic plan amidst an increasingly challenging macro and political environment with very weak loan demand.

Now let me quickly recap on the progress achieved across our different strategic initiatives:

- **Starting with Retail customers**, our enhanced digital capabilities and optimized branch network have allowed us to meet our goal of originating 50% of our personal loans digitally and remain focused on further advancing on this front. We successfully innovated with a quick investment function in our App that allows our customers to invest in our money market funds 24/7 to safeguard their transactional funds from inflation. The number of retail clients investing through this platform increased by 10 times year-on-year, reaching 100,000 in October. In turn, Assets Under Management also grew significantly – up 6 times in nominal terms.
- As we continued to prioritize growth in the **corporate segment**, we added new digital functions and completed our offering of working capital financing product suite. New corporate clients increased 6% year-on-year while we gained market share in foreign trade finance and sight deposit balances. Loans increased 4% sequentially, while gains in share of wallet contributed to a 120-basis point increase in the transactions ratio compared to December of last year.
- **IOL, our online broker**, continued to drive fee growth, demonstrating our ability to acquire and retain customers, achieving year-on-year increases across key KPIs. Monthly active users were up 4x to 210,000, new accounts by over 7x, transactions by 4x, and AuM by 121% in real terms.
- Notably, we are achieving these results through a much more **efficient and agile franchise**, serving more clients, more efficiently while **improving NPS** across all segments.

Slide 4

Now, please turn to slide 4. Foreign exchange reserves continued to decline further impacted by the negative commercial balance.

The 23%-peso devaluation last August contributed to sharp increases in inflation in August and September, against a backdrop of increased reference rates.

The reference rate for LELIQs increased from 118% in August to 125% in September and 133% in October in the context of accelerated inflation.

Against this backdrop, credit to the private sector as a percentage of GDP dropped to an all-time low of nearly 7%, while deposits accounted for 17% of GDP.

Lastly, the significant deterioration in the fiscal balance and price distortions/controls leading to the elections are putting additional pressure on inflation with year-end consensus estimates expected at 185% for 2023 and 196% for the next 12 months. In turn, GDP is expected to contract 2% in 2023.

The fiscal balance dipped below 2022 levels in September and is deteriorating even further in the fourth quarter following the significant hike in government spending and reductions in income and VAT taxes introduced by the government during the presidential election campaign, with the fiscal primary deficit expected to reach 2.6% exceeding the IMF's original target of 1.9%.

Slide 5

Turning to slide 5, looking ahead president-elect Javier Milei is committed to introducing major reforms, to reduce state interventionism and address the long-standing structural imbalances in our economy.

Overall, he has stated there is no room for gradualism and plans to advance swiftly with major structural reforms.

One of the first items on the agenda is to address the Central Bank's remunerated liabilities with a market-friendly approach and work towards eliminating the fiscal deficit. Plans also include deregulating capital flows and moving Argentina into an open market economy with a sustainable economic model. Importantly, he stated that his administration would strictly honor commitments. Plans also call for the privatization of state-owned companies and a deregulation agenda. This was a clear and straightforward signal. With the expected adjustment in relative prices and peso devaluation, we foresee a difficult 6 to 12 months, followed by a stabilization program.

The market's response has been very positive, and some of the uncertainty and questions around Milei are starting to be cleared away by these declarations.

At Supervielle, we are prepared to navigate these near-term challenges and have hedged 100% of our capital against inflation. We look forward to leveraging our agility to rebound strongly when the economy begins to stabilize and grow again supported by a strong 16.9% Tier 1 capital ratio.

With this, let me turn the call to Mariano. Please, go ahead.

Thank you, Patricio and good day everyone.

Please refer to slide 6 for an overview of our performance for the nine-month period ended September 2023.

Importantly, throughout the year, we did not lose focus on executing the strategy we have discussed in the past. We are pleased that in line with our timing expectations, our ROE for the nine months swung to a positive when compared with the same period of the prior year.

More specifically, net income increased to 19 billion pesos with ROE at nearly 13%, improving from a net loss of 7 billion pesos and negative ROE of almost 5% in the same period last year.

A mix of strong revenue growth and lower costs and provisions drove this year-on-year improvement in profitability.

- **On the revenue front, Net financial income** increased 16%, or over 27 billion pesos, mainly reflecting higher spreads and volume on our investment portfolio. This good trend in margin continued into October and November. Net fees were up 9%, or over 3 billion pesos, mainly on the back of solid performance at IOL and our asset management business.
- **In terms of costs**, the rightsizing and operating efficiency initiatives implemented in 2022 resulted in an 8% decline in **personnel expenses** – equivalent to 6.5 billion pesos in savings. Moreover, lower costs from streamlining operations – including selective branch closings – and lower customer acquisition promotions contributed to a 6% reduction in **Administrative Expenses and D&A** – equivalent to savings of 3.5 billion pesos.
- In turn, the planned mix-shift away from consumer finance coupled with growth in corporate loans and tight credit scoring contributed to a 21% decline in **Loan Loss Provisions** - equivalent to 3.5 billion pesos.
- **Other income (losses)** declined 6%, or 1.6 billion pesos, reflecting lower credit card promotions, together with a reduction in turnover taxes paid on Leliqs and Repos despite higher average volumes. More details on the savings in turnover tax can be found in our press release.
- **Lastly**, higher taxable income led to a higher income tax charge in 2023.

Slide 7

Now looking at our performance for the third quarter, starting with slide 7.

Total assets grew below inflation in the quarter, in an environment of overall weak retail credit demand and accelerated inflation which reached 35%.

We also reduced our position in our short-term Central Bank securities portfolio to nearly 40% of total assets at quarter end, down from 43% in the prior quarter, and the share of government securities, to 6% this quarter from nearly 8% in the second quarter.

Deposits, also increased below inflation sequentially reflecting lower time deposits from retail customers and corporates, seasonally higher deposits in the prior quarter reflecting the impact of the 13th salary, and lower institutional funding as we managed assets and liabilities to maximize NIM and profitability.

In turn, average asset volumes were up 3% sequentially as the average balance of the investment portfolio rose 12% as we maximized NIM and profitability, while the average deposit balanced increased 4%.

Slide 8

Moving on to slide 8, while total loan growth for the quarter was below inflation, we outperformed the industry trend on a sequential basis; with loans in real terms declining 3% vis a vis a drop of 7% for the system.

During the first half of the year, our focus was on achieving profitable growth. However, in the third quarter, we shifted our strategy to selectively target high-value corporate customers. We focused on those customers, particularly payroll loans, SMEs, and middle-market customers where we have reciprocity with our transactional products. This approach helped us to recover our market share in corporate loans, which increased above inflation. Meanwhile, the proportion of consumer finance in our total loans has continued to decrease.

Slide 9

As shown on slide 9, the **total NPL ratio** improved further reaching a historic low of 1.7% in September. A healthier loan mix and the impact of tightening credit scoring criteria in prior quarters contributed to the improvement in the NPL ratio. Moreover, early delinquency continued to improve sequentially.

Lastly, the sale of some delinquent open-market retail loans and former consumer finance loans contributed to bringing the coverage ratio to nearly 183% up from 148% in the second quarter.

Slide 10

Turning to slide 10, Net Financial Margin increased nearly 17% sequentially to over 76 billion pesos in the quarter. Higher investment portfolio volumes and yields more than offset lower loan portfolio NIM and contributed to an overall high NIM of 29% in the quarter. This represents a sequential increase of 260 basis points or 720 basis points year-on-year.

Slide 11

Net service fee income stood out this quarter, increasing 14% sequentially and 30% year-on-year.

As Patricio noted earlier, this increase was supported by a good performance across the business, with particular emphasis at IOL and our asset management business.

Slide 12

Now please turn to slide 12, the efficiency ratio for the quarter improved further to just below 52% from close to 63% in the prior quarter and 73% in the year-ago quarter.

On a sequential basis this good performance was driven by revenue growth of 17% and reduction in expenses of close to 7%.

For the nine-month period, expenses declined nearly 7%, while revenues increased 17%.

Slide 13

Moving on to Capitalization on slide 13, we further strengthened our capital base, increasing our Tier 1 ratio by 120 basis points sequentially to 16.9% at quarter-end.

Improved results and inflation adjustment of capital mainly drove the increase in the capital ratio and more than offset higher risk-weighted assets and deductions.

Slide 14

Before opening for Q&A, please turn to slide **14** to review our perspectives for full-year 2023.

Considering the recent macro trends discussed by Patricio, we have updated our perspective on the following line-items:

- With respect to **asset quality**, given the recent performance, we now expect to close the year with an NPL ratio of between 1.5% to 2%, a slight improvement from our prior expectation of 2.5% to 3%.
- Given the solid NIM performance of 25% year-to-date, we anticipate **NIM** for the year to remain slightly higher than the level reported in the first nine months, up from approximately 24% expected in our prior call.
- With respect to **fees**, we now expect the brokerage and the asset management businesses to maintain the solid performance observed this quarter, while expectations for all other fees remain unchanged. This means, sustained growth in brokerage fees benefiting from higher volatility, soft insurance fees in real terms, and the bulk of bank fees to individuals expected to reprice in line with inflation.
- In addition, while we continue to expect **digital transformation and related IT investments** to grow below inflation, we now expect to see an acceleration in these investments in 4Q23.
- In terms of profitability, we now anticipate **ROE** to be in the range of 10% to 12% up from levels of close to 10% observed in the first half of the year, but below the 9M ROE as inflation is expected to be higher in the last month of the year when the FX increases and inflation-adjusted bonds reprice with a lag of 60 days.
- Lastly, we expect to close the year with a **Tier 1 ratio** in the range of 17% to 18%, up from the 14% to 16% anticipated earlier. As a reminder, 100% of our capital remains hedged against inflation.

Beyond these changes, note that our 2023 expectations for loans and deposits remain unchanged from our prior quarter views.

Looking at 2024, with inflation expected to remain at high levels, we expect loans to continue growing below inflation during the first half of next year, showing signs of recovery starting in the second half of the year if a stabilization plan is successful in helping to control and lower inflation levels. In turn, for next year we expect deposits to begin recovering and growing in line with inflation.

We expect to discuss our views for 2024 in more detail in our year-end call as we have more visibility on the economic plan for the year ahead.

Now we are ready to open the floor for questions. Ana, please go ahead.

Q&A Session

Ana Bartesaghi

Thank you, Mariano. At this time, we will be conducting the question and answer session.

As a reminder, to ask a question you need to be connected to the zoom platform.

To ask a question please press the “raise your hand” button and press it again to withdraw your question. You can also send your questions in written form via the Q&A box.

We will ask you to limit yourself to one question and a follow up and then you can raise your hand again in another round. One moment while we poll for questions.

The first question comes from Ernesto Gabilondo with Bank of America. Please, Ernesto, you can go ahead.

Ernesto Gabilondo

Thank you, Ana. Hi, good morning, Patricio, Mariano, Ana. Thanks for taking my call. My first question will be on the political outlook for Argentina. You have shown a couple of slides on this, but what do you think could be the key execution risks for the new administration? How do you see the possibility to implement structural reforms with a divided Congress as neither the officialism nor all the right parties combined will have the majority? And also, I think it will be interesting to hear your view if Milei starts to cut jobs in the current government administration, if you see, if there could be a risk for social unrest?

Then my second question is on your LELIQ exposure. When looking to your balance sheet, it seems that half of the securities are LELIQs and it is roughly 26% of your total assets. So, I wanted to hear your view on what you are expecting to do with the LELIQs. Yesterday we heard Banco Macro trying to get rid of the LELIQs by year-end. So wanted to hear from you is that it's something that you are also targeting or that will be more gradual?

And for my last question is on your ROE. So for this year, you have been guiding 10% to 12%, as you pointed out it will be lower than the first nine months considering that in December we can have higher FX depreciation and higher inflation, but just thinking on what should we think about next year, we think this ROE could be relatively stable, a little bit higher, lower. Some hint on that would be also very helpful. Thank you.

Patricio Supervielle

Yes. Thank you, Ernesto. I will start by your first question, which is the execution risk of Milei program.

First of all, we can see that Milei has shown to be a pragmatist. And this is interesting because in the way he's handling the organization of the different working teams to implement his reform, I know it's quite fluid, but he's pragmatic. And also in the way he's dealing with potential international relations.

In terms of the reform agenda, I think that the first step will be to get the approval of the national budget. And we have discussed this in our team, and we believe that it will be swift, and this has happened in the past. I mean, with new governments, he has a clear mandate, and we don't see reasons for not approving the national budget.

Then, President-elect Milei has said that he wants to give to the Congress a jumbo law, including probably, we don't know yet, but probably it will include an agenda of deregulation and how to tackle the financial deficit. So, probably this will be in the first part of the year. I mean, this is a super law. And probably there

will be second generation laws concerning privatizations that will happen in the second half of the year of 2024.

Another thing which is quite important also is that the people that are economic advisors at this stage have told us that they want to implement a fiscal financial equilibrium or fiscal financial balance from Day 1, which implies reducing 5% of GDP. And this eventually they can do without Congress, the need of Congress approval.

Of course, there are various ways and it's not easy, but we have discussed that to achieve this 5% of reduction in GDP, they would have to tackle certain reduction of public works, some transfers to provinces, some items in social security, and also deficit in public enterprise is going to be more complicated, probably because it will need privatizations, but we believe that certain subsidies also could be tackled and with the change of relative prices. And also there will be a swing in the revenues from taxes from last year, so that will help improve their fiscal situation.

And concerning the social unrest that you mentioned, yes, it is possible that there will be some social unrest, but we believe with our team that it will be confined to the Greater Buenos Aires and Greater Rosario, and the rest of the country where there was a clear mandate for a change of government we believe that the people will continue working and do their day jobs every day and there will not be any meaningful social unrest.

A very important element also is about the Supreme Court. We believe that Milei will propose the fifth candidate which is vacant, and this is going to be important to strengthen the independence of the judiciary. So, that's concerning your first question.

Regarding the LELIQs exposure, we had a substantial exposure at the end of the 3Q, and this has been reduced significantly over this quarter, at this moment. So, and not only LELIQs but also Repos. We believe that, having heard what was conveyed by the economic advisors, that they want to go for a market-friendly solution, that there will be no surprises, that there will be no harm to the banks net worth. I think we all went more at ease, but having said that, we have decided to, as I said before, to significantly reduce our exposure and we will see what the measures they want to take in the future.

But simply let me point out that the reason we had these LELIQs in the past was completely linked to the fact that the government imposed a regulation a floor in the rates of time deposits, the only way to compensate that was investing in LELIQs. But we believe that this will be removed, these punitive regulations will be removed swiftly and there will be also free rates, both for liabilities and assets, in the next year.

Mariano, I don't know if you want to add something on LELIQs.

Mariano Biglia

I can only add to your comments. Hi, Ernesto, and thank you for your question, I only add that, as Patricio said, we have significantly reduced the exposure to LELIQs during October and November. We only have the LELIQs we use for minimum cash requirements. Remember that part, about 5% of the new cash reserves, we can integrate with LELIQs. So, the opportunity cost to be in cash instead of LELIQs is very high there, but that is only a minor amount. As of today, it's only AR\$50 billion, which is significantly lower than what we had on September 30.

But also, we reduced the overall exposure to the Central Bank, not only going from LELIQs to Repos which is a first step because Repos are only one day, so that's very short-term, but we are also reducing by half -- we are now half the exposure to the Central Bank instruments as compared to September 30. So, that's also a major reduction. We are reducing basically deposits from institutional investors, institutional depositors, as mutual funds, or money markets funds. So, we have this lower balance, which is something we can manage adjusting the short term.

And then, regarding ROE, I think your third question was regarding ROE in 2024. But of course, it's still very hard to predict because we don't know all the measures that the government will take starting December 10. But what we can imagine, as Patricio said, is that the regulations, punitive regulations will be removed from day one. So, that's positive for ROE. But on the other hand, we want to be at least in the first months of the government, where we see that it's going to be a period of very high inflation and volatility, we want to be also more conservative, as we mentioned, we are reducing the exposure to Central Bank. We might increase something in treasury bonds as the perspectives can be better if the fiscal deficit problem is addressed, but with a more conservative stance, our ROE can be in the range of 5% to 10%. Again, it's very early to predict, we may adjust this when we report the full year results, but that's our current estimate.

Ernesto Gabilondo

Thank you very much for all your answers. Very detailed. Thank you very much.

Ana Bartesaghi

Thank you, Ernesto. There is a question from Carlos Gómez at HSBC. Hello, Carlos?

Carlos Gómez-López

Hello, Ana. Thank you for the call and thank you for taking my question. First, actually, congratulations on the result because the last quarter has been quite different from before.

Now, the question is, this seems to be related to your position in securities and the fact that you are reducing your position, is there going to be a correlation there? Do you expect -- I mean, from what I understand, I think the answer is yes. Do you expect that your profitability will be at a different level if you reduce the position significantly into next year?

And second, you seem to have taken a more proactive approach to lending. At the same time, you expect a contraction or a difficult period in the beginning of next year. Will you continue to be lending, I would say, more aggressively, gaining market share versus your peers into the next year or you'll wait until the economic situation is a bit clearer? Thank you so much.

Alejandro Stengel

Good morning, Carlos, and thank you for your question. In terms of our exposure to government securities and the fact that we would see less profitability going forward, it's difficult to establish correlations with

the levels of uncertainty we see going forward and with lack of information as to exactly what the package that will be sent to Congress contains.

We think that what will happen is, as Mariano pointed out earlier, there will be significant deregulation in the financial sector. And that actually is an opportunity and generally will allow us to, for example, go away or move away from something that was very exceptional in terms of policy, like having floor rates which being deregulated will allow us to price deposits to market levels and therefore we believe in that context as the program moves forward have a more deregulated environment and allow us to maintain profitability. But quite frankly it's very difficult to at this point be certain of what this will be.

In terms of lending, we will continue to be proactive, because we will be focusing in the sectors that we consider are winners of this significant change in macroeconomic policy. Basically, export oriented companies that are in agribusiness in different sectors throughout the country and also in energy. And these sectors will experience significant growth. And we also see, for example, certain sections of construction like private residential construction picking up significantly. So, if you look at the specific opportunities within the average, you will be able to pick a couple of sectors with the growth potential and we will be going after those and we will continue to be proactive in lending to them.

Patricio Supervielle

Carlos, let me add something to what Alejandro said concerning the loans. If you look back to our history, we had always high NIMs due to good share in personal loans, and that was mainly due to a segment of senior citizens.

However, in the last few years, there was a program from the government, which is called Argenta, that provided very much subsidized loans to retirees. This will be removed, and this will help us regain much better NIMs for personal loans in the future in an important business segment that we have also. So, I wanted to add this, I think it's quite important.

Carlos Gómez-López

Okay. That's an important consideration. And would you have a target as to how much of that you can do in the sector?

Patricio Supervielle

Well, we have around, at this stage, between 600,000 and 700,000 clients in this sector, and the demand is very low because the demand was -- as I said before, it was the government, the social security that was providing these loans, but with the fiscal therapy that will be implemented, these type of loans do not make sense.

So, it will be -- we expect that it will grow.

Carlos Gómez-López

Okay. That's clear. Thank you so much.

Ana Bartesaghi

Thank you, Carlos. We have another question coming from Brian Flores at Citibank. Hello, good morning, Brian. Please go ahead.

Brian Flores

Thank you, and congratulations on the results, I think they're very, very strong. I think, maybe the sector has played defense extraordinarily given the context, and now we perhaps -- we might be moving to offense, right?

And I have a question that is related to what Carlos asked, which is, there might be a, probably in the first half of next year where inflation is high, maybe credit demand is still starting to come, but still not there. I'm just wondering, if you're budgeting, maybe for slight chances that you see or seen low-single-digit ROEs in the first half, and then maybe a strong expansion in the second half or how are you thinking about that, right? Because I think mid-term is constructive, and I think I agree with all the visions you've shared, but maybe in the first part of the next year we might see some difficulties still. Do you think this is correct or do you think I am being a bit more pessimistic? Should I be a bit more optimistic? Anything is appreciated. Thank you.

Patricio Supervielle

First of all, I would like to state that we have been preparing the last three years for this change of profound structural changes that are occurring in the country. And we have an aggressive growth plan, particularly in corporates, that we started already in the third quarter. And we have gained, we have a model which is a product-oriented model and we have achieved significant operational efficiencies, simply to state, and this is related to your question, because the bank has -- over the last three years, we have 800 employees less, at the group level we have 2,000 employees less, we have closed 50 branches, we have terminated a consumer finance business that was a loss making business, and we are positioned -- as Alejandro mentioned earlier, that we are positioned to provide loans in companies that belong to value chains of expert led industries.

However, as you well said, with high inflation, demand is very low at this stage, and but consistent with what we believe will be the economic plan to tackle the LELIQs, there will be deregulation of rates. That means that we will be able to fix, there will be market rates for liabilities and market rates for assets. And that means that we will be able to start providing loans with positive margins for corporations in the first months because individuals probably, with high inflation, they will not be taking loans.

But we believe that, yes, for a certain period of time, it will be more difficult to give loans, as you said. But after the change in relative prices and implementation of the initial steps of the program, we expect that after a period of high inflation the people will have an expectation of low inflation, then they will start to have more demand of loans in the second half of the year.

So, I don't know if you want to add.

Alejandro Stengel

Brian, this is Alejandro. Two or three notes to your question.

One is our business, as is also the economy of the country, is cyclical and typically you will find that the first half is always a bit slower than the second half. Of course, on top of this, in the first half of '24, you will have a lot of fiscal adjustment and the increase of inflation after some kind of adjustment to the exchange rate.

However, a couple of things for you to look at as we go through the first half. One is, you will have a much better energy balance because we used to have a net import of energy that we required. And we are -- now will be able to do export once the -- in the last quarter, basically in the last quarter during the third quarter of this year, you have the connection of dots that will allow you to be in the condition of exporting energy.

And second, there was a significant impact during this year of the drought -- the tail of the drought that we see now moving clearly away because the NIM is consolidated too. So, those two factors will actually help you deal with what would otherwise be a very recessionary context, particularly for consumption. But companies or enterprises linked to these value chains will probably continue to experience growth and will drive or help drive exports and the economy moving forward.

Brian Flores

Well, that is super helpful. Thank you very much.

Ana Bartesaghi

Thank you, Brian. I think we have a follow-up from Carlos Gomez. I don't know, Carlos, if this is correct or only that you forget to withdraw your hand.

Carlos Gómez-López

No, no, it's actually correct. So, my question is about your hedging strategy. As you mentioned, you have 100% of the capital hedged. Can you remind us, is this purely through the securities portfolio, the dual bonds? Or do you use real estate more actively now? Or are there any other elements in your hedging strategy that are not those two. Thank you.

Patricio Supervielle

Okay. Thank you. This is an interesting question, because I think it differentiates us from the rest of the banks.

We have a substantial position in mortgages, which we built during the Macri period and which represents today around 22% of our net worth, and this is quite interesting because it's more -- it's bigger than other banks, so it's on the private sector. Then the rest is -- yes, the rest is buildings and real estate and public treasury bonds.

I don't know if you want to expand on that, Mariano.

Mariano Biglia

Yes, those are the main three different asset classes, real estate, mortgages, and treasury bonds, while we have dual bonds which, as you know, they adjust by inflation or devaluation the higher or CER bonds which adjust by inflation. So, that's basically our hedge of net equity and we also have a long position in dual bonds so that also can be a source of shorter gains going to the fourth quarter and the first quarter.

Carlos Gómez-López

Yes, actually that was my follow-up. So, the hedge is versus inflation, right. And then, the U.S. dollar position, I believe that your maximum is 5% of net worth or as a financial group you can perhaps go a bit further than that?

Mariano Biglia

Yes, our spot position can only be balanced or short, but the spot position we are balanced. And then, we can go up to 5% of Tier 1 with derivatives as futures and then extend to 30% with dollar-linked bonds, but dual bonds do not account in that position, so we actually have no limits on dual bonds. So, that's where we have a longer position for the higher of devaluation or inflation.

Carlos Gómez-López

So, could you give us an idea about the current level of your long position in U.S.dollars?

Mariano Biglia

Now we are approximately at 125% of our equity, so we have 100% inflation plus 25% in dual bonds.

Carlos Gómez-López

That's very clear. Thank you so much.

Ana Bartesaghi

Thank you, Carlos. I think we have reached the end of the Q&A session, so thank you for joining us today. We appreciate your interest in our Company.

We look forward to meeting more of you over the coming weeks or 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 have a good day.