

Grupo Supervielle 1Q24 Earnings Conference Call Transcript

Slide 1

Ana Bartesaghi

Good morning, everyone and welcome to the Grupo Supervielle First Quarter 2024 earnings call.

This is Ana Bartesaghi, Treasurer, and IRO. Today's conference call is being recorded. As a reminder, all participants will be in listen-only mode. If you want to ask questions at the end of our presentation, 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.

Slide 2

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, please go ahead.

Slide 3

Patricio, Chairman and CEO

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

Starting with a discussion of the quarter results, on Slide 3.

We are pleased to have started the year delivering robust profitability and market share gains in loans. At the same time, we maintained healthy asset quality metrics and attractive capitalization with Tier 1 at 25% to support growth initiatives.

Profitability achieved another record high ROE of nearly 34% in real terms. This good performance was driven by an unusually high Net Interest Margin of 62%, reflecting our effective asset and liability management and increased spreads.

Our strong bottom line was also supported by sequentially improved efficiencies as we continue to improve digital, virtual and automatic channels while transforming our branch network, establishing a solid base to drive higher productivity as growth resumes. In turn, a healthier loan mix following the shift in loans towards middle-market corporates and payroll customers, where we have reciprocity with our transactional products, together with significantly lower exposure to consumer loans, and tight credit scoring contributed to the NPL ratio hitting another record low of 1.1%.

So, how have we been able to achieve our good results? Let me provide a brief overview of the progress we have made across our various strategic initiatives:

- **Starting with SMEs and Corporates**, we are firmly committed to attracting new clients and expanding our share of wallet. To accomplish this, we are focused on enhancing the customer experience, improving our Net Promoter Score and driving operational efficiency. During the quarter we successfully scaled our Virtual Hub service model to cater to companies in the Entrepreneurs & SMEs segment, which received Gold recognition in The Country Awards for Financial Innovators in the Americas, presented by Fintech Americas. On the back of improved dynamics, we are actively developing products tailored to highly attractive export-oriented value chains such as oil & gas, mining, and agribusiness, while keeping a strong focus on selectively tapping regional economies with attractive prospects.
- Our **Retail** digital client base has expanded significantly, now comprising 64% of total clients, up 2 percentage points sequentially and 7 percentage points from a year-ago. Reflecting the strong adoption of our digital wallet, over half of our retail transactions are now completed through our App, a remarkable increase from just 37% a year ago. Moreover, our pioneering 24/7 “Inversión Rápida” feature, unique among Argentine banks, continues to perform well, with customers up 28% sequentially. We are confident that our Human Banking retail relationship model will elevate customer satisfaction, enhance cross-selling opportunities, and further improve our NPS.
- IOL, our **online retail brokerage platform**, continues to excel, accounting for 20% of total fee income as it captures additional market share and further strengthens its leadership position. The new Crypto offering, introduced in January in collaboration with Ripio, has been well received by existing customers; and while it is still in early days, we are seeing consistent growth in both customers and transactions.

- Our efforts to drive higher **operating efficiencies** while remaining close to our customers continue to bear fruit with bank branches and headcount down year-on-year by 12% and 4%, respectively while further improving NPS.

Slide 4

Turning to slide 4, President Milei remains fully committed to achieving fiscal surplus and implementing bold structural reforms.

While there is still much work to do, the policies implemented over the last five months are resulting in a gradual transition in Argentina to a more positive economic environment, conducive to a more sustainable, robust, and competitive financial system.

To date, interest rate floors on time deposits have been lifted, the Central Bank has acquired US\$17 billion in reserves, while keeping a fiscal surplus since the beginning of the year. Measures were also taken to address the challenge related to importers' commercial debt and unpaid dividends, and we are pleased to see that inflation is decreasing faster than anticipated. Despite the recessionary environment, it is worth noting that social support remains strong.

In this context, the financial industry is experiencing a gradual resurgence in loan demand. However, passing the necessary reforms through Congress and the lifting of FX restrictions are crucial to resume sustainable growth and attract new investments.

At Supervielle, we have a strong capital base and a solid, agile foundation that positions us well to resume growth as demand continues to recover.

Slide 5

Now moving to slide 5, reflecting anticipated macro improvement we are strategically diversifying our asset portfolio, gradually shifting towards a larger share of private-sector loans, and reducing our portfolio of large holdings of Central Bank Repos.

The share of Central Bank Repos over total assets declined 7 percentage points to 33%, while loans expanded their share by 6 percentage points to 29% of total assets. While increasing sequentially, the loan to deposit ratio stood at just below 44%, providing ample room to expand loan growth.

As this transition unfolds, we anticipate this positive loan growth trend to continue as demand continues to recover while NIM adjusts gradually from the exceptionally high levels experienced in recent quarters and converging to historic levels for the Argentine financial system.

Slide 6

Turning to an overview of our loan book performance on slide 6.

Total loans were up nearly 3% sequentially in real terms, while we gained 40 basis points in total market share as the economic environment began to normalize and confidence return.

Reflecting our focus on lower-risk segments, SMEs and Corporate loans accounted for 64% of our total loan book, with Retail loans representing the remaining 36%.

Corporate loans saw a 60-basis point share increase in the first quarter. For the remainder of the year, we expect to maintain our focus on SMEs and Middle Market clients, placing particular emphasis on the winning export value chains, including oil & gas, mining, and agribusiness. Therefore, corporate loans are expected to grow above retail loans.

Within retail loans, we are selectively tapping lower-risk segments. Reflecting this, we expanded our share of car loans by 40 basis points in the quarter. More recently, we became the first private bank in the country to re-launch new 30-year mortgage loans. A return to adding mortgage products to our portfolio is an attractive value proposition in today's market. We are also scaling car, personal and credit card loans. We are optimistic that there is room for further growth once inflation and nominal interest rates decrease.

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

Mariano Biglia

Slide 7

Thank you, Patricio, and good day everyone.

Now, let's turn our attention to slide 7, which provides an overview of our performance for the quarter.

Net income increased to nearly 47 billion pesos, with ROE in real terms at 34%, a significant increase from net income of 34 billion pesos and ROE of 27% in the fourth quarter last year.

Starting with revenues, Net financial income was up just over 2%, mainly supported by higher spreads and volumes on our investment portfolio, a drop of nearly 750 basis points in cost of funds following the lifting of floors on time deposits and decreases in interest rates. Net fee income, however, contracted 14% as banking fees increased below the 52% inflation for the period.

In turn, **Costs were down 18%**, reflecting seasonality and structural cost efficiencies.

Moreover, the strategic shift in loan allocation towards middle market corporates and payroll customers, coupled with the update of our expected loss models in 4Q23, resulted in a 40% sequential decrease in **Net Loan Loss Provisions**.

Other net Losses declined 15%, mainly reflecting valuation adjustment of real estate to market value in 4Q23 and higher provisions for strategic initiatives.

All this more than offset the 35% increase in **inflation adjustment** on higher monetary assets.

Slide 8

As shown on the left chart of slide 8, we have been diversifying our asset base, gradually shifting towards a larger share of private-sector loans while significantly reducing our holdings in Central Bank Securities.

On the right you can see the composition of our Commercial and Retail portfolios at quarter-end, where we have gained share across most loan products.

In Corporate loans, Promissory notes stand out accounting for 52% of the corporate portfolio, as well as overdrafts at 26% and foreign trade at 15% of this book.

With respect to Retail, credit cards account for 33% of the book, followed closely by mortgages at 32%, personal loans at 24%, and car loans accounting for 9% of the total retail book.

Slide 9

Moving on to slide 9, Net Financial Income increased sequentially in the low single digits and nearly 140% year-on-year to 299 billion pesos, with NIM practically stable sequentially at an unusually high 62%,

Following the lifting of floors on time deposits and decrease in interest rates, cost of funds posted a sharp sequential drop of over 740 basis points. In turn, interest rates on loans increased over 300 basis points mainly due to higher adjustment of inflation linked mortgages.

The QoQ performance also benefitted from AR bonds gains and a higher yield on increased volumes of inflation-linked government securities capturing the inflation peak in last December and January.

Slide 10

Turning to slide 10, our successful strategy execution has contributed to further improving the efficiency ratio reaching 34%, down from 43% in the prior quarter and over 70% a year ago.

The sequential improvement in efficiency was mainly driven by exceptionally high NIM driving revenue growth, while we also continued to reduce personnel and administrative expenses.

Slide 11

Turning to slide 11, capitalization strengthened further in the quarter, with the Tier 1 ratio expanding 370 basis points sequentially to nearly 25% at quarter-end.

The increase in capitalization reflects strong results along with inflation adjustment of capital and tax efficiencies from the merger of IUDU into the bank, which more than offset growth in risk weighted assets.

Slide 12

Now moving on to our perspectives for 2024 on slide 7.

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

- While we continue to expect **Peso loans** to grow above inflation, we now see credit demand recovering gradually starting in the second quarter as inflation eases.
- In terms of deposits, while expectations for peso deposits remain unchanged growing slightly above inflation, **USD denominated deposits** are anticipated to increase in their original currency.

With respect to **fee income**, while the bulk of bank fees to individuals are expected to reprice in line with inflation, dollar denominated commissions are anticipated to grow below inflation when translated to pesos.

- **In terms of profitability**, we are increasing our ROE expectation for the year to approximately 15%, up from the 10% discussed on our prior call. For the remainder of the year, we expect to see a softer 2Q reflecting negative interest rates, while lower inflation and loan growth are expected to drive higher profitability in the second half of the year.
- Expectations for all other metrics remain unchanged, including closing the year with a **Tier 1 Capital** ranging between 20% to 25%.

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 it. 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. Just one moment while we poll for questions. Our first question comes from Ernesto Gabilondo with Bank of America. Hello and good morning, Ernesto. Please go ahead.

Ernesto Gabilondo – Bank of America

Thank you. Good morning, Ana. Good morning, Patricio, Mariano and all the team. Thanks for the opportunity to ask questions. My first question will be on your loan growth expectations and what would be the macro assumptions that you're expecting for this and next year in terms of GDP, the level of inflation, the level of interest rates? I think those should be important to consider in order to think about the loan growth in this and next year. And, well, we know that Argentina has a very low credit penetration. So considering all these assumptions, how would you see the loan growth for the second half of this year and next year? Thank you.

Patricio Supervielle

Okay, I will start and then Mariano will further expand. After the extraordinary high NIMs that we saw in 4Q 2023 and as well as 1Q 2024, we anticipate a decline in NIMs alongside falling inflation. Inflation figures could decline from 50% in 1Q to 20% in 2Q. Decline in interest rates have several effects. First, in March, we saw already a surge in demand for loans from the SMEs and the corporate segment, both in pesos and dollars and as well as in the retail sector, positively impacting our market share. For the remainder of the year, with declining inflation, we expect the loan book to grow in real terms above inflation starting this quarter. Second, we also foresee a shift from repos to T-Bills as they better preserve our financial margin. Do you want to expand on that?

Mariano Biglia

Sure, Patricio. Hi, Ernesto. Thank you for your questions. Regarding our projections for loan growth, for some macroeconomic variables, we expect, following what Patricio mentioned, loans to start growing in real terms in the second quarter, increasing the pace of growth in the second half of the year. For the full year, it's still, of course, hard to tell, but with decreasing inflation even faster than originally expected, we can see loans growing at real rates in double digits. So maybe somewhere between 10% and 20% this year and growth can be much higher next year. Departing from such a very low point when we are at less than 7% of loans to GDP, growth can be I think also very fast. So with that low starting point next year growth, inflation keeps going down. It can be really hard. It's difficult to say a number, whether it will be 50% in real terms, 60%, but we can see very high rates of growth in 2025.

Then you asked about our projections of GDP. We are in line with the economic consensus of decreasing GDP for this year of 3.5%. We saw very low levels of activity in the first quarter. Of course, part of that was expected and then the economy should start to recover gradually. A very important threshold will be the lifting of the exchange rate controls. That should be something that we will see. Probably by the end of the year, some economists are more optimistic saying that it can be achieved in the third quarter of this year. But at some point in time, we think those controls will be lifted and that will also unlock growth. And in that regard, we expect next year, that's 2025, to see a growth in GDP of approximately 3% to 3.5%.

Ernesto Gabilondo

Excellent. Thank you. And just follow up on these macro assumptions. So Patricio was saying inflation declining from 50% to 20% levels in the second half. But can you provide us this number also in annual terms, how do you see inflation for this year, inflation for next year and also your expectations for the interest rates?

Mariano Biglia

Sure. Yes, inflation for this year, we expect it to be in 160%. And for next year it will definitely keep decreasing and it can get us as low as 60%. We know there are some variations in these projections when some economists expecting for inflation to decrease at a higher pace, but our projections are in the range of 60%.

And interest rates, we believe with a sharp decrease that the Central Bank did during these first five months of the year, for the following months, it will keep the interest rate in the actual levels. Also, the implicit interest rate in the last auction of treasury bonds shows that the market expectations are for interest rate decreases to stop in the following months. But, of course, for next year, with decreasing inflation, interest rates will also keep going down.

Ernesto Gabilondo

No, perfect. Excellent. And then just a second question and this will be on your ROE expectations for the second quarter. In your press release, you mentioned you have a record high ROE of 34% in this quarter. But at the same time, you are guiding for the full year to have an ROE of around 15%. So, just wanted to understand how will be this evolution of the ROE throughout the year? I think that the second quarter will be the most challenging one given that you will start to accelerate the loan book, but at the same time you will have the impacts of lower rates. So just wanted to understand, how should we think about the ROE evolution through the year?

Mariano Biglia

Sure. Yes. Well, you explained it very well. Second quarter will be the most challenging probably of the year because our loan growth is starting to grow, but we are seeing negative interest rates in real terms. So that's also a challenge to hedge our equity. But I would say ROE for the second quarter will be in single digits, maybe ranging from 5% to 10%. And then the evolution of the ROE will be increasing during the third and fourth quarter as we continue to grow our loan book and replacing Central Bank and treasury bonds with loans and that would make a total ROE for the year of 15%, which was our guidance.

Ernesto Gabilondo

Perfect. Thank you very much.

Ana Bartesaghi

Thank you, Ernesto. And our next question comes from Brian Flores with Citibank. Hello. Good morning, Brian. Thank you for your question.

Brian Flores – Citibank

Hi, team, Good morning. Thank you a lot for the opportunity. Maybe I want to start with a more strategic question on your consumer franchise. As you have mentioned on the presentation, a lot of the digital efforts are already evolving, right. So more of your transactions are already happening with your apps, you're deploying these digital efforts. I just want to maybe get your ideas here on how are you thinking about the digital competition, right? Because for the consumer franchises, we have a lot of competition, maybe Mercado Pago, UALÁ. So, I just want to maybe ask you strategically, how do you think on this competition and how are you preparing yourselves to compete against them now that, as you mentioned in your guidance, we should expect loan growth to become more and more relevant in the strategy. Thank you.

Alejandro Stengel

Thank you, Brian, and good morning. We have, as you probably know, been focused on developing our digital wallet and making that a unique experience. That is one of our key initiatives. And it's ranked really very high and comparable to many other digital wallets that are being developed by fintechs. This is precisely part of the recognition we got with the Fintechs America Award. And in this regard, what we see is that we are also making a big effort and we've been recognized by the mobile platform and we see there, too, that we are very well positioned among the banks that have the greatest use and the greatest stickiness of clients using the mobile platform as a strategic response to the Mercado Pago moves. A lot of the answer to your question depends on what the regulator will do moving forward. As you know, the Central Bank has ruled that there has to be interoperable QR and there has been a little bit of wrestling with Mercado Libre around that point.

And so far, if progress is made in that direction, we see a huge opportunity to be able to leverage all the investments and the capabilities we've developed in our digital wallet in that direction. We also see big opportunities on the digitalization of insurance products, of all the mortgage products, and all the car loans, for example, which have been our focus initially for growth. So we are very confident that these capabilities, together with our new operating model, are positioning us very well in this new digital competitive arena.

Patricio Supervielle

Let me add to the answer of Alejandro. Last year, at the beginning of the year, we launched a new service, an investment proposal for individuals, which is called *Inversión Rápida*, which is basically an answer to what Mercado Pago has been doing over the past several years, which it's a way for individuals that have idle funds to invest them in a money market fund. So we did this and I believe that we are still the only bank that is providing this service, which is 24/7. So anytime during the week, during the night, weekends and so on, you can dispose of your funds and use them or invest them. So this is a way. And the interesting thing is that, although let's say, of course, we lost some deposits in -- 0% deposits on savings accounts, but overall, when you see the profitability on looking on financial revenues, on revenues we get from individuals, they have increased. So there was a compensation and there was a reward for doing this. And the adoption was fantastic because we grew 10 times in terms of adoption or even more than that in terms of adoption during the year. So that's a way that we believe that we can compete with Fintechs. And it's surprising that we are the only bank to do this yet.

Brian Flores

Perfect. No, super helpful. And maybe just a quick follow up on Ernesto's question. Are you going to prioritize a specific segment? Because, as you mentioned, we might see a 10%, 20% growth this year in real terms. But 0.5% of your loan portfolio is corporate. You have a big consumer franchise. So are you going to prioritize one more of the other? And if you could just remind us on the -- on how fast you can -- you reprice in terms of duration, each of the segments would be really helpful. Thank you.

Alejandro Stengel

We have initially focused on SMEs. As you know, SMEs have very low leverage from the starting point and other ones that have been reacting quickly to the change and the fall of inflation, particularly in export-oriented value chains, as mentioned by Patricio before, like mining, agribusiness and oil and gas. We have been more cautious on the retail side, but we see increasing demand there too and we're focusing on payroll clients, on pensioners, and in the case of clients or non-clients or prospects that are coming on board, we're focused on asset backed loans like car loans and mortgages going forward. We think that this approach will put us on a solid footing for when we really expect the retail part of the business to take off during the second half of this year.

Brian Flores

Great. This is perfect. Thank you very much.

Ana Bartesaghi

Thank you, Brian. So our next question comes from Marina Mertens with Latin Securities. Hello. Good morning, Marina. Please go ahead and thank you for your question.

Marina Mertens – Latin Securities

Hi. Good morning. Thank you. And congratulations on the results. So the banking business in Argentina for the remainder of the year should look quite different since the Central Bank has been lowering rates and inflation has been coming down. So what do you expect? What do you envision for the remainder of the year and 2025?

Mariano Biglia

Yes, we agree, Marina, as inflation is going down and interest rates are decreasing, the composition of the balance sheet will be changing and will be transitioning as it already has during the first quarter. We are transitioning from a very low weight of our loan book in our total assets or a very low loans to deposit ratio to higher weights of the loan book. And at some point, we expect to converge to historical levels. This will be achieved by replacing all the weight that now Central Bank securities or short term -- recently short-term treasury notes having in our balance sheet. So when that composition changes, also will do the composition of our revenues. So that will also be a change in the quality of our revenues, earning most of our revenues from our traditional banking business of receiving deposits and lending to individuals and corporations.

Marina Mertens

Great. Thank you.

Ana Bartesaghi

Thank you, Marina. So we have a new question. This is from Carlos Gómez-López with HSBC. Hello. Good morning, Carlos.

Carlos Gómez-López

So I'm looking at Slide 8 in your presentation and we see the big decline in Central Bank exposure. How do you expect this to evolve for the rest of the year? Will you continue to decrease your exposure to the Central Bank and government securities? And traditionally, the banks have been reluctant to take on treasury securities. We understand that may be changing. Is there a limit as to how much exposure to the government you are willing to take?

Mariano Biglia

Yes. Hi, Carlos. Thank you for your question. Yes, correct. As you said, we are starting to decrease the weight of the Central Bank securities and treasury notes in our balance sheet as we replace them by loans and we increase our loans to deposit ratio. And also recently, during this month, the Central Bank allowed us to replace short term treasury notes instead of one day repos. And that is the change that the Central Bank made is that for the amount that we decrease repos, we can increase short term treasury notes without exceeding the limit of exposure to the public sector. So that's on the regulatory side. But also these short-term treasury notes have a higher rate. So there's also an economic incentive to do that change of composition in the balance sheet. That's within our investment portfolio. Then for the longer term, we are, as I explained before, increasing loans and that will be finally replacing the overall exposure to the government sector, whether it's Central Bank or the treasury.

Patricio Supervielle

So this is a transition. We are in a transition year, but of course, expecting that the business we are in is providing loans to the private sector, but this is definitely a transition year.

Mariano Biglia

Yes. And you also asked about limits. There are limits, although this waiver that I mentioned of the Central Bank to increase our exposure, so we can increase it up to the amount that we decrease Central Bank exposure. And then we have the regulatory limits to exposure to the public sector and also our own policies.

Carlos Gómez-López

Well, I guess that is the question. What is your own policy? Because again, from what you described, to see, if I understand correctly, the Central Bank allows you to, at this point in time, increase your exposure to the treasury without that counting as increased exposure to the public sector? I mean, they're obviously giving a waiver there. I imagine you don't want to do that indefinitely, right?

Mariano Biglia

Definitely not. As I said, this is a transition and we have our own limits, of course. I mean, essentially when you have on the other side, the Central Bank or the government is a different animal, I would say. So this is, as I said, a transition and we have our own limits in order to take treasury securities, which are not the same limits we had on repos.

Ana Bartesaghi

This is allowed for this very short term LECAPS only. It's not for any other treasury bond we may have. So it's for this time, while we wait for the loan book or the loan credit demand to accelerate.

Carlos Gómez-López

So that's only for the LECAPS in the short term?

Mariano Biglia

Yes, exactly.

Carlos Gómez-López

Thank you.

Ana Bartesaghi

And only for the amount you had in repos as of May 15. I think it was the date where this cutoff is made.

Mariano Biglia

And also these notes are very short term. So although they are a treasury risk, they have a lower risk than other longer term bonds.

Carlos Gómez-López

Okay. And to change the subject and go back to the future, which is the loans. I mean, we are all very excited about the new UVA loans, mortgages and you have been at the forefront making an offer. I just wanted to know if we have already seen any of these loans granted? We know there have been inquiries and petitions, but when do you expect to actually lend that? And what is a realistic prospect as to what amount you could give, let's say, this year or next year?

Patricio Supervielle

That's a tough question. We already know that there are already mortgages that have been already granted.

Ana Bartesaghi

And next, I think in the coming days, we should be having more from our side as well. But we know, one loan at least as we saw in Bloomberg yesterday, was granted by one non-private bank. But this is in terms of the first part of the question.

Patricio Supervielle

Definitely there is a huge demand in expectation. I would say most of the people in Argentina, are looking forward to these mortgages. This is unbelievable that the potential demand is absolutely unbelievable. And it reflects probably what happened in the last few years when people were forced to stay in their houses, renting apartments and so on and now they want to move on. So it's unbelievable, the demand that is already in there. We know it.

Carlos Gómez-López

But we understand there are operational problems. There are some definitions that have to be made before you can actually start lending in large amounts. Is that correct?

Ana Bartesaghi

Yes, the FX measures, some of them. They are not good for the final buy and sell of the houses. These are operational things that we understand will be removed soon, in the coming days. They told us they were working on that.

Alejandro Stengel

Some of them are starting to be addressed, like, for example, the parking required when you purchase local dollars.

Ana Bartesaghi

And the 200 million daily limit.

Alejandro Stengel

This will help a lot, Carlos, to increase demand and to make it more agile. But these things, as soon as they start working out, it will be very, very important in driving demand up very quickly.

Carlos Gómez-López

Thank you so much.

Ana Bartesaghi

Thank you, Carlos. We have a new question from Ernesto Gabilondo with BofA. Ernesto, please go ahead.

Ernesto Gabilondo – Bank of America

Thank you, Ana. Just a couple of questions. The first one is on your loan to deposit ratio. So, considering this excess cash that you have in securities and that you will use them to expand the loan book, how should we think about

the loan to deposit ratio evolving in the next years? And my second question is on regulation. Do you think that the big part of the tough regulation is already lifted or do you think still there are some things that can be removed or lifted? And if that is true, do you have an estimate on how this removal of tough regulation can help your business?

Mariano Biglia

Yes, Ernesto, I will take the first part of your question. Regarding the loans to deposit ratio, we came from October, 30% as of December last year, we are now over 40%. By the end of the year, we can be close to 50% and we increased in loans faster than we increased in deposits. And for following years, we should be reaching levels that we had in the past, for instance, 90%. Remember also that right now we don't have other sources of funding because we don't need them. But in the past, we always had capital markets instruments, securing part of our portfolio, or issuing negotiable obligations. So when we start to issue also that type of instruments in order to manage liquidity, we will also see the loans to deposits increasing significantly.

Patricio Supervielle

Concerning your second question, I'll try to make an answer. Maybe Alejandro can help me also. First of all, I think that the main regulation that is restricting the entire economy and, of course, the financial system is the foreign exchange restrictions and all that is related to that. And this is critically important that they are lifted as soon as possible because it will instill new investments, it will bring confidence to the market and hopefully instill growth and getting out of recession. For us, for the banks, also it is important because first of all, having clear rules on FX restrictions will help also all export-oriented industries. And for us it has been a traditional business. When you lift foreign exchange restrictions, you have individuals that they want maybe to have their savings in dollars. So for us it's also a very interesting opportunity to make commissions. This has been traditional in the banking system and it's a substantial revenue that banks used to get when there were no restrictions. And it will happen again. So we are preparing for this. And hopefully, as I said, these restrictions, they should remove it as soon as possible. Do you want to compliment on that?

Alejandro Stengel

I think you're quite right, Patricio. The biggest is -- and it is overarching. Then you have many other things. For example, you might be aware of the increase on gross income tax that we have to pay in different jurisdictions, which is also making the process of lending far more expensive than it was. That is something that should be lowered to expedite and to make it more accessible to the public. Also, if you look specifically at some products, take mortgages that we would like to grow and expand, there should be also some easing on the conditions for securitization. To provide a good support (Technical Difficulty) the banks can originate the mortgages and then (Technical Difficulty) through some securitization, which in turn leads to the question of the creation of investment funds (Technical Difficulty) framework, which does not allow them. So it is a huge opportunity when you look at all these different changes that could come around and therefore take you from the very small 4% of credit to the private sector to something closer to at least in the first stage, around 20% by 20% or 25%, which would be closer to something reasonable over the next four years.

Ernesto Gabilondo

No, excellent. Thank you very much Patricio, Alejandro, and Mariano.

Alejandro Stengel

Pleasure, Ernesto.

Ana Bartesaghi

Thank you, Ernesto. Thank you all. So, ladies and gentlemen, we have reached the end of today's Q&A session. Thank you for joining us today and for the questions. 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. So have a good day.