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Transcript - 4Q16 Earnings Conference Call

Supervielle Fourth Quarter 2016 Earnings Call Opening Remarks

Operator

Good morning and welcome to the Grupo Supervielle Fourth Quarter and Fiscal Year 2016 Earnings Call. A slide presentation will accompany today's webcast, which is available in the Investor section of Grupo Supervielle's Investor Relations website at www.gruposupervielle.com. As a reminder, all participants will be in a listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. As a reminder, today's conference call is being recorded.

At this time I would like to turn the call over to Ana Bartesaghi, Treasurer and IRO. Please go ahead.

Ana Bartesaghi

Hi. Thank you. Good morning, everyone, and thank you for joining us today. Speaking during today's call will be Patricio Supervielle, our Chief Executive Officer and Chairman of the Board, and Jorge Ramirez, First Vice-Chairman of the Board. Also joining is Alejandra Naughton, Chief Financial Officer. All will be available for the Q&A session.

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

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

Patricio Supervielle

Thank you, Ana. Hello, everyone, and thank you for joining us today. It's a pleasure to welcome you to Supervielle's fourth quarter earnings conference call. If you're following the presentation, please turn to **Slide Number 3**.

We're pleased to report fourth quarter and full-year results which demonstrate our ability to successfully execute on our profitable growth strategy, leveraging the capital raise in the IPO. This resulted in above-industry loan expansion as we unlocked growth potential while maintaining our focus on prudent risk management which translated into improved NPLs and coverage ratios.

Good results were further supported by a solid net interest margin, while operating efficiency reached 64.5% in fourth quarter 2016 from 73.8% in the first quarter of the year before our IPO. This was achieved despite high costs in the quarter, and we'll talk about this in a moment.

We are particularly pleased with the successful placement of our Argentine peso inaugural 3.5 years global bond for a total of \$300 million last month, tapping a new funding source. Completing this transaction further diversifies our funding base, complementing our strong retail deposit franchise to support growth with longer tenures in high-margin

SMEs and individuals loans supporting our commitment to maintain a relevant position in the Argentine financial market.

Turning to the macro environment in **Slide 4**, let me comment briefly where we are now and the economic outlook for the year. As anticipated, 2016 was a transition year where several macroeconomic imbalances were addressed successfully. By year-end, we saw some positive indicators showing an incipient economic recovery. Inflation continues to trend down, reaching a low of 1.3% in January, below market expectations. Lebac rates continue to decline following the same trend.

For 2017, inflation is anticipated to reach 20%, down from 41% in 2016. We believe wage negotiations in second quarter 2017 could be the decisive moment to determine the feasibility of this year's target. According to the most recent market expectation survey, GDP is expected to grow at 3% this year while the fiscal deficit is expected to fall gradually, avoiding abrupt adjustments in a recession.

Moving on to the Argentine financial sector in **Slide 5**, system loans in the private sector expanded by 12% sequentially above inflation and doubling growth in the previous quarter. Corporate loan growth accelerated to 11% while retail loan growth increased 12%. Year-on-year system loans were up 31%. Industry deposit (phon), in turn, increased 44% year-on-year and 21% sequentially, mainly reflecting the success of the initial phase of the Government's Tax Amnesty program. US dollar denominated system deposits rose 76% sequentially while peso-denominated deposits were up 11%, still below inflation.

Note that the first tranche of the Tax Amnesty program, which encouraged the declaration of cash holdings in Argentina before October 31, 2016 added around \$8 billion deposits to the industry. The Badlar rate continued the downward trend that began in mid-2016, declining 230 basis points sequentially to 19.9% by the end of December, in line with the reduction in the Lebac rate.

Now in terms of our performance on **Slide 6**, loans were up 58% year-on-year, almost doubling system growth and slightly above our guidance range of 47% to 57% for 2016. Note that on-balance sheet loans rose 71% in the year, as with further reduced securitized loans, in line with our post-IPO funding strategy. On a sequential basis, loans were up 17% as we continue to execute on our growth strategy. Corporate loans continued to pose a strong performance, increasing their share of our total portfolio to 48%, up from 41% in the second quarter of 2016. Higher margin SMEs and middle-market loans represented about 59% of corporate loans. Consumer finance loans also did well, keeping their share of the total loans.

Looking at our loan book in more detail in **Slide 7**, corporate loans were up 117% year-on-year and 30% sequentially, almost tripling market growth. Strong demands for trade finance in US dollar denominated loans remained the main driver behind corporate loans. Retail loans increased 20% year-on-year with growth continuing to pick up, reaching 8% quarter-on-quarter, following the improvement seen in early July.

Finally, consumer finance loans were up 67% year-on-year and 70% quarter-on-quarter. Most importantly, we continue to see an improvement in asset quality following the deterioration experienced in the second quarter of 2016, which resulted from a short-term contraction in consumer's disposable income.

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

Jorge Oscar Ramírez:

Thank you, Patricio. Good day, everyone. Turning to funding on **Slide 8**, we expanded our deposit base by 18% sequentially and 51% year-on-year. US dollar denominated deposits increased to almost 21% of total deposits from 10% in the prior quarter, driven by the Government Tax Amnesty program. Loan deposits remained relatively stable at 100% quarter-on-quarter as we continued to primarily fund loan growth by reducing our holdings in Central Bank notes or Lebacs, given their declining interest rates, before starting to take higher cost wholesale deposits.

We also stepped up issuances of medium-term notes, up 109% quarter-on-quarter, contributing to improve cost of funding and tenor mismatch.

As you can see on **Slide 9**, our retail network and corporate franchise continue to support deposit diversification and drive growth in low cost demand deposits, posting sequential increases of 19% in savings accounts and 17% in checking accounts. Retail and senior citizens deposits represented 60% of total deposits, underscoring our low-cost deposit network franchise.

Finally, other deposits, mainly US dollars, were up 256% sequentially, driven by the Tax Amnesty program while time deposits were down 7% as we funded loan growth through issuance of higher tenor MTNs as I just mentioned.

Moving on to **Slide 10**, we delivered net interest margin for the year of 20.6%, slightly above our guidance range of between 17% to 20% and 250 basis points above 2015 levels. NIM for the quarter was 20.9% despite the decline in interest rates, the highest share of lower margin in US dollar loans and deposits. The latter was partially offset by income from the termination of a real estate investment trust in the fourth quarter of '16.

Last November we exercised our priority right to buy at market prices, all of the strategic located branches, included in this trust before these properties were divested by the trustee as established in the securitization terms and conditions. Excluding the income from the termination of this trust, NIM would have been 19.5% in the fourth quarter of '16 and 20.2% for the year.

Gross financial margin for the quarter increased 25% sequentially. Average earning assets rose above average interest bearing liabilities, while interest rate on average liabilities declined 290 basis points, above the 118 basis points decline in the rate of the Loan portfolio. This is excluding the trade finance and US dollar loans and deposits.

Moving on to **Slide 11**, net service fee income was up 13% quarter-on-quarter. Higher volume in credit and debit cards, as well as in checking and savings accounts, together with re-pricing following the elimination of regulatory restrictions on fees last September remain the main drivers behind this performance. The net service fee income ratio declined to 30.3% in the quarter from 34.6 in the third quarter '16, reflecting the higher growth in financial margin experienced in the period.

Income from insurance activities was down 33% quarter-on-quarter, reflecting the impact of regulatory changes and credit related products, which more than offset growth in non-credit related insurance products. Remember that beginning last September, Banco Supervielle and Cordial Compañía Financiera started to self-insure against credit-related risks and therefore no longer contract life insurance coverage for new flow of loans and credit cards.

Now moving on to asset quality on **Slide 12**, we posted an improvement in NPLs and coverage ratio, while observing asset quality in line with Seasonality and Business Segment profile. The NPL ratio fell to 2.8%, down from 3.1% in second Q of '16 and 3% last quarter, posting sequential improvements across all segments. Actually, the total NPL ratio was better than our guidance range of 3% to 3.2% by year-end. We increased the coverage ratio to 87.1% from 83.7% in the third quarter. Cost of risk was 3.9% this quarter, a slight increase from 3.7% in 3Q '16, but

significantly below the 5% reported in the second Q of '16. These increases are explained by regulatory provisions of new loans at the inception, given the strong seasonal loan growth in December that distorts average volumes of which the ratio is calculated.

Loan loss provisions increased 21% sequentially to AR\$317 million, above the 17% loan growth in the quarter, as we increased the non-performing loan coverage ratio by 340 basis points quarter-on-quarter to 87.1%.

Moving on to expenses on **Slide 13**, the efficiency ratio improved to 64.5% in the quarter from pre IPO levels of 73.8% in the first quarter of '16, but increased over 62.5% reported in the previous quarter. For the year, efficiency ratio was 67.5% in the low end of our 66% to 71% guidance range for 2016.

Administrative expenses rose 21% quarter-on-quarter, mainly reflecting: Extraordinary payments to employees resulting from the collective agreement reached with the labor unions last December, a 1.4% increase in our headcount to support future growth, the full impact from the salary increase agreed under the collective bargaining agreement with the merchant unions at the consumer finance segment effective since October, and performance bonuses in connection with higher loan origination and year-end results. Higher marketing and publicity expenses and taxes among others also contributed to the overall increase in expenses.

Now, turning to profitability on **Slide 14**, net income for the year almost doubled to AR\$1.3 billion from AR\$674 million in 2015, and was in the midpoint of our guidance range of AR\$1.2 billion to AR\$1.4 billion. In the quarter, net income was up 48% year-on-year and 22% sequentially as we continued to execute our strategy. As expected, return on average equity continued to normalize, reaching 31.3% this quarter after the dilution in the second quarter '16 from the capital raised in the IPO.

In terms of capitalization as shown on **Slide 15**, as anticipated, we repaid AR\$137 million of high cost Holding Company debt in the quarter. Remaining funds at the Holding Company at year-end of around AR\$830 million are invested in low risk short-term local mutual funds which posted the 25% annualized return in the quarter and taking advantage of tax losses carried forward in this Company. After paying down debt, we expect to maintain excess liquidity of AR\$690 million to fund growth.

Following the significant loan growth in the quarter, the consolidated pro forma Tier 1 ratio adjusted to 12.3%, reaching the high-end of our target guidance of 11.5% and 12.5%. Please bear in mind that this ratio only includes 50% of the Central Bank regulated subsidiaries fourth quarter profits, which will be 100% computed as Tier 1 capital effective February 2017. This effect has 40 basis points of common equity Tier 1 ratio. As the loan portfolio continues to build up and seasons, we expect accrued net income to increase our Tier 1 capital base to support future growth.

Moving then to **Slide 16**, regarding our performance in 2016, we're very pleased to have met or achieved the guidance provided in second quarter of '16. Our results underpin the strength of the business model and value proposition as we continue to unlock value, deploying the funds from our IPO, growing the loans per branch and taking advantage of the opportunities we see in our markets.

Now let me turn the call back to Patricio who will go over our guidance for 2017, and then we will open the floor for questions.

Julio Patricio Supervielle:

Thank you, Jorge. Let me now share with you our guidance for 2017 and some of the underlying assumptions which you can see on **Slide 17**.

As I mentioned earlier, the market expectation and ours is for GDP to grow by 3% this year with annual inflation down to 20%. We also estimate the average Badlar rate to reach 19% in December. Based on these assumptions, as we continue to drive our growth strategy, we anticipate a pickup in loan demand would grow in real terms exceeding 2016 levels. As a result, we expect total loan growth in 2017 to range between 38% to 45%.

Overall, asset quality is anticipated to trend down during the year, supported by the expected improvement in macro conditions. As a result, we expect cost of risk to range between 3.2% to 3.6% in 2017 down from the 4% reported in 2016.

With the declining inflation, we also expect to see a compression in NIM in the industry this year, which leads us to anticipate NIM to range between 17% to 20% of the full year. In terms of profitability, we expect net income in 2017 in the range of AR\$2.1 billion to AR\$2.3 billion, up from the AR\$1.3 billion reported in 2016. Keep in mind that typically the Company's net income in the second half of the year is higher than the first half, mainly due to economic seasonality and the effect of the monthly cumulative increase in assets in nominal terms and salary increases agreed upon between the Bank and banking employee's trade union during the first half, but applies retroactively to the first quarter.

We expect our Tier 1 ratio to range between 10.5% and 11.2% at year-end, as we continue to make progress on our Capital Deployment plan, increasing our risk weighted assets.

Finally, as we continue to deploy capital to leverage our infrastructure, we expect to achieve additional improvements in the efficiency ratio, reaching levels of between 63% to 67% for the full year.

Moving on to **Slide 18**, let me share with you some initiatives we are undertaking this year that will contribute to further drive operating leverage and leverage some areas of opportunity. We plan to allocate approximately AR\$400 million to four key initiatives this year. First, 20% to build out our core product leadership into integral relationships with customers developing cash management solutions; second, 30% to increase our network footprint by opening five branches in strategic locations aligned with a Company's SME's business strategy; third, 20% to step up digital initiatives aimed at enhancing customer experience, increase cross sell, and reduce service costs; and, forth, 30% to strengthen indirect commercial channels, particularly at our salesforce, and to upgrade our contact center and salesforce. These initiatives, along with our strategy of leveraging our underutilized operational platform, are expected to further drive profitable growth as the Company continues to execute on these strategies and deliver accelerating improvements in efficiency after 2017, reaching the mid-50s in 2019.

We are now ready to take questions, please. Operator, go ahead.

QUESTIONS AND ANSWERS

Operator:

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd 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. One moment please while we poll for questions.

Our first question comes from the line of Ernesto Gabilondo with Bank of America Merrill Lynch. Please proceed with your question.

Ernesto Gabilondo:

Hi. Good morning, Patricio and all the Management Team, and congrats in your results. Just three questions from my side. My first question, if we analyze your fourth quarter net income, we arrived at a full-year net income of AR\$2.1 billion, which is at the low end of your guidance for 2017. As such, do you think your guidance is conservative or is there seasonality to results? Secondly, can you quantify one-time items in fourth quarter results such as the gains from the termination of Renta Inmobiliaria and the one-time payment relative to the collective labor agreement?

Finally, I will want to ask you about your net interest margin guidance. Clearly you have guidance, stronger loan portfolio growth than the industry and your NIM seems to be more protective on a scenario of low interest rates, considering your retail exposure and your funding structure. Two of the three listed largest banks in Argentina have guided NIM pressure of 50 basis points for 2017. I believe your guidance contemplates a more ample range, so I just want to get your impressions and what you're expecting for NIM. Thank you.

Alejandra Naughton:

Thank you, Ernesto; Alejandra speaking. So, regarding your first question, seasonality is expected, that's the question. Given our typical seasonality, we calculate the run rate based on the fourth quarter results. We believe that is not a good indicator to predict full year for us, profit of first quarter of the year are lower than the previous one and they ramp-up sequentially. Let's say that we expect that approximately 60% of our profits will be made in the second half of the year. Are you okay with this answer or...

Ernesto Gabilondo:

Yes.

Alejandra Naughton:

I move to your question regarding the payments of the gain. Again, you asked regarding the gain for Renta Inmobiliaria. We recorded a gain, approximately, of some AR\$19 million connected with Renta Inmobiliaria trust.

Operator:

Thank you. Our next question comes from the line of Frederic de Mariz with UBS.

Jorge Oscar Ramírez:

Michelle. I'm sorry. There's one more question that he asked.

Operator:

I'm sorry.

Jorge Oscar Ramírez:

Okay.

Alejandra Naughton:

Ernesto, you also ask about the extraordinary payment to employees resulting from the agreement with the labor union. That's a payment of approximately AR\$35 million. But on top of that, some other factors add to the increase of the personal expenses quarter-over-quarter, the most significant increase being the headcount to supports our growth. Also, the full impact from the salary agreement agreed with merchant unions that our consumer finance segment effective since October; and finally, and most importantly, performance bonuses in connection with the higher loan origination, and year end results being this last factor the most significant given the seasonality observed along the year.

Jorge Oscar Ramírez:

Okay. Regarding your question about the NIM, as you mentioned in your question, we have a logical position of personal loans in our portfolio, and that has worked, in our favor in terms of protecting us from NIM compression. However, going forward—and this is probably the reason why we include this, why the range, as opposed to what the other larger banks in Argentina mentioned—is that we continue increasing in our Corporate portfolio and the mix, going forward, might change a little. Irrespective of this, we expect the NIM to remain larger than the NIM's of our competitors and we'll still maintain our substantial GAAP which will be above the ones from our competitors.

Operator:

Are you ready for the next question?

Jorge Oscar Ramírez:

Yes. We are.

Operator:

Our next question comes from Frederic de Mariz with UBS. Please proceed with your question.

Frederic de Mariz:

Thank you very much. Good morning, everyone, and thank you for the conference call. Two questions on my side. The first one, actually, you mentioned that the loan guidance of 38% to 45%. You also mentioned that you would grow faster in corporate. I'm curious to hear a little bit more color on where the growth could be coming from, in particular, what type of segments, what type of sectors in the industry for individuals; where do you see the most opportunities or which segments, on the flipside, do you see the most hurdles? So that's the first question in terms of getting more color on the growth guidance.

The second question, we saw that there was a high level of write-offs in the quarter. You talked a bit about asset quality. I just wanted to understand if there is anything special in the fourth quarter or if it's just the business as usual in terms of high write-offs. Thank you.

Jorge Oscar Ramírez:

Thank you, Frederic. Regarding your first question, we're seeing growth all across the board. There's no specific sector that clearly stands out. Essentially, I mean, the most dynamic sectors last year have been agribusiness, construction, mostly infrastructure, energy, decoration, and as a result of the auctions that—essentially electricity generation as a result of the auctions that the Government did in the last half of the year. We're seeing most of transportation and logistics to be very dynamic.

But when we look at the specific portfolio within the Bank, we're seeing stronger demand from all of our customer base. There's no particular industry that stands out, and we expect that going forward to remain more or less the same. As we also mentioned, we have the customer base in place mostly from our corporate portfolio. We still need to keep on growing our small- and medium-sized companies, and probably we expect some of the growth to come from there.

The other thing that we might pick up, might come probably as a positive surprise for the year, if inflation keeps on coming down and following the trend that we've been seeing, is that the Mortgage Loan portfolio might start to pick up earlier than what we have originally expected, and we have positioned ourselves very well there in terms of take advantage of that trend if it starts to ramp-up.

Regarding your question on asset quality, there's no extraordinary items in the fourth quarter of last year. The reason why we have the increases, as we explained in the presentation, is the cost-of-risk ratio is calculated on the base of the average portfolio for the quarter, and while the provisions are--therefore the charges on our income statement, I

calculated on our year-end balance. The difference within the year-end balance and our average portfolio for the quarter is AR\$5 billion. So the combination of that factor, plus the fact which increases our provisions on the performing loan portfolio that we need to do plus the increase in our coverage ratio, are the exponential for our fourth quarter charges.

Frederic de Mariz:

Got you. Thank you very much. That's very clear.

Jorge Oscar Ramírez:

Pleasure.

Operator:

Thank you. Our next question comes from the line of Fernando Suarez with AR Partners. Please proceed with your question.

Fernando Suárez:

Hi. Good morning, everyone. Thanks for taking the question and congratulations for the results. I would like to know about your outlook looking to the next quarter for you and looking for the year for the system regarding the excess cash that major banks are generating because of the Central Bank's recent announcement of not receiving any more cash. Thanks.

Jorge Oscar Ramírez:

Thank you, Fernando. Thank you for your compliments. It's a very good question indeed. We are a different type of bank compared to other big players in the market because we have very large monthly payments given the composition of our customer base. So, we're more on the payer side than on the cash receiving side, okay. So, for us it's an issue, which is lower than—the impact is lower than what it is for the other banks in the industry. In any event, we are planning—the rest of the industry is planning to start charging for corporate cash deposits, probably it's going to start as of March 1, and this is an industry-wide measure that they're using given the change in the Central Bank rules of game.

Fernando Suárez:

Great. Thanks.

Jorge Oscar Ramírez:

Pleasure.

Operator:

Thank you. Our next question comes from the line of Gabriel Nobrega with UBS. Please proceed with your question.

Gabriel Nobrega:

Hi, everyone. Thank you for taking my question. My question is more on the cost side. We've seen your efficiency levels improving. I just want to get more color for the rest of the year? What are you thinking about op ex and how should we see salary increases? Thank you.

Alejandra Naughton:

Yes. We expect in terms of administrative expenses to be growing during 2017 between 30% to 35%.

Gabriel Nobrega:

All right. Thank you.

Operator:

Thank you. Our next question comes from Carlos Gomez with HSBC. Please proceed with your question.

Carlos Gómez:

Yes. Hi. Good morning. You just mentioned that you are well-positioned if there is an unexpected growth in mortgages and real estate. Can you perhaps elaborate more as to how you are positioned there and whether you are doing it in local currency or in the indexed account that Central Bank introduced? How do you see mortgages in the long-run in your portfolio as a percentage of your total loans? Thank you.

Jorge Oscar Ramírez:

Thank you, Carlos. Well, we have reached an agreement with a real estate portal called ZonaProp.com. It's an exclusive agreement in which when people navigate through this portal and are looking for a house, they have a mortgage calculator which is tied to our Bank, and we're given leads as a provider of leads for new loan origination. We're one of six or seven banks which are currently operating. We have a very competitive offer of our products with a very high loan-to-value ratio of up to 75%, and we're also offering financing for second houses, not just single homes. The kind of operating we're doing is essentially in the index currency, so it's adjusted by inflation.

Carlos Gómez:

Okay. If I can follow up on that, so how did you plan to fund that, because my understanding is that the deposit side of the index, the currency that could be problematic in the future, what's your strategy there?

Jorge Oscar Ramírez:

Well, I mean, remember that we have just placed AR\$300 million bond to 3.5 year on a variable rate. So, we expect, as interest rates come down, we're going to use that. In the future—I mean, this is a short-term answer for us today in terms of the economics—the economics are there. Plus, on top of that, the other thing you have to add to this part is that the profitability that you make of a customer that has the mortgage with you is potentially higher and what you do with other type of customers. We saw it in every market, but the problem in Argentina was that traditionally this has been unexisting market.

But, going forward, when this market starts to really boom, we're going to expect then, that almost all the bulk of these mortgages will have to be securitized and, as you know, we have a very highly developed ability to securitize our Loan portfolio. So that's why in the mid-term that the funding solution we're looking towards these products.

Carlos Gómez:

Okay. Thank you very much.

Jorge Oscar Ramírez:

Pleasure.

Operator:

Thank you. Once again, as a reminder, if you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd 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.

Our next question comes from the line of Alvin Chui with Trend Capital. Please proceed with your question.

Alvin Chui:

Hi congratulations for your good results. I just have one question on my list. Obviously your loan growth continues to be driven largely or significantly by consumer finance business. Going forward, I presume that will continue to be the case, I mean consumer finance will be an important driver of your loan growth. Now in terms of your risk management, how do you ensure that with such a pace of loan growth and consumer finance business, how do you intend to control your non-performing loans from that segment? Thank you.

Jorge Oscar Ramírez:

Morning Alvin. I mean you're right. However let me just mention one thing, which is possible driver for our loan growth going forward, we still expect it to be corporate loans, okay. Essentially the market SMEs company. However clearly consumer finance will be the second most important driver of growth for our loan portfolio. In terms of how we expect to control our credit quality, I mean this is a business our bank has been doing for many many years. We have already—we bought this consumer finance business back in 2011 from GE. So we have lots of experience in terms of underwriting standards and scoring mechanisms and going forward with the controlling of inflation, with inflation coming down, which clearly will have an impact in terms of interest rates coming down, disposable income for these type of segments tend to become higher and that tends to help substantially in terms of the asset quality for the portfolio. So clearly the biggest problem we might face there is if the country goes back into recession, which is not the outlook we have for this year or the following years but definitely not for this year actually we expect this to be a recovery year, so we should see at the least stabilization in terms of asset quality level or even some improvement.

Alvin Chui:

Okay, got it. Sorry just one follow question on the NIM right. I think one gentleman was asking why your net interest margin will be more protected or higher than the peers for this year. I didn't quite catch the answer but what is the reason for the various reasons behind it?

Jorge Oscar Ramírez:

Because we have a higher mix of personal loans which are long term at a fixed rate, okay, compared to some of our peers. So that's why we have historically higher NIM than our peers.

Alvin Chui:

Okay. Thank you.

Jorge Oscar Ramírez:

Despite the fact corporate loans will keep on growing which still have such a large chunk of our portfolio that we derive an income from personal loans and that protects our NIM.

Alvin Chui:

Got it. Thank you. Congratulations again.

Jorge Oscar Ramírez:

Thank you.

Operator:

Thank you. Our next question comes from Alejandra Aranda, Itau BBA. Please proceed with your question.

Alejandra Aranda:

Hi. Thank you. Congratulations on the results. If I may, three questions. If you could give a little bit of guidance on what you're expecting for the insurance part of your business next year and going forward? A little bit more color on the fee evolution that you're expecting and Jorge if I may pick your brain on what you just said on securitizing mortgages. Clearly the Argentine market is quite small and there are no big players. Are you seeing ANSES stepping in as a buyer for those securitized products?

Jorge Oscar Ramírez:

Okay. Hi Alejandra, good morning. Let me take your last question first. In the long run, possibly it would be the logical buyer but definitely we are not expecting to be subsidized rates, I mean it will have to be at market rates. If we go to a much more (inaudible) environment, it makes all the sense in the world, the pension fund or the pension authority—or any pension savings—the one that provides the funding for mortgages. I would add to that that if inflation comes down and everything will tend to normalize so you can also, I mean—insurance companies and interest funds which normally tend to buy only short term loans or papers will have to increase—will probably have to increase the advanced maturities for securities that buys. So additionally on that, if interest rates are attractive, there's always a possibility you'll see current trades coming from abroad. We're starting from such low levels in terms of mortgage credit in Argentina that to be honest with you we don't see this to be a huge problem for the industry at least for the next couple of years. But then going forward it's an issue that will have to be addressed. As you've pointed out, ANSES sounds like a logical buyer for this type of securities going forward.

Going back to your first question regarding insurance. Being in effect that the regulations that Central Bank had, was that the credit related business for insurance companies is practically dead. Okay. So what you will see is a fade off those profits in all insurance companies and it is what is affecting our fourth quarter figures in our insurance company as we explained. What we expect going forward is that the non-credit related part of the business will start to grow. I mean we still have plenty of products which are voluntary insurance products that we could sell to over 2 million customer base—2.2 million customer base in the group. That currently we don't have available in our insurance company, we are expecting to launch some of them during the year 2017. On top of that the other plan going forward that we have is to start operating insurance for small or medium sized companies which is a line of business which is very attractive, very profitable and we currently aren't offering. So we expect the growth to come from there and probably between 2017 and 2019. Twenty-seventeen we'll probably compensate the loss of the credit related business or partially compensate for that and from 2018 on we expect this to keep on growing.

I forgot your second question. I'm sorry, could you repeat it?

Alejandra Aranda:

Fees

Jorge Oscar Ramírez:

The fee evolution for 2017? It's in the high twenties, yes. So essentially this will come from probably the repricing or keeping up with inflation. The rest will come from volume growth.

Alejandra Aranda:

Okay, Jorge. Thank you very much.

Jorge Oscar Ramírez:

Pleasure.

Operator:

Thank you. There are no further questions at this time. I would like to turn the call back over to Ana Bartesaghi for closing remarks.

Ana Bartesaghi:

Thank you all of 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, the Team remains available to answer any questions that you may have. Thank you and enjoy the rest of your day.

Operator:

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a nice day.