

Slide 1

Ana Bartesaghi

Good morning, everyone and welcome to the Grupo Supervielle First 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.

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 Supervielle, our Chairman and CEO will start the call discussing the key highlights for the quarter and priorities for 2023 as well as an update on macro views for this year and 2024. 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.

Slide 3

Patricio, Chairman and CEO

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

I will begin my presentation with Slide 3.

We are pleased to have begun the new year delivering ROE of 2% in real terms in the first quarter. We were able to achieve the positive ROE even as we continue to operate in macro and political environments that are volatile and challenging.

The various initiatives that we have implemented since 1Q22 to optimize operations and streamline our branch network have allowed us to achieve significant operating leverage contributing to bottom line profitability. Key among these were personnel expenses, which declined nearly 12% year-on-year in real terms.

We also benefited from our flexibility in managing assets and liabilities to optimize our financial margin in a context where we saw inflation increase to 22% for the quarter. Mariano will discuss our performance shortly.

For the current year with upcoming presidential elections, we expect to continue facing a volatile backdrop. As a result, our key priorities for 2023 include:

First, we are advancing on executing on our key strategic pillars, prioritizing profitability overgrowth. We have a large and loyal customer base, and we see the opportunity to deepen our relationship with them. Consequently, for the current year we are focusing on customer engagement, monetization, and cross sell to gain additional share of their wallet. Specifically, we are aiming to cross-sell insurance, investment products, shorter term loans along with cash management services.

Second, we have adopted an increasingly conservative risk profile. With accelerated inflation putting pressure on individuals' disposable income, we are prioritizing payroll customers while implementing stricter credit scoring overall. On the corporate front, we are focused on providing lending and transactional services to our key target segments that include SMEs and Middle-Market companies. We are also managing our exposure to public sector bonds while our shareholder equity remains fully hedged against inflation.

Slide 4

Now, please turn to page 4.

As shown clearly on this page, we are navigating a complex macro environment in Argentina.

The decline in foreign exchange reserves has been further impacted by the severe drought that surpassed the worst-case scenario this year with the value of the harvest falling by US\$20 billion year-on-year, negatively impacting levels of activity, price, and external accounts.

At the same time, interest rates continued the upward trend on the back of accelerated inflation while the FX rate continues to lag.

In turn, while fiscal spending has declined in real terms since the high levels observed in the first half of last year, the fiscal balance has deteriorated as revenues have been declining. The IMF's original fiscal primary deficit target of 1.9% has been exceeded and is currently estimated to almost reach 3%.

In this context, the financial system continued to experience weak credit demand with peso loans down in the low teens year-on-year, with loans to GDP at a historical low of 7% - and presenting significant long-term growth potential once the economy stabilizes. In turn, the system remains highly liquid with peso deposits growing above inflation and deposits to GDP standing at 18%.

Slide 5

Turning to slide 5, we share macro views for the remainder of 2023 as we head towards primaries in August and presidential elections in October.

The drought has contracted exports and is further pressuring already low reserves. To avoid a devaluation the current administration is limiting imports, dampening overall economic activity.

Several analysts project inflation for the year to continue increasing driven by monetization of fiscal deficit, tariff hikes, and higher devaluation expectations. As I just noted, interest rates are likely to follow an upward trend.

If the government succeeds in securing additional funding from the IMF, the major issue will be the conditions attached in terms of the use of funds to anchor the exchange rate.

Looking to 2024, economists reckon that the new administration will have to swiftly implement a stabilization program on several fronts aimed at lowering the fiscal deficit and normalizing relative prices, including tariffs and the foreign exchange rate.

We expect a significant improvement in our commercial surplus driven by the positive impact of El Niño on crops and therefore exports and the completion of several infrastructure projects that will support higher energy production.

Wrapping up, we have a long and successful track record of operating in volatile environments and are confident in our capability to weather these business conditions. Today we are prioritizing profitability over growth, introducing even stricter credit scoring, shortening lending tenors while actively managing our asset and liability structure. We also maintain high liquidity levels while our capital remains hedged against inflation, providing a solid foundation to resume growth as the economy recovers.

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

Mariano Biglia

Slide 6

Thank you, Patricio, and good day everyone. Please turn to slide 6.

To begin, as Patricio mentioned ROE was 2% for the quarter. This is in line with our expectations of returning to profitability. Importantly we accomplished this in an increasingly challenging environment.

We reported net income of nearly 560 million pesos in the quarter, compared to a net loss of 550 million pesos in 1Q22. The main drivers behind this year-on-year improved performance include:

- First, a 12% decline in personnel expenses – or nearly 2 billion pesos – reflecting cost savings obtained from the successful implementation of our rightsizing and operating efficiency initiatives as we have been discussing over the past quarters;
- Second, Loan Loss Provisions declined nearly 26% - or over 800 million pesos – as a result of declines in both the balance and in early delinquency of the consumer finance portfolio;
- Third, a 2% decline in Administrative Expenses – or close to 200 million pesos – reflecting cost savings achieved in the quarter; and
- Fourth, Net Fee Income was up 1% - or slightly over 80 million pesos resulting from higher fees from our brokerage business along with lower commissions paid.

These contributions to profitability were partially offset by Turnover taxes which have a higher weight as interest rates increase.

Slide 7

Turning to slide 7, total assets and liabilities increased below inflation and industry growth, as we took advantage of our flexibility in managing assets and liabilities in the increasingly volatile context to maximize NIM.

On the asset front, the quarter-end balance of securities issued by the Central Bank declined to 31% of total assets from nearly 36% in the prior quarter. While government securities increased their share of total assets to nearly 11%, this returned to 4Q22 levels by April.

Additionally, annual, and quarterly inflation of 104% and nearly 22%, respectively negatively impacted loan demand.

On the deposit front, institutional funding declined sequentially reflecting asset & liability management, while lower sight deposits from corporates and individuals were seasonally lower compounded by customers behavior in a highly inflationary environment.

Slide 8

Moving on to slide 8, the growth of our loan portfolio trailed behind inflation reflecting focus on profitability along with weak credit demand following the hikes in nominal interest rates. Also recall that first quarter loans are seasonally lower.

As a result, our loan book declined nearly 13% sequentially compared to a low-single digit decline at industry level.

In the current context, we have implemented stricter credit scoring. Consequently, we are prioritizing cross selling of our existing client portfolio, particularly insurance, investment products and personal loans to payroll customers. On the corporate front, we are focused on lending and transactional services to our key target segments that include SMEs and Middle-Market companies. At the same time, we will remain very active in

providing SMEs with access to the local capital markets where we hold a leading position as coordinators and placement agents of bonds in this market segment.

Slide 9

Moving on to page 9, the total NPL ratio increased 60 bps sequentially to 4.1%. Nearly 70% of this increase resulted from the decline in real terms of the loan portfolio. The remaining 30% was driven by higher 90-days delinquency levels in both open market and former consumer finance customers impacted by high inflation. We have been consistently tightening our underwriting policies in this customer segment to protect asset quality.

By April, the NPL ratio had declined to 3.9%.

Slide 10

Net loan loss provisions were 34% lower sequentially reflecting declines in early delinquency and in the balance of the consumer finance portfolio. Net Cost of risk, in turn, declined 140 basis points to 3.8%. Year-on-year, net loan loss provisions were down 26% with stable cost of risk.

As shown on the chart to the right, consumer finance loan loss provisions declined 75% and accounted for 16% of total provisions, down from 43% in the prior quarter. Note also that the consumer finance gross loan book declined 27% in real terms.

Slide 11

Turning to slide 11, Net Financial Income for the quarter was relatively stable at AR\$32 billion.

In turn, Net Interest Margin of 21.9% increased 30 bps sequentially and 270 bps year-on-year.

Higher returns in our investment portfolio driven by interest rate hikes introduced since the first quarter last year following increasing inflation, more than offset lower loan portfolio NIM.

Slide 12

Now, please turn to page 12. Our efforts to right-size operations and drive higher operating leverage implemented since 2Q22 to regain profitability contributed to improved efficiency this quarter.

We are encouraged with the 230 basis point year-on-year decline in the efficiency ratio. Total expenses decreased 8% and personnel costs 12%, while revenues were stable with a minor decline of -0.7%.

Slide 13

Now moving on to Capitalization. As shown on slide 13, we ended the quarter with a Tier 1 ratio of 14.7%.

Compared to year-end 2022, our Tier 1 ratio expanded 170 basis points, mainly explained by the inflation adjustment of capital, while risk weighted assets increased below the 22% inflation in the quarter. The Bank's net results also contributed to the higher Tier 1 ratio.

Slide 14

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

Considering that the market consensus for yearly inflation has risen close to 130%, a notable increase from earlier forecasts of 100%, and with predictions of GDP decreasing by 3.1% instead of remaining steady, as reported in this month's Central Bank survey, we have revised our perspective on the following line-items:

- We now see peso loans growing below inflation, while before we anticipated loans to grow in line or slightly below inflation.
- Likewise, we now expect peso deposits to also grow below inflation, while before we saw peso deposits increasing in line with inflation.
- With respect to asset quality, as noted in our prior earnings call, the higher delinquency rates in retail customers that we have observed since year-end, have continued. With steep inflation eroding lower-income individuals' disposable income, in particular our former IUDU customer base and impacting loan demand, we now anticipate net cost of risk for 2023 increasing by up to 1 percentage point from 2022 levels, versus expectations of maintaining stable levels Year over Year. Also note that in 2022 we recorded some extraordinary loan recoveries from corporates which are not expected to repeat this year. Additionally, we now expect the NPL ratio at year end to range between 4Q22 and 1Q23 levels, while before we anticipated to close the year with NPLs in line with year-end 2022 levels.
- By contrast, in a higher interest-rate environment, we now anticipate NIM above 2022 levels, above our prior expectation of stable NIM year-on-year.
- We are also increasing our Tier 1 ratio to range between 13% to 14% by year-end, up from 12.5% and 13.5% before. As a reminder, 100% of our capital remains hedged against inflation.

Beyond these changes, our 2023 expectations for all other metrics remain unchanged from our prior quarter views.

Lastly, while we maintain our views of delivering positive ROE there's greater uncertainty on the macro, political and regulatory front. 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 go ahead, Ernesto.

Ernesto Gabilondo

Congrats that your earnings have reached an inflection point, so good. I just have a couple of questions. The first one is on your ROE, we saw it was 2% in real terms in the quarter. But how should we think about the ROE for the year considering this complex macro outlook?

Then the second one is on your effective tax rate. I think it was kind of high during the quarter. So can you elaborate what was the reason behind it? And how should we expect the effective tax rate for the full year?

Patricio Supervielle

Thank you. Mariano, can you answer that?

Mariano Biglia

Yes. Ernesto, thank you for your questions. First, regarding ROE, as you said, we achieved 2% positive ROE in real terms for the quarter. And for the rest of the year or for the complete year, we are maintaining our expectations of achieving positive ROE as we projected in prior quarters.

These projections are based mainly in cost reductions, derived from the IUDU business merge with the bank, also with the transfer of the San Luis financial agency agreement to Banco Nación, which allowed us to reduce costs, mainly of branches and personnel, and third, the rest of the efficiencies achieved during last year.

Those things were in place. There were executed in 2022. Now we are seeing the results. So they allow us to think that we will achieve also the positive ROE for the year. But having said that, as we commented during the presentation, the macro front has worsened significantly.

And I would say that now after one quarter of the year, we have more uncertainties than we had three months ago. Why? Because inflation has risen to 22% in the quarter. And for the full year, the last economic consensus of the survey of the Central Bank reached 126%. That was before the data of April. So most probably those projections are being revised upwards.

So this is much higher than the 100% inflection we had in our projection. Also, the GDP, we now believe that it will be decreasing probably more than 3%. So that will also have a toll on economic activity, and we will be also monitoring credit risk, particularly on the individual side.

So with all these factors considered, we think there's a greater uncertainty. We are still positive for the ROE for the year, but always contingent on this factor, particularly the macro and the regulatory front.

Then regarding the effective tax rate, according to IFRS, we need to record in the income tax line item, the impact of inflation on certain tax credits. So that's part of the result of the monetary position that is recorded in the income tax line item. So that creates larger charge and a higher effective tax rate.

If we adjust by that, that's about AR\$700 million for the quarter. If we adjust that and reduced the profit before taxes and reduce the income tax charge, that would give us an effective tax rate of approximately 40%, which is still a bit higher from 35%, but the difference is clearly short. There are still some differences because there are some permanent difference regarding nondeductible costs for the income tax return. So all this difference also when the result is low, have a great impact and they may they produce higher distortion. So that's why you see such high effective tax rate.

Ernesto Gabilondo

Just a follow-up in these two ones. So in the ROE, you mentioned, we expect positive earnings, positive ROE in the next quarters. I don't know if we can expect like something around mid-single-digit ROE for the full year? And in your second one, if we normalize the effects, the tax rate should be around 40%. So am I right on those ideas?

Mariano Biglia

Well for the first one, it's still hard to predict. I will probably be more conservative and say in the low single digits, maybe similar to what we see in the first quarter. But there are still many moving parts because remember that with so much higher inflation at higher interest rates that is positive for margins, but higher inflation can be negative for our costs and also can be negative for loan loss provisions.

So this effects may offset each other. But we still have to see which impact is higher in the positive on margins or the negative on the cost side. So I would say the ROE in the low single digits, but with all these parts to be considered.

Then regarding the effective tax rate, it would be 40% if we wouldn't make these adjustments required by IFRS, which is an adjustment only for the presentation of the income statement, but we will still have to do it. So if the ROE is closer zero, the distortion that this adjustment produces is higher. So maybe you will still see a high effective income tax rate. I don't know if I was clear.

Ernesto Gabilondo

Yes. Super helpful. Thank you very much.

Ana Bartesaghi

Thank you, Ernesto. Our next question comes from Rodrigo Nistor from Latin Securities.

Rodrigo Nistor

Appreciate the opportunity to ask questions. First, I would like to address the topic of inflation and interest rates. I mean in the current economic climate, it seems that interest rate adjustments alone may not be sufficient to control inflation. So given this, how do you anticipate interest rates to evolve in the short term? Is there a possibility that we might experience more negative real rates if inflation continues to escalate. What's your funding strategy allocation given your view on interest rates?

Patricio Supervielle

As we have seen already in the past quarters, there has been increases in interest rates. We continue to see this looking forward when there is a mark of inflation, an increase in interest rate. However the view is that we have this sensation that the Central Bank is behind the curve, and we're not seeing rates that anticipate expected inflation.

So in this sense, this is what we see. But anyway the way we structure our assets and abilities, every time there is a hike in interest rates, it is positive for our financial margins. I don't know if you want to add something, Mariano?

Mariano Biglia

Yes. As Patricio mentioned, if inflation continues to go up, probably interest rates will follow behind, but without going to an important positive field because interest rates always follow lagged inflation and not anticipate. So that's what we are expecting, although it is positive for our financial margins. We would expect that the monthly inflation would not go much higher, but what we have seen in April and what is expected for May.

Rodrigo Nistor

Okay. And a follow-up, if I may. And maybe looking further into the future. So Argentina will be welcoming a new government and also a new central bank administration next year. So -- could you share your thoughts on what potential policy changes you anticipate or you think? And how you're preparing the bank for this new environment in 2024? Thank you.

Patricio Supervielle

Well first, let's start with the situation today. As of today Argentina is facing the worst drought we have seen, with a big shortfall in revenues for the Central Bank. With very low reserves and severe limitations implemented to restrict imports and affecting the economic activity.

There is a sense of fatigue in the sense that there seems to be a political consensus for that next government needs to make broad changes in monetary fiscal policies, but also on other fronts such as maybe labor reforms.

And so it would be like a shock therapy probably. So having said that, next government, we believe that the regulatory changes will come. They will have a positive impact, of course in the banking industry because we've been suffering some punitive regulations that affected our profitability, particularly caps on interest rates, floors on interest rates for time deposits, also certain regulations on commissions.

But at the same time, all these positive regulatory changes, we believe that they will come, synchronized with the implementation of the monetary and fiscal policies. And probably regarding the FX, we don't believe at this stage that it will be feasible a complete deregulation from day one.

So it might take time to do this FX deregulation and it will come gradually. That is our thought at this point. We expect that for us, it will be positive because of what we need. The financial industry in Argentina is completely transactional and is suffering because of high inflation because we don't have basically savings. They go away to protect against the erosion of purchasing power -- and with low inflation, there is a huge potential for the financial industry today.

The loans are 7% of GDP. But of course this will depend and we hope that it would depend on the swift implementation of the normalization of fiscal monetary policies. We expect that still 2024 will be a relatively difficult year sort of a transition year where all this will be implemented and maybe with a pickup of loans in the second part of the year. I don't know if I answered your question.

Rodrigo Nistor

Yes. That was really helpful and insightful, too.

Ana Bartesaghi

Thank you, Rodrigo. Our next question comes from Yuri Fernandes at JP Morgan.

Yuri Fernandes

And congrats for the first profits in a while. I have a question regarding devaluation and your FX exposure. We saw you increased a lot your global net position on that.

So my question is if there is a big devaluation on the FX what are the moving parts? How this affect the bank? And I have a second question regarding deposits, especially on transactional deposits, on demand deposits and savings. We are seeing a big decrease quarter-over-quarter. We also saw that when other banks reported in Argentina, higher rates, high inflation, maybe investors are getting more smarter on deposits.

But is this only a rate thing? Or are the banks losing market share to wallets in Argentina, like Meli, like all those guys? Maybe as they are paying for deposits, are you losing market share? Or is it just in Argentina using less deposits.

Patricio Supervielle

Please, Mariano, can you answer the first part of the question?

Mariano Biglia

Yes. Yuri, thank you for your questions. Regarding devaluation, if a hike in devaluation were to happen in real terms, that is devaluation much higher than inflation for the period.

We can be long in U.S. dollars, up to 5% of our capital at the bank. Through total instruments or NDFs and on top of that, we also can have and we do have a position in dual bonds from the government. These bonds pay the higher of inflation or devaluation. So right now, we are accruing inflation, which is at very high levels and devaluation is going behind, although the government is accelerating the growing base.

It's going behind inflation. But if devaluation were to happen those bonds would pay devaluation rate. So that's how, as we already mentioned, we are 100% hedged against inflation, but also we have a small long position in U.S. dollars, which can be also larger if we account for these dual bonds.

So the first thing, would be, again mainly on this long position in foreign currency accounting for the dual bonds. Then most probably a devaluation would translate into higher inflation. So also there, we would increase our margins to offset the higher inflation. That will translate in the short term or the medium term into higher costs.

So that's what I would expect to be the moving part. Then regarding our loan portfolio right now, the weight of the foreign currency, the loan portfolio denominated in foreign currency is much lower than several years ago.

So it has a very low weight. So the risk-weighted assets would increase because of the devaluation because we measure them in pesos translated to the official exchange rate. But the impact on the risk-weighted assets would be limited. I would say probably the gain of the net position in U.S. dollars would more than offset that increase in risk-weighted assets when we look at the Tier 1 rate.

Then regarding deposits, as we mentioned during the presentation, we have this flexibility in our balance sheet to increase or decrease deposits and in turn increase or decrease positions, mainly in Central Bank instruments. So what we've seen during this first quarter is a decrease, mainly in the deposits. We applied to repos with the Central Bank or LELIQs, which is something we've managed according to the opportunities we see. So you may see these deposits decreasing quarter-over-quarter.

Then also, as you said, with higher inflation, individuals and companies try to reduce as much as they can, their balances in savings account or current accounts to be less impacted by inflation. So they go to mainly money market funds or time deposits, which has a minimum interest rate.

So that's what we are seeing that the balances of savings account and current accounts don't grow at the same pace of inflation. In turn, we could see higher growth in time deposits but at the same time, we don't want to grow that much on deposits with a minimum interest rate because we don't have any spread with particularly with the individual deposits, which have a higher minimum interest rate and we pay taxes on that.

So that's why we are not growing in real terms. Of course we growing in nominal terms, but not at the pace of 22% inflation in this quarter.

Patricio Supervielle

Yes. Adding to that, what Mariano said, you mentioned on the competitive situation for deposits. I think it's interesting to mention that with high inflation there is an erosion of purchasing power in the Argentine currency. So many individuals, what they do to basically to preserve their purchasing power, they make transfers from banks to certain fintechs, particularly to Mercado Pago because it compensates for inflation in money markets.

This is a pattern that we have seen. So we have decided and in fact, we have implemented, a very interesting tool for customers not to do that and to maintain the money with us. And basically, we have implemented as of a few weeks ago, a money market investment that they can invest 24 hours a day five days a week and keep and make the investments and take them out instantly.

And this will be seven days a week in a few weeks' time and 24 hours a day the same standards that Mercado Pago. So we believe that this is a competitive reaction, very strong from our part.

We are the first bank by the way to do this. We are very happy with that.

Ana Bartesaghi

Thank you, Yuri. Okay, ladies and gentlemen, we have reached the end of today's Q&A session. Thank you for joining us today. We appreciate your interest in our company. We look forward to meeting more of you over the coming months and providing financial and business updates next quarter. In the interim, we remain available to answer any questions that you may have.