

Grupo Supervielle 2Q24 Earnings Conference Call Transcript

Slide 1

Ana Bartesaghi

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

Please turn to slide 3 for an overview of the quarter results. Our strategic actions are driving the desired results. We deployed an early mover strategy that resulted in solid loan volume growth and market share gains.

Asset quality remained healthy with a record-low NPL ratio and a coverage ratio of over 300%. Our robust capitalization with a CET1 ratio of 21% positions us well to continue driving share gains.

We reported ROE of 10% for the quarter and 22% for the first half. As anticipated, NIM declined during the quarter reflecting lower spreads following the sharp drop in interest rates earlier in the year. The growth in fee income, across our banking, asset management and our online brokerage operations also contributed to the quarter's solid performance. Furthermore, our efforts to enhance operating efficiencies while staying closely connected to our customers continue to yield positive results.

Let me spend a few minutes discussing the key drivers of our performance during the quarter.

- Digital adoption continues to play a key role among our **Retail Customers**. Digital customers now make up 65% of our total customer base, with 56% of transactions completed through our App, up from just 42% a year ago, indicating strong wallet adoption while lowering our cost to serve.
- We've also made significant strides in our **Corporate** and middle market **customers** segment, with the loan book growing sequentially by an impressive 42% in real terms as we focus on supporting export-oriented value chains. We closed the quarter with higher balances of sight deposits among corporate clients, leading to increased transactional volumes as we advance on becoming their primary bank.
- **IOL**, the leading online retail brokerage platform in Argentina, contributed 19% of total fee income, with all key metrics showing a strong performance. Active customers doubled year-over-year, to a record high of 566,000 clients in July. Assets under management grew 23% sequentially in real terms, hitting the US\$1 billion milestone while sustaining solid transaction activity.
- Lastly, we are advancing in driving digital adoption and penetration in our **Insurance and Asset management businesses**. We've broadened our digital insurance offerings for both corporate and retail customers, resulting in a strong +25% year-to-date growth in car insurance. In Asset Management, our focused efforts have helped us increase our market share to 2.5%.
- Enhancing the customer experience is a key factor behind our product and service initiatives. And we are very pleased that we continue to achieve increases in our **NPS** across all segments.

Slide 4

Turning to slide 4, key economic highlights for the quarter include the approval and regulation of the 'Ley de Bases,' along with ongoing deregulation efforts, achieving a fiscal surplus of +0.4% as of June and inflation easing faster than expected, with 2024 projections now at 127%, down from January's 227%. The Central Bank's deregulation efforts are further enhancing the business environment.

While the overall macro-economic environment is improving, some areas still require attention, including ensuring the sustainability of the Central Bank's US\$17 billion reserve increase and maintaining public support for ongoing reforms.

Under this new environment, the financial industry is seeing early improving signs of recovery as loan demand growth returns. To ensure sustainable growth the next milestone is the lifting of the lifting of FX restrictions.

Our financial results to date reflect the actions we have taken over the past few years, including new product offerings and efficiency measures together with policies established under the Milei government. As a result, we have a solid foundation in place and are well positioned to benefit as demand continues to recover.

Slide 5

Now moving to slide 5, we have been transitioning our asset base away from Central Bank securities towards private sector loans. This is reflected in the increasing loan-to-deposit ratio, which stood at 59% at quarter end, up from 32% at year-end 2023.

This reflects a drop in the share of Central Bank securities over total assets to 28% from 40% at year-end 2023, while loans increased their share by 12 percentage points to 37% at the end of June.

This trend is expected to continue during the second half of the year. In this context, we expect NIMs to normalize to historical levels and NFI to grow over time - even with lower yields - as credit demand strengthens.

Slide 6

As shown on slide 6, our strategic move towards capturing loan demand early in the recovery allowed us to expand our total loan portfolio by 36% sequentially in real terms.

This resulted in total market share gains of 30 basis points sequentially and 70 basis points year-to-date. Importantly, we gained share across all products.

As of June, SMEs and Corporate loans accounted for 65% of our total loan portfolio, while Retail loans accounted for the remaining 35%.

In corporate loans, we remain focused on servicing high-potential export-oriented value chains as we leverage our exposure to high-potential industries including mining, agribusiness, and oil and gas.

In retail loans, we are strategically focused on lower-risk segments, including mortgages, car loans, payroll loans, and credit cards to existing customers. Looking ahead, we expect to continue scaling our mortgage loan

product introduced earlier in the year. We also plan to continue scaling personal loans as well as car loans leveraging our number two position in auto loan origination.

In sum, we are well positioned in sectors that are leading the recovery. We are focusing on originating short-term loans to corporates and asset-backed loans to individuals, together with stringent credit policies - including portfolio limits according to the health of each industry to ensure an atomized loan book across industries and customers. This, coupled with our strong capitalization, positions us well to continue to drive significant loan growth as demand continues to recover.

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

Mariano Biglia

Slide 7

Thank you, Patricio, and good day everyone.

Now, let's direct our attention to slide 7, to take a deeper look at our performance for the first half of the year.

Net income increased to over 72 billion pesos, achieving a 22% ROE in real terms, up significantly from 26 billion pesos and real ROE of 10% in the first half of last year driven primarily by an increase in Net Financial Income.

Starting with revenues, **Net financial income** increased 69%, driven by a higher yield on our investment portfolio and a reduction of 140 basis points in the cost of funds. Recall that interest rates increased significantly in the second half of last year and declined sharply following the removal of floors on rates in March. Net fee income, however, declined 7% as fees increased below the 272% accumulated inflation.

Structural cost efficiencies contributed to a 9% year-on-year decline in **Costs**, as I will explain in more detail shortly.

Furthermore, a strategic shift in loan allocation towards middle market corporates and payroll customers led to a 3% reduction in **Net Loan Loss Provisions**.

These positive impacts more than offset the 255% increase in **inflation adjustment** on higher net monetary assets and inflation during the period, alongside the 83% increase in **other net Losses** attributable to higher turnover tax and provisions created for strategic initiatives.

Moving next to Slide 8 for a discussion of our loan portfolio.

Slide 8

As Paricio noted, we have continued to gradually shift our asset base towards a larger mix of private-sector loans and you can see this evolution in the bar charts.

At the same time, we have gained share across most loan products in both our Commercial and Retail portfolios.

With respect to mix by portfolio type as shown on the pie charts:

- Corporate loans account for approximately two-thirds of our total loan portfolio. Within this portfolio, short-term promissory notes stand out, increasing their share of the total corporate book by 2 percentage points to 54%, followed by overdrafts at 22% and foreign trade at 18% of this book.
- Within Retail loans, credit cards accounted for 32% of the book, followed by mortgages and personal loans at 27% each, and car loans at 14% of the total retail book, where we rank second in car loan origination.

Slide 9

As shown on slide 9, our total deposit base remained stable sequentially in real terms although the mix changed slightly. FX deposits increased 4% above industry trends, with the FX share over total deposits increasing 1 percentage point.

As shown on the chart to the right, peso deposits posted a slight sequential decline but with a greater mix of lower-cost savings and checking account deposits. Wholesale funding declined, reflecting asset and liability management following the sharp drop in the monetary policy interest rate.

Moving next to Slide 10.

Slide 10

As anticipated in our prior call, lower inflation and yields on peso denominated government securities and loans, in a context of lower policy rates and industry loan penetration still at historical lows, resulted in a 43% sequential decline in Net Financial Income to 203 billion pesos.

The sharp decrease in policy interest rates and lower volumes of interest-bearing liabilities, drove a 30-percentage point reduction QoQ in cost of funds in the quarter.

Also recall that in 1Q24, higher yields on inflation-linked government securities benefited from peak inflation rates of December and January.

Slide 11

Moving on to slide 11, expenses declined 15% Year on Year and 8% sequentially, primarily due to efficiencies in personnel, D&A and administrative costs, as we further advance on reducing our cost to serve. The sequential performance was partly offset by increased promotional activity to strengthen our position in a more dynamic environment.

Efficiency improved to just below 51% from almost 63% a year ago. On a sequential basis, however, the efficiency ratio increased from 34% in the first quarter which benefited from a non-recurring gain in AR\$ bonds that resulted in an exceptionally high NIM.

Slide 12

Turning to slide 12, we closed the quarter with a CET 1 ration of slightly over 21%, declining 390 bps sequentially.

This performance reflects growth in Risk Weighted Assets reflecting strong loan growth in the quarter, together with the 20 billion peso dividend payment made in April and the 8 billion peso shares repurchased during the quarter. This was partially compensated by capital creation in 2Q24.

Slide 13

Moving on to slide 13, in the current context we are adjusting our perspectives for 2024 as follows:

- As credit demand continues to recover, we now expect **Peso loans** growth to step-up above 40% in real terms, with retail loans increasing their share of total loans.
- **Peso deposits** are expected to continue growing above inflation, although at a faster pace, with USD-denominated deposits expected to gain share of total funding.
- The **NPL ratio** is anticipated to converge to levels in line with higher credit demand, up from the historical low reported this quarter, with the **net Cost of Risk** remaining at 2023 levels.
- With inflation receding, we now expect **expenses** to decline in real terms as we continue to see the benefits from efficiencies in headcount and branches.
- We maintain our ROE expectation for the year at approximately 15%. During this transition, as we continue to shift to private sector loans from public securities, we expect to see a lower NIM pressuring ROE in the third quarter.
- Lastly, as loan growth accelerates, we anticipate closing the year with a **CET 1 ratio** of between 17% to 20%, compared to our previous expectations of 20% to 25%.

This ends our prepared remarks. 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 Brian Flores with Citi. Please go ahead, Brian.

Q&A

Brian Flores

Hi, Team.

Good morning. Thank you for the opportunity to ask questions here. I have a question on your turnover tax situation, right, because you made a provision there. I think it's AR\$33 billion. I wanted to ask you, how should, I mean, obviously, you're not expecting to be paying going forward taxes. I just wanted to know when would you have the final decision on this, and if the provision needs to be adjusted by inflation going forward, and this will be updated sequentially on your income statements and balance sheets. How should we, think about this going forward? Thank you.

Mariano Biglia

Yes, hello, Brian. Thank you for your question. Regarding this provision, it's correctly the amount of AR\$33 billion. We think we're conservative on that provision, but we prefer to maintain it. We call that this is the turnover tax that the city of Buenos Aires, imposed on revenues deriving from Central Bank securities, LELIQs on the first place, but also Central Bank Repos, and then also the province of Mendoza and other provinces, but the main ones being city of Buenos Aires and Mendoza, and then this year, the province of Buenos Aires. It's important to highlight also that now, as the Central Bank stopped issuing LELIQs and then stopped giving Repos, and now we migrated that securities portfolio to the Treasury notes, short-term Treasury notes. We are not agreeing in any tax because the Treasury notes are, with no doubt, they are exempt from this tax. So there's no new taxes on these short-term securities.

Now with regards to the Central Bank security revenues during last year and the first month of this year, we made a claim with the Supreme Court of Justice. This was also made by the other banks within the bank association, and there was a demand from the Central Bank with the Supreme Court of Justice because these tax affects the monetary policy of the Central Bank and provinces cannot interfere in the monetary policy. So the process can be very long because the Supreme Court hasn't made any pronouncement yet and we know these processes take a long-term to be defined. This is also related to the dispute between the city of Buenos Aires and the national government because of funds from taxes that the city of Buenos Aires received in the co-participation with the other provinces and prior government reduced the share that the city of Buenos Aires received.

That's when a prior mayor of the city of Buenos Aires imposed this tax, so when the Supreme Court makes a decision on that matter, maybe then they will make a decision on this too. So we are positive on the outlook of the result of this dispute, although we have this provision just to be conservative. But it can take several years. And then the last part of your question is adjusted by inflation. It's not directly linked to inflation, but the provinces take an interest rate. So if we had to pay the tax, the liability would include the interest rate.

Brian Flores

Perfect, super clear. If I may, just a quick follow up on capital, right? Because we have data as of May with the Central Bank. And if I'm doing the calculation here, June was negative, right? In terms of net income or close to being negative. I wanted to ask you on capital because quarter over-quarter, you're consuming quite some bps, right? I think over 300 bps. Now your guidance suggests another consumption because as you mentioned, you're increasing risk-weighted assets. Just wanted to maybe open this question in two parts. First, should we expect the third quarter to be maybe negative in terms of net income contribution? And then the second one is in

terms of growth in risk-weighted assets, what type of loans are you thinking on expanding? Is it a bit more on the heavy part, which is higher risk-weight or a bit more balance between, I don't know, mortgages and consumer? Just to think about this going forward. Thank you.

Mariano Biglia

Okay, yes. First, the profit capitalization is always positive for the CET1 ratio as we had a 10% positive already in the quarter. We added capital, but as with the quarter where the loan portfolio grew 40% or 36% in real terms in just one quarter. Of course, in that case, the increase in risk-weighted assets is higher than the capital we add. So, that's why we, you can see the consumption of 390 basis points in the CET1 ratio. And looking forward, as we continue to see growth in real terms, we will start also to use that capital. Now, we are in the middle of the transition where our ROE will tend to a 15% this year but coming from higher ROE in the first quarter. So, most of the capital addition coming from the ROE. We have it already in our capital numbers and then you will start to see risk weighted assets growing. The pace of the growth for the next quarter maybe will be lower than the second quarter, which was extremely high because the decline in interest rate was very sharp. But we will continue to see growth in real terms in the third and fourth quarter. That's why now we expect the capital ratio to range between 17% and 20%, which is a lower level where we now are. And regarding the type of loans where we are planning to expand on.

Patricio Supervielle

Let me take on that one. The strong growth we saw in the second quarter was primarily from corporates and the loan demand particularly from the value chain of export oriented dynamic industries such as oil and gas and mining and agribusiness. And there was also a rebound in terms of individual loans from car loans, particularly car loans and personal loans for retirees and payroll loans. However, we believe that two thirds of the loan book is today corporates and one third is individual loans. So this means that with the change of monetary policy and the decreasing interest rates, the NIMs came down very strong in the second quarter. And we believe it's going to continue. However, the mix of loans will start to change. And by the end of the year, we expect that in individuals they will start, there will be a pickup of loan demand. And therefore, there will be a balance between corporate loans and individual loans around 50% each. And this will help us to achieve an historical NIM level of 20%. So this is the way looking forward to 2025, our balance is going to be much stronger in terms of revenue generation.

Brian Flores

Perfect, team. Super clear. Thank you very much.

Ana Bartesaghi

Thank you, Brian. Our next Our next questions come from Ernesto Gabilondo with BoFA. Good morning, Ernesto. Please go ahead.

Ernesto Gabilondo

Good morning. Thank you, Ana. Hi, good morning, Patricio, Mariano, and Alejandro. My first question is if you can elaborate a little bit more on the undoing positions that the banks executed with the Central Bank related to the PUTs and what are the implications into the P&L and the balance sheet. And also, on the other hand, I think there's some proposition of the Central Bank to do something with Repos. So I will also want to hear from you the timeline and the implications from those Repos.

Mariano Biglia

Hi, Ernesto. Thank you for your question. Regarding the PUT options we had on part of our Treasury notes portfolio, we had as of June 30 around AR\$300 billion in inflation link bonds from the government.

Out of those AR\$300 billion bonds, maybe between 50% and 60%, we have PUTs options. Remember that these PUT options didn't guarantee a price, they only guaranteed liquidity. And as you know, the Central Bank proposed to buy back those PUTs options paying a price. And we, as most of the bank did, we agreed to sell those PUTs options to the Central Bank. Out of this portfolio, maturities of these bonds were between the end of this year and up to the end of 2027, but most concentration was in 2025 and 2026. But also these bonds are part of our hedge with inflation and we are holding them until maturity. That's why it's part of our investment portfolio. So that's why we agreed to sell the PUTs because it wasn't a portfolio that we were willing to sell in the short term.

Patricio Supervielle

Let me add on that. We also believe that the Milei government has a strong focus on fiscal consolidation and therefore holding these Treasury securities with these policies are. I think it's I think we are at ease and we are comfortable and we believe that in the end this is going to be reflected in the prices of government securities.

Mariano Biglia

You asked also for repos. With what Patricio said, the government is passing the debt from the Central Bank to the Treasury where they want to achieve a fiscal surplus or at least fiscal balance, including interest.

So that is a greater responsibility and shows a greater compromise for the government to be accountable, to make the Treasury accountable for the interest of its own debt and not being paid by the Central Bank creating quasi-fiscal deficits. So, in this context and with this government, we think the risk from repos of the Central Bank and the new LEFIs, which are these short-term notes issued by the Treasury, we think that the risk is very similar. And, liquidity is always guaranteed by the Central Bank. So it is basically a very similar instrument for us.

Ernesto Gabilondo

Okay, no, perfectly understood. Thank you so much. And then I would like to add a second question. This one is in terms of the loan demand, which seems to be finally materializing because of lower inflation, lower rates. So can you elaborate on which are the industries that you are starting to see this higher demand? And then just a follow up in terms of your ROE guidance of 15% for this year. So if making the numbers, this would imply average ROEs below the 10% in the second half. Is that correct? And I think Patricio said that you want to have a sustainable ROE in the medium term of around 20%. So I just wanted to double check those figures.

Mariano Biglia

Let me answer first the question regarding ROE. It's correct, we expect a lower term ROE of 20%. But now we will be in the middle of a transition to that ROE. Your calculations are completely right. We are expecting a more challenging third and fourth quarter just because we are in these transitions where interest rates have dropped significantly. NIMs are reducing, we still have high inflation, it's of course being reduced very fast, but we still have high inflation and the loan demand has risen sharply from historical lows. We are still at a very low demand, measured as loans to GDP, so the next two quarters will be very challenging with ROEs probably below 10%, that's why we expect 15% ROE for the year when we have 22% ROE in the first half of the year. So, when

that transition from assets of the Central Bank and Treasury securities to loans and within the loan growth, we also grow not only in short-term loans to corporate, but also on the individual portfolio, we are growing very well in personal loans, car loans, which have higher NIMs, and we focus on growing on higher NIMs products. We'll start to recover that ROE and return to an ROE of 15% and then increasing it in the longer term when consumption returns and also we can grow profitably across all segments, not only in specific segments.

Alejandro Stengel

Ernesto, good morning. Industries that are leading the credit demand, as you know, are oil and gas, mining and agribusiness, but more recently we've seen also an increase in durables and more consistently in construction. Consumption is trailing, lagging these leaders, but is also going to pick up as soon as we consolidate the purchasing power and salaries start going a little bit above inflation. It's interesting to note that because in many of these industries the utilization levels were very low, the reaction is very quick because it has to do with more working capital. It does not require major investments in fixed assets, so this is why the reaction has been very quickly and is picking up consistently and at the same time on the funding side what we see is that sight deposits have been going up because the activity level is greater and typically sight deposits are a function of the working the working capital and the level of activity and because inflation has been going down then you have greater levels of sight deposits which will help even further a moving forward in the cost of funding.

Ernesto Gabilondo

Perfect. Thank you so much, Patricio, Mariano and Alejandro.

Ana Bartesaghi

Thank you, Ernesto. Our next question comes now from Carlos Gómez-López with HSBC. Hello, good morning, Carlos.

Carlos Gómez-López

Thank you very much. Congratulations on your loan growth. You promised that you would be replacing some with these programs and you are doing it. So I have a couple of questions. The first one, can you confirm that the Treasury securities that you have now have zero risk weighting, right? So, you've been substituting Central Bank securities for treasuries. That remains the same, right? So, you have not consumed any capital, although obviously you are taking a bit more risk by having the government than they have in the Central Bank. And second, can you tell us how the mortgage operation is working? Because I know initially there were some problems. Is it okay now? And can you originate with normality? Thank you.

Mariano Biglia

Hello, Carlos. Thank you for your questions. Regarding Central Banks and Treasury notes, they have no credit risk weighted assets. They have operational and market risk weighted assets. Credit risk weighted assets account for approximately 7% of our total risk weighted assets. So in general terms, it is correct. They don't have any capital requirements, although they contribute also to this 30% of operational and market capital requirements. Then regarding mortgages.

Carlos Gómez-López

I mean, that is correct. But the market risk and operational risk, that also applied to the Central Bank securities, right? So that hasn't changed.

Mariano Biglia

Yes, correct. In terms of capital requirements, there are no significant differences between Central Bank and Treasury securities, at least for the short-term.

Carlos Gómez-López

Okay, all right. So you would agree that, I mean, by going from one to the other. I mean, I know you are saying that the government is the same at the Central Bank, but historically it has been quite different. You are taking some more risk. I mean, which is fine, you are putting your capital to work, but you are taking some more risk by being in government securities.

Mariano Biglia

Well, the risk from the Treasury isn't always the same as the Central Bank, although, as I said before in the current context, we think that difference is very low. In the past, we always considered significant differences and we were very cautious to go from the Central Bank to the Treasury, in the current context and with the liquidity guarantee because remember that although the LEFIs are Treasury notes, there's a liquidity guarantee from the Central Bank, so it there is a mix of risk there.

Patricio Supervielle

But also, Carlos said this also, something to take into context, remember that we are still, even though inflation is going down, we're still in a high-inflation country and hopefully it's going to go down still, but so we hold these treasuries as a hedge, with the hedge purpose of our capital to make sure that they are hedged against inflation.

Carlos Gómez-López

Okay. Yeah.

Alejandro Stengel

Regarding your question on mortgages, we are originating very well. There's a huge repressed demand, as you know, and Supervielle was the first private bank to come out with a product offering on mortgages. Just to give you a little bit of color there, right now our average ticket size is around \$80,000 official dollars and it's growing very consistently. Key to sustain this growth on a longer term is regulation regarding securitization, which is still pending, and that's one of the things that we're working on, to be able to make sure that we continue to grow and also manage the exposure to mortgages and the consumption of capital that they will require.

Carlos Gómez-López

Thank you, Alejandro. And again, these are all loans in UVAs, the Inflation Adjusted Unit. You said your average is 50,000, so how much, just to have an idea, how much are you originating per month or per week at this point in time?

Alejandro Stengel

At this point, levels are very low because we have a huge pipeline and there are many bureaucratic steps that have to take place. You have to have notary publics, you have to have also the right valuation, and this is a machine that had stopped for around four years and it's starting to move again. But right now, we are converting these initial requests for information, and we are growing at a rate of roughly, more recently, at a rate of roughly 50 mortgages per month, but this should be going up pretty soon.

Carlos Gómez-López

Okay, so this point is, I mean, it's immaterial to your balances, but it is starting to move.

Alejandro Stengel

It is starting to move, but remember we carry mortgages from the previous period. That's why when you look at our asset composition, the representation of mortgages is higher, but you're right about the vintage. The new vintage of mortgages is right now very small. That is correct.

Carlos Gómez-López

Right, thank you. And if I can add one last question, I know that you're of the view that the current economic policy is sustainable, but I imagine you also do a lot of testing. What would happen if there has to be another large devaluation, let's say 30% or 40% in the currency?

Alejandro Stengel

As you pointed out, Carlos, that's not the direction that the Ministry of Economy or the Central Bank are steering the economy, but in the hypothetical case that that devaluation will take place, you would see a significant pass-through of that devaluation into inflation. You would probably have, and that would create a series of adjustments in relative prices. So you would probably also see an increase in rates following suit, and that will have an impact on the activity level. But as I said, the Central Bank and the Ministry of Economy are trying to do everything to avoid that situation.

Carlos Gómez-López

And do you expect interest rates to remain at the level they are today or to go to real rates in the second half?

Alejandro Stengel

My view is that there are several pressures in credit demand that are pressing for rates to go up. At the same time, you've seen a crowding in effect as the Argentine state withdraws demand from the financial sector. So it's going to be a combination between this pressure because of tighter monetary policy and the crowding in effect as the Argentine state creates less demand for credit in the market.

Carlos Gómez-López

But again, do you expect rates to go up from the current levels or to stay where they are?

Alejandro Stengel

I would expect, and it's a bit of a guess right now, that they will go up on the second half in real terms.

Carlos Gómez-López

That's good. Thank you so much.

Ana Bartesaghi

Thank you, Carlos. We have another new question from Marina Mertens with Latin Securities. Good morning, Marina. Please go ahead.

Marina Mertens

Thank you. So, in the second quarter, we observed a significant loan growth with flat deposits, which led to an increase in the loan-to-deposit ratio. How do you expect deposits to evolve in the second half of the year? And what factors do you see as the main drivers for growth. Thank you.

Mariano Biglia

Yes. Hi, Marina. Thank you for your question. For the upcoming quarters, we see deposits growing in real terms, although we see loans growing at a faster pace. So, that will make the loan-to-deposit ratio to increase, but with both sides of the equation growing. And regarding the sources of this growth, we expect it to come both from individuals and corporations, also as activity rebounds across all sectors. Remember now that we are seeing a small recovery in activity, but it's very different across sectors. Transactionality will increase, and that will also increase funding from current accounts and savings accounts. And we are also working on several strategic initiatives to foster deposits growth.

Patricio Supervielle

Yeah. I would say that, adding on that, that it's going to be a strong focus in time deposits, basically, where we expect that we will be able to attract time deposits. Because when inflation comes down, naturally, savings starts to grow in the country, both in current accounts, savings accounts, and time deposits. So, we are focusing on that. It's a very healthy period, I'd say.

Marina Mertens

Great. Thank you very much.

Ana Bartesaghi

Thank you, Marina. Our next question comes from Marlon Medina with JP Morgan. Hello. Good morning, Marlon.

Marlon Medina

Hello. Good morning, everyone. Yeah. So, I think most of my questions have been asked for perhaps a quick follow-up on asset quality. Today you have very strong coverage, I think, around or above 200%. So as the environment normalizes, what would be a reasonable level for coverage to converge to? And also, what would be like a reasonable NPL level to assume going forward? I know today is very behaved, but as you scale the portfolio, where do you expect it to trend?

Mariano Biglia

Sure. Thank you, Marlon, for your question. Regarding coverage, it's true that now it is very high, it's about 300%. This is in part because the NPL ratio is very low. So when you have such lows, NPLs, the provisions you have on the performing portfolio, because with expected loss models, of course, we have a small provision on the performing portfolio, that creates a very high coverage of a small portion of NPLs. So when NPLs return to normal, because now we are growing mainly in corporate, we have lower NPLs, also the pace of the growth in nominal terms and in real terms, also dilutes NPLs. So when they return to normal, let's say 2%, it will depend on the mix of the portfolio. But if NPLs return to 2%, then that coverage will go down. Maybe I can give you a very wide range, but just to have an idea between 100% and 200%. We shouldn't continue to see such high levels of coverage, like above 300%.

Marlon Medina

Very clear. Thank you.

Ana Bartesaghi

Thank you, Marlon. I'm sorry. We have, I think, a new question coming from Brian Flores. This is correct, Brian?

Brian Flores

Yes. I just wanted to make a follow-up. You made a comment, a very interesting one, right? Maybe the second half of the year, we'll have an ROE that is 10% or lower, right? Then you said middle term, it should go back to 15%, and then eventually all the way to 20%. I know this is a difficult question, but do you have like an expected timeline, or maybe a desired timeline as to when and how should this happen? Just to wrap our heads around this. Thank you.

Mariano Biglia

Yes, Brian, let me give you, our expectations. And of course, within the context of the visibility we can have now with all the changes also in the market environments and regulations we expect ROE to go below 10% in the next two quarters, then pick up gradually to have 15% for the year 2025, but with an increasing trend and reaching maybe that run rate of 20% ROE for the second half of the last quarter of 2025, and then for the year 2026. That will be our timeline.

Brian Flores

No, I know it's a difficult question, but I really appreciate helping us here. Thank you.

Ana Bartesaghi

You're welcome, Brian. 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.