August 21, 2020

Tanscript 2Q20 Earnings Conference Call

Supervielle Second Quarter 2020 Earnings Call Opening Remarks

Operator

Good afternoon and welcome to the Grupo Supervielle Second Quarter 2020 earnings call. A slide presentation will accompany today's webcast, which is available in the Investor section of Grupo Supervielle's investor relations website, www.gruposupervielle.com. 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. 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.

Slide 1

Ana Bartesaghi

Thank you. Good Afternoon everyone and thank you for joining us today.

Speaking during today's call will be Patricio Supervielle, our Chairman & CEO who will discuss the overall macro environment and Mariano Biglia, our Chief Financial Officer who will review our results for the quarter. Also joining us are Alejandro Stengel, Second Vice-Chairman of the Board and Bank CEO and Jorge Ramírez First-Vice Chairman of the Board. Alejandra Naughton, board member of several of Grupo Supervielle's subsidiaries will also be joining us for today's call. All will be available for the Q&A session.

Please note that starting 1Q20, as per Central Bank regulations, we have began reporting results applying Hyperinflation Accounting, in accordance with IFRS rule IAS 29. For ease of comparability, we have restated 2019 results, quarterly and for the year applying IAS 29 to reflect the effects of inflation adjustment for each period. Therefore, all results in this presentation are presented adjusted for inflation as of June 30, 2020, unless otherwise noted.

For your convenience, we have also included in our earnings report managerial results in nominal terms. This means, we are including 2Q20 financial results ex-IAS29, isolating the IAS29 impact for the quarter and also showing quarterly figures for 2019 in nominal terms as they were previously reported until December 31, 2019. You can find more details on Hyperinflation Accounting in our earnings report filed yesterday after the close of the market, as well as in the investor education presentation we have uploaded to our IR site last quarter along with the earnings materials for 1Q20.

Before we proceed, I would like to make the following Safe Harbor statement. Today's call will contain forward-looking statements which are based on Management's current expectations and beliefs and are subject to a number of risks and uncertainties, including as a result of the COVID-19 pandemic, 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 Chairman, Patricio Supervielle.

Slide 2

Patricio Supervielle. Thank you, Ana. Good morning everyone. Thank you for joining us today. We hope you and your loved ones remain healthy and safe as we navigate this global pandemic.

If you're following the presentation, please turn to **Slide 2**.

We took early and decisive action to mitigate the impacts of the COVID 19 crisis. I am very proud of my team for the hard work and commitment as we navigate this challenging time.

First, we acted rapidly to protect the well-being of our employees and our customers, establishing protocols to promote safe banking and ensure the continuity of our operations.

Second, we are supporting our customers through government sponsored lending programs and undertaking a number of initiatives to support the health and welfare needs of the communities where we operate.

Third, in this low touch economy, we are rapidly executing our strategy to transform our company into a cutting edge, cost efficient and agile player with the ability to continuously serve the evolving needs and aspirations of our customers. And I will discuss in more detail shortly how we are leveraging accelerated digital adoption in this new normal.

Turning to our financial performance, we delivered higher profitability this quarter despite the unprecendented overall environment. We continued to improve operating efficiency supported by the streamlining undertaken last year and strict cost controls, all while continuing to invest in our digital transformation.

During the quarter we further revised our expected loss models to adjust for the current economic outlook, and made additional Covid-19 specific anticipatory provisions that have resulted in increased coverage. We have taken an even deeper look at our loan book by segment and industry sectors and will continue to make adjustments as the situation evolves.

Finally, our strong level of liquidity and efficient operating structure are strengthening our capital base allowing us to navigate this complex environment.

Slide 3

Moving to slide 3, we maintain a strong commitment to our customers and the communities in which we operate.

Starting with our customers, we are providing support to mitigate the impacts of this crisis through the different lending programs within the scope of the Central Bank initiatives:

- Assisting with the payroll and working capital needs of our SME and middle-market clients, we have granted a total of 7.1 billion pesos in new loans at a preferential 24% interest rate. At quarter-end, the balance of these loans accounted for 7% of our loan book. Loans to the smallest SMEs are guaranteed by FOGAR.

- We have also disbursed a total of 264 million pesos in zero interest loans to eligible customers. These loans, granted through credit cards in 3 subsequent disbursements, have a 12-month tenor and a six-month grace period. They are fully guaranteed by FOGAR, while FONDEP also provides a 15% annual nominal rate to financial institutions over the amount disbursed. This program was recently extended until the end of September.

- In addition, approximately 4.5 billion in unpaid credit card balances and loans were automatically rescheduled in line with the deferral programs established by the Central Bank.

We are also undertaking several intiatives to assist the communities in our main markets of operations – mainly Buenos Aires, and the provinces of Mendoza and San Luis in the fight against Covid-19.

- For example, we have taken extraordinary steps to ensure that an additional of 136 thousand people that are receiving the government's Covid-19 related emergency social assistance, can rely on the national ATM network.

- In addition, we have also made donations to social organizations dedicated to purchasing medical equipment and supplying food for the most vulnerable communities in our main markets.

Slide 4

Now turn to slide 4 for an update on our digital transformation.

The Covid-19 pandemic and measures established by the regulator and government to contain the spread of the virus have accelerated the adoption of digitalization in a traditionally cash-oriented culture.

As a reminder, branches re-opened for specific customers on April 3rd, with financial services deemed essential on April 13th. Since then, bank branches have been allowed to open gradually for specific transactions, with prior appointment, and complying with certain health and safety requirements. All other banking activities are being performed through digital means.

Simultaneously, in the current low-touch economy we are rapidly executing on our digital transformation strategy and introducing new functionalities across our business segments, while keeping best in class cybersecurity standards. This has driven strong growth in digital and automatic transactions across our company.

Starting with our Banking operations, as you can see on the top of this slide:

- The share of Home Banking and Mobile Banking transactions saw sequential increases of over 50% and 70%, respectively.
- Automatic transactions – including ATMs and cash dispensers - accounted for 61% of total transactions, keeping a sustained trend. We are currently conducting pilots at selected branches to expand self-service areas.
- In total, 94% of transactions this quarter were conducted through our digital and automated channel.
- By contrast, transactions at traditional tellers plummeted 68% sequentially, accounting for only 6% of total transactions in the quarter.

- At the same time, 70% of total time deposits in July were made through digital channels, up from just 47% in January.
- Among SMEs, an important customer segment for us, we are driving exponential growth in E-CHEQs, with the issuance of E-CHEQs increasing sharply to a total of 4 billion pesos in July. We are also pleased with the significant adoption observed in our e-factoring product.

We are also seeing rapid adoption in our Consumer Finance business since we added new App functionalities beginning last February, both in terms of mobile payments and digital onboarding.

Finally, our online broker InvertirOnline, experienced a spike in usage with new accounts increasing over 150% when comparing July with the levels observed in February, and transactions more than tripling during that period.

Slide 5

As you can see on slide 5, the use of digital channels has continued to accelerate significantly across customer segments between February and July.

Growth rates are doubling to tripling in some channels, and in other channels we are reporting even higher increases.

For example, use of our dedicated senior citizens app with face recognition more than doubled as we have been actively promoting the accelerated adoption of digital channels among this group of customers.

Also, Personal mobile banking usage tripled.

As these low touch transactions continue to grow, we will continue to achieve greater operating efficiency across the business.

Slide 6

Please turn to slide 6 for a brief overview of the macro environment.

The Argentine economy appears to be rebounding somewhat following the sharp drop in industrial production recorded in March and April. Montlly industrial production advanced sequentially in the low teens in May and June, driven by the gradual relaxation of social distancing measures and other healthcare protocols, along with the combined effects of stimulatory fiscal, monetary, and credit measures. Other sectors like construction, cement and vehicle production also saw improved performance.

However, the pace of the recovery remains uneven with economic sectors that are dependent on close contacts, particularly services, continuing to struggle. With labor market conditions significantly deteriorated, consensus expectations and ours, currently call for a contraction in GDP of 12.5% for 2020.

These dynamics have put pressure on expected inflation, while monthy inflation remains at low levels in the quarter, kept in check by the lengthy lockdown. In this context, monetary policy interest rates have remained relatively stable througout the quarter at 38% since dropping to 40% in March, down from 55% last December.

Finally, the recent Argentine government debt agreement with private creditors is a significant step. This clears the way to start negotiations with the IMF as a further step towards normalization of fiscal and monetary policies.

Slide 7

Now, please turn to slide 7 for a review of the financial sector trends. Note that in the next two slides covering system loans and deposits, we are presenting figures as published by the Central Bank which are in nominal terms.

Industry loans to the private sector grew above inflation sequentially.

Peso denominated loans were up nearly 15% quarter on quarter mainly driven by SME loans at preferential rates.

In turn, US dollar system loans in original currency maintained the trend observed over the past few quarters declining nearly 20% sequentially.

Our total loan book was up 8% sequentially, in line with system growth before adjusting for inflation.

Slide 8

Moving on to system deposits on slide 8, liquidity remains high, both in local currency as well as in US$ dollar deposits.

Argentine peso deposits increased above inflation on a sequential basis – up 25%, while US denominated system deposits were down nearly 8% in original currency.

In sum, total system deposits increased 19% quarter on quarter.

In this context, our overall deposit base was up nearly 17% sequentially, following a sharp increase in the prior quarter reflecting our asset and liability strategy.

Our peso deposits rose nearly 22% sequentially while US dollar denominated deposits in original currency declined 16%.

In July, industry deposits were up 3.8% sequentially, with peso and US$ deposits up 3.8% and 1.2%, respectively in original currency.

Before turning the call over to Mariano Biglia, let me take this opportunity to welcome him to his first earnings call in his new role of Chief Financial Officer of our company since his appointment last June. Having joined in 2010 as Head of Reporting, Mariano has served as Head of Administration, Tax and Finance leading the financial reporting team for the Company's IPO and our Follow On.

Please Mariano, go ahead.

Slide 9

Mariano Bilglia, Chief Financial Officer.

Thank you, Patricio. Good day everyone.

Before starting, remember that in the first quarter of this year we adopted rule IAS29 and for ease of comparability we have also restated 2019 figures to reflect this.

Now turn to slide 9. Total assets were up 9% sequentially, driven by loan growth along with higher holdings of LELIQ securities issued by the Central Bank.

During the quarter, we also benefited from lower minimum cash reserve requirements following the Central Bank rule allowing 100% of cash reserve requirements corresponding to time deposits to be covered by LELIQs.

Slide 10

Turning to our loan book on slide 10. Total loans increased 3% quarter on quarter, with peso loans up 7% more than offseting the contraction in US$ denominated loans in original currency.

Growth was mainly driven by loans at preferential rates to support SMEs and some eligible customers amid the overall economic recession, which accounted for 7% of our total loan book at quarter-end.

The 7.1 billion pesos of 24% rate loans granted to SMEs, included 5 billion pesos in financial loans, of which 30% is covered by guarantees from FOGAR, Mutual Guaranteed Assets, or mortages; and 2 billion pesos in factoring transactions.

Slide 11

Please turn to slide 11. Total funding increased 9% sequentially, with total deposits expanding nearly 11% in the quarter, providing strong liquidity to navigate this complex environment.

Total loan to deposits declined to 63% from 68% in the prior quarter and nearly 104% in 4Q19.

In addition, at the close of the quarter, the proforma liquidity coverage ratio was 126% compared to 130% at the close of the first quarter, still continuing to reflect high liquidity levels.

Slide 12

Taking a deeper look at our deposits, on slide 12.

Peso deposits were up over 15% sequentially, with core retail and corporate deposits up 8%. We also expanded institutional deposits by 27% to fund additional investments in Central Bank Leliqs.

In turn, the peso loan to deposit ratio dropped to nearly 58% from 62% in the prior quarter.

By contrast, US dollar deposits in original currency dropped 16% sequentially, with the US dollar loan to deposit ratio at 101% compared to 97% in the prior quarter.

We closed the quarter with high liquidity ratios, reaching 74.8% in US$ and 60.7% in pesos.

Slide 13

Now on to the P&L on slide 13. We delivered a 16% sequential increase in Net Financial Income reaching 9.1 billion pesos even with the sustained decline in market interest rates.

The drop in the average yield of Central Bank LELIQs, was more than offset by lower cost of funding following the continued decrease in market interest rates. At the same time, the easing on minimum reserve requirements mitigates the impact of recent regulations promoting financing for SMEs and individuals.

In turn, interest on loans benefitted from lagged repricing in personal loans partially offset by a lower yield in commercial loans given the increase in SME loans at preferential rates.

Total NIM expanded 70 basis points sequentially to 23.5% mainly benefiting from increased holdings in Central Bank securitites to take advantage of higher spreads given the nearly 900 basis points decline in Argentine peso cost of funds.

Slide 14

Turning to slide 14 Net Service Fee income remained weak this quarter – down 11% sequentially.

Several factors contributed to this performance:

- First, we saw lower credit card usage amid the pandemic which impacted fees;
- Second, Central Bank regulations introduced last quarter prohibit financial entities from charging ATM fees and repricing all other fees until early 2021; and
- Finally, overall weaker loan demand also impacted fees.

This was partially offset by higher revenues in our asset management business, the InvertirOnline brokerage business and non-financial services.

By contrast, income from insurance activity was up 14% sequentially, driven by lower claims paid resulting from the annual rebalancing of the seasonal claims ratio curve, following the Incurred but not Recorded Expenses guidelines.

Slide 15

Moving on to Asset Quality on slide 15.

Keeping a prudent approach to risk management, during the quarter we increased provisions by nearly 36% sequentially to 2.3 billion pesos as we continued to revise our expected loss models.

As a reminder, last quarter we adopted the expected losses model as per IFRS9 as implemented by the Central Bank, except for our consumer finance segment which will begin progressive adoption starting 2021.

During the second quarter we enhanced our models and updated macro variables to contemplate the current outlook for GDP and economic activity.

These adjustments capture our current assumptions of a worsening macroeconomic outlook resulting from the extended Covid-19 lockdown in Argentina, as well as top down analysis on certain industries that could be highly impacted by the pandemic.

As a result, we made 560 million pesos in Covid-19 specific anticipatory provisions this quarter. Cost of risk, in turn, increased to 9.8%, from 7.1% in the first quarter.

Note that the ratio of total provisions to our total loan book increased by 270 basis points sequentially to 7.7% in June. In the chart on the top right side of this slide we provide a breakdown of the evolution of the provisioning ratio by key customer segment.

Looking at our NPL ratios, total NPLs declined 60 bps sequentially to 6.1%, reflecting improvements across all segments:

- Corporate loans saw a 60 basis points decline in NPL ratios driven by lower non-performing loans and loan growth resulting from AR$ loans granted to SMEs at a 24% interest rate.

- NPL ratios also fell by 10 basis points in the Personal and Business Segment and 40 basis points in Consumer Finance.

Overall, performance continued to benefit from Central Bank regulatory easing on debtor classification amid the pandemic. This consisted of a 60-day grace period before these loans are classified as non-performing and the suspension of mandatory reclassification of customers that are non-performing with other banks, but performing with Supervielle until September 30, 2020. NPLs for the quarter may have also benefitted from the Central Bank relief program that allows debtors to defer their loan payments originally maturing between April 2020 and September 2020.

In turn, coverage increased to 127.1% at the close of the quarter from 99.6% in the prior quarter, reflecting these anticipatory Covid-19 provisions, as well as benefits from the Central Bank regulatory easing in place since 1Q20.

Excluding regulatory easing, coverage in June was 107% increasing to 121% in July as we continued to refine our models and conduct top down industry analysis as the lockdown was further extended. This is almost 40 percentage points increase since December 2019 levels.

Also excluding regularory easing, the total NPL ratio would have been 7.2% in June declining to 7% in July.

We are closely monitoring our loan portfolio and risk models and will continue to make adjustments accordingly as we gain greater visibility into the depth and magnitude of the quarantine and related government measures.

Slide 16

As we show on slide 16, we have very little exposure to high-risk sub-segments, such as tourism, entertainment and restaurants.

At the same time, certain industries, such as food & beverage and agribusiness performed better or were not affected very much. Overall, loan breakdown by industry segment has remained relatively stable over the last few months.

Our exposure to high-risk sectors accounts for 13% of our total loan book, mainly construction, and to a lesser extent in retail and transportation. Note that 55% of loans to these high-risk sectors are guaranteed. We are continuously reviewing our credit exposure to every sector and subsector in light of the dynamics of the COVID-19 crisis, particularly those that could be highly impacted. In addition to the specific set of measures established to manage and mitigate risk in the COVID-19 environment, our loan portfolio has resilience anchors built in. For example:

Our commercial loan portfolio is highly collateralized. At the end of June, 44% of total commercial loans were collateralized; while collaterals on non-performing commercial loans reached 66%, up from 61% at the close of March, and 20% a year ago.

We also maintain an atomized corporate portfolio, with the top 50 corporate customers accounting for 28% of our loan book.

In addition, a portion of our SME clients belong to value chains led by robust industry captains or to export chains.

In commercial loans, we also keep a strong focus on factoring which are self-liquidating facilities. At the same time, while at the start of the pandemic we experienced maximum levels of 25% in bounced checks during the height of the lock-down, bounced checks today have declined significantly to pre-Covid levels of around 3%.

In terms of individual loans, note that loans to lower-risk payroll and pension clients accounted for 72% of our total loan portfolio to individuals. Furthermore, senior citizens which account for 13% of the loan book do not carry unemployment risk.

Mortgage loans, which account for 5% of our loan book, originated during 2017 and 2018, and were granted to high-income customers and have a loan to value below 70%.

And finally, let me also highlight that our consumer loan franchise remains at historical minimum levels.

Slide 17

Please turn to expenses on slide 17. Our efficiency ratio improved 230 basis points sequentially and 190 bps year-on-year down to nearly 62% in 2Q20, mainly driven by revenue growth, along with strict cost controls and benefits from the initaitives we have taken over the past year to streamline operations.

This more than offset higher administrative expenses related to Covid-19. These resulted mainly from the implementation of safety protocols across our branch network and higher armored transportation costs. During the quarter we also incurred in higher costs in connection with our efforts to step-up digital transformation across the Company.

Our total employee base remained relatively stable, showing a slight increase in our fast-growing online brokerage business – InvertirOnline and our insurance broker operation, while over the last 12 months we have reduced headcount at the Bank over 3%. During the quarter, we also increased salaries in the Bank in line with inflation following the collective bargaining agreement closed in June.

Slide 18

Moving on to the bottom line on slide 18, we continued to deliver improved profitability this quarter.

Pre-tax income increased 41% sequentially to nearly 1.2 billion pesos up from 840 million pesos in the first quarter.

Several factors benefitted profitability:

- First, we delivered increased net financial income resulting from higher investments in Central Bank short-term notes and trading gains, while the cost of funding declined nearly 900 basis points;
- Second, inflation for the quarter dropped to just over 5% from around 8% in the prior quarter. This resulted in a smaller inflation adjustment loss of 552 million pesos this quarter, as per the adoption of IAS29, compared to a 916 million-peso inflation adjustment loss in 1Q20; and
- Third, personnel expenses remained flat, reflecting salary increases in line with inflation following the bargaining agreement between banks and unions for the quarter.

These benefits more than offset higher provisions in the quarter resulting from enhancing our expected loss models to capture a worsening macroeconomic scenario, lower net service fee income as discussed earlier, together with higher administrative expenses related to the implementation of Covid-19 protocols to ensure continuity across our branches, and to support the acceleration of our digital transformation process.

ROAE improved both sequentially and year-on-year reaching 14.4% in the second quarter, nearly doubling from 7.7% in 1Q20 and compared to nearly 13% in the same quarter last year. Including other comprehensive income from financial instruments recorded as available for sale, ROAE for the quarter was 18.7%.

Excluding the impact of IAS29 on all quarters, ROAE would have been slightly over 32% in 2Q20, compared to 26.4% in the prior quarter.

Slide 19

Turning to capitalization on slide 19, we closed the second quarter with a Tier 1 capital ratio of 13.4%, up 10 basis points sequentially.

The ratio benefited by 120 basis points from the regulatory easing on provisions in the context of the pandemic. As a reminder, since the first quarter the Central Bank allows banks to consider as Tier 1 Common Equity, the difference between provisions recorded under the expected losses model according to IFRS9, and provisions recorded under the previous accounting framework.

In addition, the inflation adjustment on non-monetary assets contributed with 90 basis points in capital creation, while results added 40 basis points to capital. This was partly offset by a 140 basis points increase in risk weighted assets and 100 bps resulting from dividend payments in the quarter and deductions on deferred income tax.

Integrated capital at quarter end reached 20.8 billion pesos, exceeding total capital requirements by 8.5 billion pesos.

Now let me turn the call back to Patricio for some brief remarks on our views for the remainder of the year. Please go ahead.

Slide 20

Patricio Supervielle

Thank you, Mariano. While our guidance remains suspended given the limited visibility ahead, we believe it's important to give you some color behind some of our key drivers to help you undertand how we are running our business, particularly as we navigate this unprecedented global health crisis.

For the remainder of the year we expect to continue supporting our SME customers, although we anticipate total Loans to grow below inflation.

At the same time, sustained FX market restrictions and the floor on interest rates paid to time deposits are expected to support Deposit growth above inflation.

In terms of Asset Quality, we are likely to see further deterioration during the second half of the year as our expected loss model continues to capture the challenging macro environment resulting from the extended Covid-19 lockdown, and to a lesser extent top down analysis on certain economic activities. Mitigating factors include our prudent approach and the measures implemented to manage and mitigate risk, along with the resilience anchors built in our loan book, which Mariano just discussed.

Despite this challenging economic context, Net Interest Margin is most likely to remain supported by high interest spreads, increased assets and lower non-remunerated reserve requirements.

In terms of Operating Expenses, salaries are likely to grow at or below inflation, while we expect to incur additional expenses as we continue to accelerate our digital transformation strategy to leverage the current rapid adoption.

By contrast, current regulations prohibiting futher repricing until January 2021, along with the challenging economic environment limit Fee Income.

Finally, Capital & Liquidity should remain at appropriate levels suppporting long-term sustainability.

Beyond 2020, the recent positive soverign debt restructuring paves the way for new sustainable monetary and fiscal policies. The trajectory of the recovery will depend upon the enforcement of sound fiscal and monetary policies together with the depth and duration of this pandemic.

Despite this difficult environment, I am confident that we have a solid foundation in place, with a highly agile and experienced management team to navigate through this crisis and strong liquidity and capitalization. We remain commited to prioritizing the digital transformation of our Company ensuring the long-term sustainability of our business.

Before opening the call to Q&A, I would like to thank Jorge Ramirez for his significant contributions as CEO of Grupo Supervielle over the past two years. I look forward to continuing to work closely with him in his ongoing role as Vice Chairman of the Board and Chair of the Risk Management Committee. Additionally, I would also like to thank Alejandra Naughton, who we have appointed as Board member of several of our subsidiaries to lend her extraordinary expertise in strengthening oversight of regulatory related matters, and consequently stepped down as CFO. Finally, I would like to congratulate Alejandro Stengel for his well-deserved appointment as CEO of Banco Supervielle.

This concludes our prepared remarks. Operator, now please open the call for questions.

Q&A

Operator

At this time, we will 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 would like to remove your question from the queue. For participants using speaker equipment, it may be necessary for you to pick up your handset before pressing the star keys. Please limit yourself to two questions per person. If you would like to ask more, please jump back in the question queue. One moment while we poll for questions.

Our first question comes from the line of Juan Recalde with Scotiabank. You may proceed with your question.

Juan Recalde - Scotiabank

Hi, good morning. Thank you for taking my questions. I have two questions. The first one is related to the macroeconomic expectations. You show that there seems to be a slight improvement in economic activities and it seemed that inflation has been rather low in the first half of 2020. So with that in mind, what is your expectation for the rest of the year in terms of activity, inflation, and interest rates, and how do you expect that to impact on Supervielle's profitability? The second question is related to the levels of activity and delinquency in different areas of Argentina. Can you talk a little bit about the differences that you have seen in terms of the lockdowns and levels of activity and delinquency in Buenos Aires compared to the interior of the country, more specifically in San Luis and Mendoza given your important presence there? Thank you very much.

Patricio Supervielle

Okay. Thank you for your question. In terms of inflation expectations, first of all, you'll see that as of today, inflation—we follow the consensus and there is—the consensus for the year is 40% at this moment. Inflation is contained at this moment due to complete lack of demand with population, but we believe that inflation will—there will be an upward trend in inflation by the end of the year. The way we manage in this type of a situation is we, first of all, with high inflation—if there would be a high inflation, we would manage basically short term tenures and there would be a constraint in consumer finance. But basically, we would focus—the focus of the Bank will be on funding. On the funding we would, let's say, we would focus on funding. That means we would focus on consolidating cash and deposits in order to preserve margin.

I would like to turn the question to our CFO to talk about the delinquency. You mentioned Mendoza and San Luis particularly.

Mariano Biglia

Yes. Thank you, Patricio. Hello, Juan.

Yes. First, regarding your first question of impact of our macro expectation or the impact of economic variables, such as inflation activity and interest rate on our net income and on our balance sheet. Interest rates we see that inflation put some pressure for higher interest rates, so that could increase our net interest margin, although inflation is never good news for any industry because it discourages credit demand. Then, our net equity is hedged inflation with different asset classes. So we might see higher loss in the net monetary position but offset with higher margin.

And then about delinquency, we haven't seen delinquency increasing so far, and in that sense, there hasn't been a big difference between the Buenos Aires area and the provinces where we have more presence - that is San Luis and Mendoza, as you mentioned. Right now, part of the Central Bank relief and mainly to individuals and SMEs, our NPLs have been stable and even declining. So we built up a anticipatory provisions based mainly on macroeconomic scenarios forecast and also an industry-by-industry sector. So we are more focused on the industries rather than the provinces or the regions within Argentina.

Juan Recalde - Scotiabank

Perfect. That's very clear. Thank you, Patricio. Thank you, Mariano.

Patricio Supervielle

Sure.

Operator

Our next question comes from the line of Gabriel Nobrega with Citigroup. You may proceed with your question.

Gabriel Nobrega - Citi

Hi, good morning and thank you for the opportunity to ask questions. I also have a question on asset quality and particularly provisions. As you're seeing the NPL ratio could start picking up in the second half of this year due to the macro, do you believe that the second quarter was the peak for provisions or are you seeing that you should need to make more additional provisions further down the road? And as for my second question, thank you very much for the detailed presentation, specifically on the digital front, but I just wanted to understand if you are thinking about new strategies or even maybe thinking about launching a new digital bank? And also, when should you begin to collect efficiencies from your investment in IT ? Thank you.

Patricio Supervielle

All right. Thank you for your question. In terms of asset quality, I will try to repeat because maybe we didn't hear you well. But if it was about provision—if we have enough provisions or expected provisions in terms of asset quality and if we believe that second quarter was a peak or we would need more provisions. So, I would like to ask Alejandro Stengel, our CEO of the Bank, to answer this question. And then we'll turn to—then we will continue with the idea of digitization. Please, Alejandro.

Alejandro Stengel

Yes. Good morning everyone. Hello, Gabriel. We think that in the rest of this year and probably the beginning of next year, we will see a peak of NPLs. As stated previously, our NPLs are at around our 6.1% and we think that a challenging macroeconomic environment and the lengthening of the lockdown will affect several of the industries in Argentina and some of our clients. So, we continue to monitor this very closely. We think that the situation will probably continue to deteriorate, so we expect things actually getting a bit worse before they get better towards the end of this year and the beginning of next year, hoping that by the first half of 2021 we will have enough visibility to determine the payment capacity of our customers and our corporate clients, and therefore determine how quickly we will be able to take advantage of an increase in economic activity.

So, that's our take on NPLs and asset quality for the next six to nine months. If you want, Patricio, I can take digital front question of Gabriel?

Patricio Supervielle

Yes, go ahead.

Alejandro Stengel

Okay. Basically, in terms of the digital front for the Bank, we see several opportunities. As mentioned during the presentation, there was a significant increase in the use of digital channels, namely mobile and home banking, and we already had a significant increase prior to that in automated channels, namely ATMs and cash dispensers. By the end of the second quarter, we only had 6% of transactions going through cashiers and that was a significant decrease from previous levels. These trends were obviously already in place, in motion before the pandemic but they were clearly accelerated by the pandemic, and this is actually, as you suggest in your question, having us adopt new strategies to take advantage of this. Like, for example, increasing the self-service areas in our branches and so that we can have a greater degree of self-service and increasing at the same time the customer experience in the process. So, we think that the increased usage of digital and automated channels is a huge opportunity to increase efficiencies and at the same time improve customer experience.

Related to efficiencies on the IT front, if I got your question correctly, we are implementing an IT transformation plan which basically the key guidelines is the migration to the cloud, which as we know brings down maintenance costs significantly; increasing automation and efficiencies around the automation of processes; bringing in data analytic capabilities to enhance the engagement, the cross-sell and the loyalties with our customers; making sure that this remains an omnichannel strategy and at the same time moving our architecture, our IT architecture to make sure that these services can be served regardless of the channel that they are approached from our clients.

I hope this addresses your questions on the digital front of the Bank. I don't know if Patricio wants any further comments on the digital front for the group.

Patricio Supervielle

Yes. Well, Gabriel, basically the idea is that all—the different franchises we have we want to basically transform them into digital attackers. So, this is the strategy that is also being applied to the Consumer Finance division whereby we are implementing a new core system that will allow us to capture also retail deposits. And so the first step of this strategy is already we are doing full digital onboarding for credit cards and personal loans, and then we will roll other products and services, such as, as I said, savings accounts, and we will turn it into a digital attacker. Then also, InvertirOnline is another example of a digital attacker. And by the way, it's basically the way we envision this digital online, this broker online is basically to protect the savings of Argentines. And so this has a lot of scope for that and we've had a lot of success in terms of account openings and in terms of increase of brokerage fees, particularly over the last few months.

Gabriel Nobrega - Citi

Perfectly clear. Thank you so much.

Patricio Supervielle

You're welcome.

Operator

Our next question comes from the line of Rodrigo Nistor with AR Partners. You may proceed with your question.

Rodrigo Nistor – AR Partners

Thank you very much for taking my questions. If I may I would like to understand better what are you expecting in terms of loan demand for the second half of the year, particularly if you see any segment or industry picking up? And also, if I may have a follow-up on that one. If we assume that GDP will rebound in 2021, where do you think loan demand will come from? Thank you.

Patricio Supervielle

Please, I would like to ask—well, first of all, loan demand is very subdued. We are living at an extraordinary juncture. But I will turn to Mariano, our CFO, to answer this question. And thank you.

Mariano Biglia

Yes, thank you, Patricio. Hello, Rodrigo. Yes, credit demand has been coming, during the last quarter and what we see also for the next quarter, mainly through the SMEs sector and with a 24% interest rate line. We already disbursed 7.1 billion pesos to SMEs at the lower end of our middle market corporate segment. Industry sectors have been showing, as we've mentioned during the presentation, different levels of resilience with the pandemic and this will probably continue to be the same sectors that will rebound faster with, of course, tourism, restaurant and entertainment being less behind maybe for sometime and other sectors rebounding more rapidly.

But maybe Alejandro Stengel can—I think can give a better outlook for the bank sector.

Alejandro Stengel

Yes, Mariano, of course. Good morning, Rodrigo. Loan demand as pointed out previously is going below inflation and we expect that to be the situation during the rest of the year. How much below inflation, we don't know. It could be as low as 10% below inflation. Let us remind you that the consensus forecast right now says that inflation will be around 40% by year-end. And so we see basically loans going below that level for the year and for the rest of this year too.

In terms of the kind of situation we foresee in terms of loan demand, when the GDP rebounds, which is the second part of your question, is basically you're seeing that most sectors are starting from very low utilization levels, some have opened shops and having their capacity increased only for one turn of employees and you typically work on three turns of employees, no? So, you would typically see that as this ramps up a greater demand for working capital, given that as the inventories get depleted because of growing demand, they will have to replenish it, and also an increase in trade finance, particularly for those sectors that have been favored by the degree of devaluation and better terms of exchange. Some of our clients in Cuyo, particularly could take advantage of that situation, not exclusively, as well as all our clients in the agri business sector, which is a significant portion of our portfolio.

I hope we've addressed your question, Rodrigo.

Rodrigo Nistor – AR Partners

Yes, that was really helpful. Thank you.

Operator

Our next question comes from the line of Carlos Gómez with HSBC. You may proceed with your question.

Carlos Gómez López - HSBC

Hello and good morning. First of all, congratulations once more for the quality of the presentation and for giving us quarterly information which is essential to be able to predict your numbers. We really appreciate what Supervielle does in that area.

I have two questions. The first one refers to your chart on Page 9, where you see the total asset evolution. And again, this is a very good chart. You can see how your liquid assets has run a lot at the end of last year and then they have expanded again. We wanted to understand what happened at the end of 2019. Was this because you voluntarily wanted to reduce your exposure to particular assets that could be inverted in the future, or was this because liquidity was very tight and you were responding to those conditions and now they have changed? The second question is a very easy one. We wanted to know what you think the foreign exchange is going to be by the end of the year. more specifically, how do you expect your dollar, balance sheet, your asset and your liabilities to continue to evolve? Do you expect to see loans, deposit in dollars continue to decline? Thank you.

Patricio Supervielle

Okay. Thank you Carlos. Please, I would like to have Mariano answer this question. Thank you.

Mariano Biglia

Yes, thank you, Patricio. Hello, Rodrigo. So, on your first question regarding total assets, as you could see on Slide 9, as you mentioned, and you're totally right, at the end of the fourth quarter of 2019, we decreased our total assets, and that was mainly a decrease in the LELIQ stock. As we had a change of government we wanted to have less exposure to all types of government exposure including central banks and now we've taken a gain that's positioned in LELIQs as we are very liquid in particular since the start of the pandemic and deposits have been, peso deposits have been steadily increasing. So that's what you can see on our balance sheet.

And then on your second question regarding our foreign exchange exposure, dollar denominated loans have been—its demand has been decreasing. In fact, these loans also denominated in the original currency and have been decreasing each quarter. And deposits have also been decreasing, although not that far. All in all, we have a balanced position between assets and liabilities in U.S. dollars. You know that as per Central Bank rules, we can´t be in a long position in dollars as a bank, which exceeds 4% of our net equity. So we are quite balanced on assets and liabilities denominated in dollars or other foreign currencies. And we expect that to remain stable during the following quarters because we definitely don't want to be short, have a short position in foreign exchange, but we can't, per Central Bank rules, have a very large long position. So that's our outlook for the next quarters.

Carlos Gómez López - HSBC

Okay, to follow-up on that. So, again, you're expecting your dollar business to continue to --again, as you said, in your dollar loans every month dollar loans have been decreasing. Do you expect that trend to continue? I think as you said you do not see an increase for dollar loans or for dollar deposits in the coming quarters.

Mariano Biglia

No, we don't expect an increase for U.S. dollar loan demand, but we may see is dollar linked loans. We have seen in the market many companies issuing dollar linked bonds, which follow the value, , the exchange rate of the dollar but they are paid in pesos. So we may see at some point this type of dollar linked loans, but not foreign exchange dollar, only for export and import financing.

Carlos Gómez López - HSBC

Thank you very much.

Operator

As a reminder, if you would like to ask a question, please press star, one on your telephone keypad. One moment while we poll for questions.

Our next question comes from the line of Yuri Fernandes with JP Morgan. You may proceed with your question.

Yuri Fernandes – JP Morgan

Thank you very much, gentlemen. And similar to Carlos, I would like to congratulate you, Patricio and team for the very comprehensive disclosure. You have I would say maybe the best disclosures in Argentina for a bank. Regarding the questions, I would like to have a follow-up on provisions within cost of risk and asset quality. Because it was not clear for me, this is going to be the peak, like the 10% cost of risk is the peak, or if we should see more provisions ahead? I understood from previous questions that the peak of NPL would take place later this year or beginning of the next year. But it's not clear for me, the provisions. I understand that you have IFRS9 for the Bank and you are provisioning for expected loss is 560 million pesos for additional provision this quarter. But I don't know if it should be more. So if you can help me here. What is the macro assumption towards forecasting, I don't know, GDP decreasing 11%, and is this 560 million pesos kind of incorporates your expected losses or if we should see more provision ahead and this should be an ongoing trend?

And my second question is regarding your mortgage portfolio. It has been very clear most of your losses have been driven by corporate and SMEs. In the past the consumer finance but consumer finance is more lower. You did a good job in controlling the delinquents there. But my concern on mortgage is that, given high unemployment and given this is an inflation with interest portfolio, if we do see inflation accelerating maybe the NPLs in this portfolio may be much higher. So, I would like to ask your opinion here how you are seeing—I got this is overall a high income kind of product but if maybe this could be a RIP segment in the future. Thank you.

Patricio Supervielle

Okay. First of all, I will address the—Yuri, thank you for your questions. First of all, you talk about provisions and cost of risk and what we see more ahead. I will first tell you regarding cost of risk. We are extremely cautious on the credit side and we are constantly monitoring the situation and constantly updating our expected losses and this is the reason why we increased, we continue to increase coverage in July. And also, we pay a lot of attention to the collaterization of our loans. I would like to ask Mariano to give you some more color in terms of basically also the cost of risk going ahead.

Mariano Biglia

Sure, Patricio, and hello, Yuri. Let me give some more details in order to answer your question regarding cost of risk and provisions. As you mentioned, for the Bank, which is 94% of our loan portfolio, we apply IFRS9 and the expected loss model for the internment of financial instruments. Following this rule, we have our expected loss models, which are—we do it periodically and during the second quarter we enhanced out our model adding new economic variables that better predict consumer or corporate behavior and the probability of default. We added, for example, the economic activity indicator, EMAA. And so this requires for us higher provisions, which is what you see in our increased coverage ratio, in our increased total provisions to total loan book of 7.7% and this 560 million pesos provision that were mentioned earlier.

We also updated our macroeconomic scenarios and we expect to do that continuously, or we're continuously reviewing our macro assumptions in our forecast. For instance, the GDP growth in the first quarter we have a negative 3% in our base scenario and a negative 6% pesimistic scenario. Now we're updating those values to —negative 11% in our base scenario and negative almost 15% in the pesimistic scenario. So we weigh those scenarios based on the probability of occurrence and of course they give us a higher probability of default for certain customers and increased provision.

So now we are comfortable with the levels of provisions we have as of June 30, as we took a careful look on our expected models as I said before, and we also carried out a top-down analysis by industry sector. So, we are weighting differently each sector based on the exposure which we believe is high or very high due to COVID and related measures.

It's important also to bear in mind the collateral of our portfolio, which of course they impact in the level of provisions required by IFRS9. So, for example, 44% of our commercial loans are collateralized, while 66% of the NPLs in the commercial loans portfolio are collateralized. So this continues to be very dynamic. We continue to review our models, our forecasts and we'll continue also to build up provisions in the third quarter. And that's what we did, for example, in July, where we increased also our coverage ratio, even when our NPLs are still stable or even declining.

So, you may see our cost of risk peaking maybe in the next quarter or during the second half of the year and until we reach a point where we start to use those provisions instead of creating more coverage. But it's still very dynamic.

Patricio Supervielle

Okay. Let me take back your question about mortgages. Basically, first of all, in terms of—I understand you have certain concerns about rising inflation next year. Consensus in terms of inflation for next year is going up from 40% this year to 47%. This is for this consensus. Based on that consensus, we are not worried about the quality of our mortgages because basically these mortgages were given in 2017 and 2018 with a loan to value below 70% and they were given to high income people. So, we are comfortable that we have a good portfolio in terms of mortgages.

I hope I'm answering your question.

Yuri Fernandes – JP Morgan

No, you are. Thank you and congratulations in navigating this tough environment which has been—I think you have been doing a good job. Thank you.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I would like to turn the call back over to Ms. Ana Bartesaghi for closing remarks.

Ana Bartesaghi

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. Thank you and stay safe and healthy.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation. Have a great day.