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SUPV - Q3 2019 Grupo Supervielle SA Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Grupo Supervielle Third Quarter 2019 Earnings Call. A slide presentation will accompany today's webcast, which is available in the Investors section of Grupo Supervielle Investor Relations website at www.gruposupervielle.com. (Operator Instructions) As a reminder, today's conference call is being recorded.

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

Ana Bartesaghi - *Grupo Supervielle S.A. - IR Officer & Treasurer*

Thank you. Good morning, everyone, and thank you for joining us today. Speaking during today's call will be Patricio Supervielle, our Chairman of the Board of Directors, who will discuss the overall macro environment; and Jose Ramirez, our Chief Executive Officer and Vice Chairman of the Board, who will review our results for the quarter. Also joining us is Alejandra Naughton, Chief Financial Officer; and Alejandro Stengel, Chief Operating Officer of the Bank. All will be available for the Q&A session.

Before we proceed, I would like to make the following safe harbor statement. Today's call will contain forward-looking statements, and I refer you to the forward-looking statements 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.

Julio Patricio Supervielle - *Grupo Supervielle S.A. - Chairman of the Board*

Thank you, Anna. Good morning, everyone, and thank you for joining us today. If you're following the presentation, please turn to Slide 3.

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We continue to operate in a complex macro environment, which worsened in the quarter with the unexpected reprofiling of the short-term Argentine debt in late August. While our holdings in Argentine government based on U.S. dollar short-term notes accounted for just 3% of our total assets, the sharp swings in market -- in mark-to-market valuation significantly impacted our bottom line.

To a lesser extent, results were also impacted by certain commercial loans that became delinquent in the quarter. By contrast, consumer loans reported lower NPL creation in the quarter. The collateralization level of nonperforming commercial more than doubled sequentially. Jorge will discuss this in more detail.

Excluding the impact from the debt reprofiling, pretax income would have increased 23% sequentially to ARS 1.9 billion, even when taking into account the higher provisions in the quarter.

With liquidity management an important priority for us, particularly in this challenging market, we have been able to maintain liquidity in pesos and U.S. dollars above 50%, even despite some U.S. dollar deposit outflow industry-wide. Moreover, we maintained a solid capital base with Tier 1 capital at 11.8%.

Against the macro backdrop, we are strongly focused on maintaining a tight control on expenses, which provides some cushion as we see loan growth slow. And although we are achieving efficiencies, it has been marked by the impact in the debt reprofiling had on our financial results this quarter and, to a lesser extent, by salary increases adjusting for inflation.

Our franchise is strong. Although the near and medium-term visibility is not clear as we speak today, we're encouraged that with our long and successful operating history across different economic cycles, we are well positioned for when the economy recovers.

Please move on the macro on Slide 4. The month of August and September were characterized by significant macro uncertainty tied to the presidential elections in October, while inflation has -- had begun to recede slightly in June and July, heightened volatility in August gave way to rising inflation by pass-through of currency devaluation. Uncertainty around the election period challenged the government chances of rolling over short-term notes. This led to the current administration decision to reprofile short-term debt, which puts additional pressure on the foreign exchange rate and assets under management.

Pressure on U.S. dollar deposit was reflected in the drop in Central Bank reserves and consequently, on U.S. dollar loans. On the monetary front, we have been observing a decline in the issuance of the Leliqs, along with increases in the stocks of bank repos as well as repos with mutual funds.

Turning now to Slide 5. Despite all that I just mentioned, the Argentine financial system remains highly capitalized and liquid. Its resiliency was tested with the absorption of a 31% sequential decline in U.S. dollar-denominated private deposits measured in original currency in the quarter. This drop was against the highest level of deposits observed over the past 16 years.

In the context of a weak macro environment and high interest rates, total industry loans to the private sector were just 9.5% quarter-on-quarter. This was mainly driven by the translation impact of the FX depreciation on commercial loans, while a pickup in credit card financing was supported by the government initiatives to promote consumer consumption.

We delivered slightly lower loan growth this quarter. At the same time, our U.S. dollar-denominated private sector deposits, measured in a regional currency, declined 42% sequentially. This dynamic decelerated somewhat in October, with deposits down 10% in line with the industry.

I will now turn the call over to Jorge, who will review our financial performance and outlook. Please, Jorge, go ahead.

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

Thank you, Patricio. Good day, everyone. Turning to Slide 6. Total assets declined nearly 4% sequentially as we applied liquidity in U.S. dollars held in the Central Bank, following the outflows in U.S. dollar-denominated deposits.

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Lower holdings of Central Bank securities also contributed to the decline in total assets. Actually, the share of high-margin 7-day Leliq securities issued by the Center Bank declined to nearly 19% of total assets at quarter end from 24% in the second quarter '19.

Please turn to Slide 7. Our loan book was up nearly 7% sequentially, mainly driven by a 17% increase in U.S. dollar-denominated loans reflecting the translation impact from the FX devaluation. In original currency, however, the U.S. dollar-denominated loan book contracted 14% in the period. Argentine peso-denominated loans, in turn, increased 3% quarter-on-quarter, supported by new loans granted to customers who have paid down the U.S. dollar loans. Reflecting these dynamics, corporate loans were up nearly 10% sequentially, with their share over total loans reaching 52%, up from 50% in the prior 3 quarters.

In terms of consumer finance, we further reduced our exposure to this segment, which now accounts for 7% of our total portfolio, down from 12% in first Q '18 when we first tightened credit standards. Our potent approach, together with weak consumer demand and high interest rate, resulted in a contraction of the consumer finance loan book of nearly 4% sequentially and 22% year-on-year. Retail loans were up just over 4% sequentially, explained by higher credit card volumes, driven by 12 and 18 months noninterest-bearing installment plan, partly subsidized by the government to support consumer consumption.

Now moving on to funding on Slide 8. We maintained a relatively stable Argentine peso deposit base, while U.S. dollar deposits declined 45% sequentially. Importantly, liquidity remains at solid levels, with an equity ratio in U.S. dollars flat sequentially at 57.5%. The liquidity rates in pesos stood at 50.2%. Our Argentine peso loan-to-deposit ratio was up 3.6 percentage points to 82.2%. The U.S. dollar loan-to-deposit ratio, in turn,increased to 95.9% from 60.9% in the prior quarter as we repaid U.S. dollar deposits when funding U.S. dollar loans to SMEs, with medium-term financing received from bilateral agencies. Combined, this resulted in a blended ratio of 85.8% compared to 72.9% in second Q '19. Finally, other sources of funding and shareholders' equity increased slightly over 8% quarter-on-quarter.

As you can see on Slide 9, Argentine peso-denominated corporate and retail deposits increased 32% and 5% sequentially, respectively. By contrast, wholesale Argentine peso deposits declined 11% quarter-on-quarter due to the migration of money market funds, which since mid-September, are allowed to do weaker transactions with the Central Bank at the same rate as banks. Note that, that is in peso senior. Citizen deposits posted, a seasonal 12% sequential decline. Remember, we typically see higher deposits from senior citizens at the end of June and December of each year as they collect half of the 13th salary in each period.

Now on to P&L on Slide 10. Net financial income declined nearly 20% sequentially to ARS 5.3 billion. This was mainly impacted by a [ARS 2 billion] loss, reflecting the mark-to-market accounting on our investment portfolio of short-term Argentine peso and U.S. dollar Argentine government treasury notes. While these [borrowings] only accounted for approximately 3% of assets, profitability was impacted by the significant drop in fixed income instrument prices in the range of 35% to 45%.

Total net interest margin, in turn, declined 470 basis points sequentially to 17.4%, reflecting the debt reprofiling effect. Our personal loan portfolio NIM increased 40 basis points, sequentially, to 24.2% as we continue to experience sustained repricing in those 2 individuals. Excluding the debt reprofiling impact, net financial income would have increased 12%, sequentially, to ARS 7.3 billion and NIM would have been 24.1%.

Moving down the P&L on Slide 11. Net service fee income was up 9%, sequentially. This chart continues to perform well, up 13% quarter-over-quarter, reflecting the full repricing on bundled services, credit card divisions, non-financial services and noncredit related insurance products. This was partially offset by higher commissions paid to debit and credit card processors.

Income from insurance activities was up nearly 19%, sequentially. Written premiums increased 24%, sequentially, up to mid-single digits last quarter as we continue to drive growth in mortgage and home insurance as well as technology and ATM insurance.

We began operations of our insurance broker in U.S. dollars, with the launch of an integral insurance product for entrepreneurs, and this means that it is performing well. We are planning to launch additional insurance products in the coming quarters. Claims paid, however, increased sequentially, reflecting technical adjustments on our seasonal accident rate curve.

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Please turn to asset quality on Slide 12. Loan loss provisions were up ARS 800 million, reaching ARS 2 million, reflecting certain commercial loans that became delinquent during the quarter coming from public works, contracting and retailers. The public works sector was impacted by the decline in the backlog of public works projects, together with the late or restricted collections. At the same time, depressed consumption in the current recessionary environment impacted the retailing sector. In turn, this bought the corporate loans NPL ratio to 7.2%, up from 3% in the second Q '19.

Retail NPLs increased slightly by 10 basis points sequentially to 4%. The 90-day delinquency ratio, however, remained stable at 2.6%, given the large share of payroll and pension customers who continue to perform better with us and with the rest of the system. NPL ratios of our consumer finance business continued to show sustained improvement, with NPLs provision down ARS 190 million.

Total NPL ratio was up 180 basis points to 6.9%, while cost of risk rose to 9.6% from 6% in the prior quarter. At quarter end, 55% of our non-performing commercial loans were collateralized compared with 20% at the end of June, thus moving down in collateralization levels.

Given these increased levels of collateralization, we closed the quarter with coverage at 86.1%, which we deem to be adequate at this stage. We expect to foreclose and divest those collaterals in upcoming quarters. We continue closely monitoring our asset quality in this more challenging environment.

Turning to the next page. As you can see on Slide 13, our consumer finance lending business continues to post improved asset quality since we implemented tighter credit scoring standards early last year together with improvements in the collections process. Consumer finance NPL creation was down for the third consecutive quarter and was well below the peak levels experienced in second Q '18 and in the same quarter last year.

Moving on to expenses on Slide 14. We've seen the sequential deterioration in the efficiency ratio, which reached 70%, affected by weaker revenues from the impact of the debt reprofilings. Excluding this effect, the efficiency ratio would have been 53% in the quarter, improving 600 basis points from a comparable efficiency ratio of 59% in second Q '19. Comparable expenses, in turn, were up nearly 4% sequentially, mainly explained by mandatory salary increases in an inflationary environment. We continue maintaining a strict focus on cost controls and efficiency.

Moving on to our bottom line on Slide 15. The debt reprofiling had a significant impact on profitability this quarter. Results were also affected by increase in nonperforming commercial loans discussed earlier. Combined, this resulted in a pretax loss of ARS 117 million this quarter compared with a ARS 1.6 million gain in the prior quarter. Excluding the debt reprofiling, we would have delivered a pretax profit of ARS 1.9 billion, a 23% sequential increase.

Similarly, adjusted return on equity would have increased to 34.9% from adjusted 34.6% in the second Q '19. Let me also highlight the solid performance of our consumer finance business, which posted the pretax gains. Finally, we reported attributable net income of ARS 301 million, which includes ARS 418 million benefit from recognizing inflation adjustment in the income tax provision, more than offsetting the pretax loss.

Please turn to capitalization on Slide 16. We maintained solid capitalization levels in this challenging quarter. Tier 1 capital ratio was 11.8%, basically stable compared to 11.9% in the prior quarter. Capital creation and dividends contributed with a 100 basis point increase in Tier 1. This was slightly offset, mainly by the increase in risk-weighted assets, which includes the impact of the currency devaluation. ARS 645 million remain at the holding company for future capital injections.

Our underlying business model is solid, which enables us to navigate this adverse and volatile environment. It is not easy, and I wish to thank all of our employees for the hard work. While it is -- but it's still too soon to have clear visibility what the new government's plans will be, we will continue to run the business with a view towards the long-term. In that respect, we are very well positioned given our long and successful track record.

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

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Juan Recalde of Scotiabank.

Juan Ignacio Recalde - *Scotiabank Global Banking and Markets, Research Division - Associate*

Good morning, everyone. So my question is related to the political front. So I would like to know what are your expectations regarding the next administration policies? And also, how are you preparing for this?

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

Juan, thank you for your question. We have not really had any clear indications in terms of what the next government policies will be. My first impression will be that we have to separate probably the speech in the campaign to what the current [government] stands -- the elected candidate is having in terms of his comments regarding future economic policies.

He has been mentioning that Argentina has a -- will take a market-friendly stance in terms of refinancing its foreign debt. And the other thing we are expecting is that they will try to [do] internal consumption as a way of taking the country out of recession. If that is the case, given our franchise and given our positioning, we believe we are very well positioned to capture part of that growth since we have very large presence in those businesses. And those are particularly the businesses that have suffered in the last couple of years, especially since April of last year since the recession started. So we believe there is pent-up demand for credit and loans and financing to finance consumption in that sector of the economy. So if those are the steps that the new administration takes, we believe we're going to be well positioned to capture growth from that area.

Operator

Our next question comes from the line of Ernesto Gabilondo of Bank of America.

Ernesto María Gabilondo Márquez - *BofA Merrill Lynch, Research Division - Associate*

My question is related on your gains on securities. When we look to the third quarter results, they benefit a lot from the security portfolio even if excluding the negative impact of the reprofiling debt. So what are you seeing for the next quarters? Do you think this was a peak for securities gains? And you think that the Alberto Fernandez government will try to have lower interest rates, and that could imply lower yields for your securities portfolio?

Alejandra Gladis Naughton - *Grupo Supervielle S.A. - CFO*

Ernesto, Alejandra here. Yes, you are right. Our gains on the quarter are connected with the holdings of Central Bank securities. Because as you know, the other securities, unfortunately, reported losses.

So considering volumes and interest rates, it makes sense to think that we are now in a peak, particularly because we are observing from the Central Bank monetary policies that interest rate is started to lower levels. So I think that is a reasonably understanding yield. It could be the peak.

Ernesto María Gabilondo Márquez - *BofA Merrill Lynch, Research Division - Associate*

Okay. And then so when do you think we can start to see that this lower interest rate environment will translate into loan growth? Have you approached to Alberto Fernandez' government in trying to have an idea on how this could happen?

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Julio Patricio Supervielle - *Grupo Supervielle S.A. - Chairman of the Board*

We have had some meetings with some of the names that have -- are being rumored that they're going to have a place in his future administration. As you know, he has not been yet as forthcoming in terms of detailing all the names that will participate, but several of the people we met with have been mentioned by himself as a -- playing a role in the future administration.

I think that you're really concerned in terms of how to manage the reduction in interest rates and not generating, at the same time, a big push in terms of inflation because of pesos being pumped into the economy. So I think that we want to manage that very carefully.

Our sense, again, it's very difficult yet to predict this because we have very minimum visibility. But my sense is that probably it's going to take the first half of next year until we start seeing a sustained pickup demand in credit -- for credits.

Operator

Our next question comes from the line of Gabriel Nóbrega of Citi.

Gabriel da Nóbrega - *Citigroup Inc, Research Division - Research Analyst*

My first question is actually a follow-up to the first question asked. Regarding the incoming administration, I understand it is still too early to understand what they're going to do. They are only going to come into effect into December. However, we have been hearing some specific regulations, which could come into the banking sector, the main one being the SME directed loans. So my question is do you believe that the SME directed loan will actually happen? What could maybe be the impact to your NII here? And also, have you heard any other -- some specific measures, which the Central Bank and the government could also take, particularly to the banking sector? And I'll make a second question afterwards.

Julio Patricio Supervielle - *Grupo Supervielle S.A. - Chairman of the Board*

I mean if we base ourself in what they did in the past administration back from 2011 to [2013], I'd say that it is a highly -- there is a high chance they will try to give some -- I mean put in place some kind of soft grade lines for SME in Argentina. It is very difficult to calculate the impact.

I think that as the bulk of the peak back in 2013 or 2014, I think they reached like, something like 17% of the loan portfolio or something like that. But in terms of measuring the impact in terms of net interest margin, it's very difficult to say because it will heavily depend on what happens with the interest rate for deposits,

I mean -- what happens in euro with interest rates in the market. One thing they did in the past, though, and I think this is important to bring to mind, is that they took -- they calculated the average cost of funds for the banking industry. So the blended cost of funds, bringing into consideration time deposits and site deposits.

And the lines were always profitable compared to that blended rate. So they didn't use the marginal rate. What they did was they made it that -- I mean banks lost some money, but they weren't completely negative in terms of the blended cost of funds for the banking sector. It came more as an opportunity cost for banks rather than a -- the strength posting a state loss compared to the average cost of funds.

Alejandra Gladis Naughton - *Grupo Supervielle S.A. - CFO*

Jorge, if you allow me to relay to that on that -- these kinds of regulation also brings opportunities, business opportunities. So when we have a good relationship with SMEs, as we have, we also have the opportunity to develop all the liabilities, opportunities in terms of cost management. So I would think on the impact on margins, not only on maintenance rate on loans but also cash management and current account balances that

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brings lower cost of funds. So it's -- in our experience, when that happen, we'll have the opportunity to deepen our relationship with our customer base.

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

Yes. And remember that we still have very high cash reserve requirements. So they can handle that. So I think that we will have to wait and see. And I think we have a clear picture in terms of what's coming on to be able to anticipate the actual impact that this will have on the banking industry. .

Gabriel da Nóbrega - *Citigroup Inc, Research Division - Research Analyst*

All right. That's very clear. And as for my second question, it's actually on asset quality. In your press release, you actually say that companies in the public works and in the retail side went delinquent. My question here is, is it specific to only 2 companies? Are there maybe more companies? And also, what is your current coverage level for these companies, which have gone delinquent in the same quarters?

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

Can you repeat the last part of the question because I missed it.

Gabriel da Nóbrega - *Citigroup Inc, Research Division - Research Analyst*

Sorry. It's just to understand what's your current coverage on these companies, which went delinquent during this quarter?

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

Okay. I mean it was mostly 2 companies. We have, as we mentioned, the commercial portfolio levels of collateralization went up from 20% in end of June to 55%. That is why we -- that is why coverage came down to 86% in the quarter for the overall portfolio. These loans were not 100% covered, but we have operations above the single bank mandatory requirements, okay? So -- and we believe that the current coverage level is adequate, given the levels of collateralization, our expectation in terms of closure and divestiture of those collaterals going forward.

We do not see or we do not foresee any significant impact to growing out of this size going forward. And we've been very proactively working with different companies that have been having some difficulties, especially because of the length of the administration and the very high level of interest rate helping them go through this scenario. So there is nothing on the horizon.

In our past call, we anticipated and we were expecting the peak of delinquency to happen in the third Q -- I mean the second Q, as we had originally anticipated at the beginning of the year. And what we're showing in the 2 years is exactly what we were anticipating it would happen.

Gabriel da Nóbrega - *Citigroup Inc, Research Division - Research Analyst*

All right. And just a quick follow-up here. These incorporates, are they in stage 2? Or are they all in stage 3 already?

Julio Patricio Supervielle - *Grupo Supervielle S.A. - Chairman of the Board*

They are in stage 3 and 4. Central Bank, you mean?

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Gabriel da Nóbrega - *Citigroup Inc, Research Division - Research Analyst*

Yes.

Operator

Our next question comes from the line of Jason Mollin of Scotiabank.

Jason Barrett Mollin - *Scotiabank Global Banking and Markets, Research Division - MD of LatAm Financial Services*

Mine is a little bit of a follow-up on the questions asked. I mean in this current context, without really having a clear view of what the new policies could be or if you're going to be facing some different changes in regulation, but what can you do now going into the end of the year? How is Supervielle positioning the balance sheet? We saw the Leliqs decline from -- I think it was down 24% of assets to 19% in the third quarter from the second. I mean what -- is there much that can be done? Or you really are just biding time trying to put your liquidity to work? And I mean it seems like, of course, loan demand is nonexistent. So what can you do? And how are you positioning yourself for the transition? And it seems like some are expecting the -- or we've heard some statements that the currency controls will remain in place for now. Just any comments you can say on what you think could happen and how the bank is positioned now.

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

Okay. Yes. Thanks for your question, Jason. I think it's a very interesting question, the one's you're asking. I mean,we've been working under one major guideline in the past 1.5 years or so, which is flexibility. This is something that you need to have in a country as volatile and as changing as Argentina has proven to be in these past 2 years. .

When we entered this term, this type of turmoils, one thing that we've learned from our past history is that liquidity is king. So the whole system is very liquid and we are very liquid as well.

Second thing we're focusing on is, and we're starting to debate, is we're coming from 4 years in which interest rates have been from marginally positive to very positive in real terms. When you look back into the former administration, the Fernandez administration and Kirchner administration from 2013 to 2015, what you see is that those were years of net of interest rates in terms of inflation, mostly positive in terms of U.S. dollars up until 2011, and then they turned back to negative, both in dollar terms and in inflation terms for investors.

So the key question that we're trying to debate internally, and this is part of the debate we're having, is are we going back to a negative interest rate in real terms for deposits? Because that shifts completely the focus on the business going forward. Because if we go -- I mean, during the Kirchner administration, banks made money out of lending and not very much around deposit gathering. In the past 2 years, banks were making more money out of deposit gathering, okay? So that is 1/4 of the debate we're having. And the way if the view ends up being we're going to go back to a more neutral, slightly negative interest rate environment, probably one of the things that we will try to position is try to boost personal loans portfolio because we would -- we expect the next administration to try to boost consumption and consumer lending, and therefore, we should expect interest rates to come down. And that is a way of maintaining and protecting, a means for banks, and especially for us, since personal loans is a very important one.

The other thing we're doing is in terms of uncertainty, you're trying to focus on the things that you have to do no matter what, is we focus on things that, in any event, we will do it -- we will have to do. And digital transformation and many of the initiatives we have in place are key to this element, irrespective of the future scenario that we would have. Because that is how we expect to be able to compete against fintechs, big techs and other banks in the years to come. And that is the road we need to take in order to continue improving efficiency for our organization, okay?

So many of the steps you saw us taking in the last couple of quarters, even though they may not be paying off today because of the recessionary environment, we're still convinced strategically that they were the right moves. We could have an argument about timing. But definitely, in terms

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of the direction, they were the right moves because we are very strongly convinced that we're going to be very well positioned in terms of taking advantage of those in the years to come.

Operator

Our next question comes from the line of Yuri Fernandez of JPMorgan.

Yuri R. Fernandes - *JP Morgan Chase & Co, Research Division - Analyst*

I have a follow-up on liquidity. If you can provide any color on how deposits in dollars withdrawal has been behaving in October and in November post-election if we have started to see more stabilization on the withdrawals?

And a second follow-up regarding asset quality. I understood you have the collaterals to those 2 exposures, and that's the reason why coverage decreased. But going on, do you plan to continue having the coverage around 100%? That's one. And what should we expect for cost of risk? I understood Jorge mentioned that maybe the peak was this quarter for asset quality. But still, the GDP forecast for Argentina is pretty tough, right? I think the consensus is around 1.5% decrease by 2020. So even though we should not expect cost of risk running close to 10%, what should we see for cost of risk going on? Consumer finance and retail seems to be doing well, but should we see more worsening on corporate book?

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

Regarding liquidity, your first question is we saw a 10% drop in October. And since the elections, I would say that, that has slowed down significantly, and it's only quickly.

I think that one of the things that despite this major run against mostly U.S. dollar deposits, I mean, peso deposits, they remain fairly stable even though they showed some comps. But that has more to do with the shift of deposits from mutual funds from the banking sector towards the Central Bank, to the repos.

One of the things that quited down below the depositors was that the liquidity in green box than the banking sector had, I mean, the level of imports that the banking industry have to do of -- (inaudible) green bills in order to be able to satisfy demand was in global. And the fact that people came to the banks and they had absolutely no difficulties in terms of withdrawing the deposits did a lot in terms of calming down anxieties, especially when -- because the standard towards what people compared every Argentine crisis is to the 2001 crisis, and we're far, far away from that type of scenario.

Regarding asset quality, we would like to go back -- or to continue -- I mean to increase back our coverage towards the internal NPLs. As I said, we believe that from where we are now, current levels of coverage are adequate. But clearly, if our revenue generation permit us, we would like to increase and try to get closer to 100% because it always provides more cushion in case some surprises happen.

And regarding the -- your question specific in terms of corporate. Our thing is that the help of the corporate loan portfolio, in general, for the economy, is relying mostly on at which point will interest rates start to come down. Because what we've seen in this year, 2019, is companies that, at the beginning of the year, didn't have financial difficulties or operational difficulties because of the combination of the very strict public cost controls that the government did, especially in the second quarter, combined with very high levels of interest rates created a situation that was very difficult for companies that depend heavily on financing, on bank financing.

Many of the companies that have survived until now, one would say that they are -- I wouldn't say the worst of the storm. But clearly, the whole economy means that some moment in time and hopefully sooner rather than later, interest rate levels would start to fall, especially interest rate levels in real terms. Because the biggest problem that I think that we've had in this past 2 quarters of 2019 is at the level of interest rates in real terms was extremely high, extremely high. And that had a heavy, heavy toll on many companies that we're indebted.

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Yuri R. Fernandes - *JP Morgan Chase & Co, Research Division - Analyst*

But with lower rates, it's going to be tough also for your top line, right? It's a bit -- it's a challenging environment, right? Because if rates come down, how do you monetize the secure rates, right? And...

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

I mean it's going to take a while until we transition agreements. But as for our bank, which we always have more focus on personal loans rather than on credit cards, if interest rates come down, creating money for loans, we activate quite rapidly. Clearly it's not going to be overnight. It's going to take a while to transition towards that. But we do have a line of business that, in our view, can enable us to defend our margins.

Operator

Our next question comes from the line of Carlos Gomez of HSBC Global Asset Management.

Carlos Gomez-Lopez - *HSBC, Research Division - Senior Analyst, Latin America Financials*

First, congratulations on the presentation. It's very clear, very detailed, and it really gives us a lot of information. The questions. Well, first, frankly, we are a bit surprised by how much we're hit by the reprofiling. And if you could give us an idea about the logic about how you were positioning going into this partial debt restructuring and how you are going into the next one. You have already referred to that.

Second, where would you expect corporate nonperforming loans to peak? You're already at 7%. You mentioned that some of the companies are weaker because of government expenditure, real rates. But those are still high.

And finally, can you tell us again how much capital you have at the holding company and how much that would represent in terms of increasing the Tier 1 capital ratio of the bank?

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

Regarding your first question, Euro side of the securities we had was approximately 3% of our total assets of the book. All of them were at the bank. Part of them were the subsidiaries.

In the case of the subsidiaries, mostly, we're invested in a peso-denominated bonds, okay? They didn't have any other alternatives. In some cases, they have to mandatory invest in public bonds, and that's the case, for example, of the insurance company. So that has mostly to do with that.

In the case of the bank, essentially, we had a position of letters that we've been carrying down from a peak of around over $100 million at the end of last year, down to around 60 million at the rate of the reprofiling. So we have been managing our exposure down. Part of our U.S. dollar-related position, we use them to hedge our rental agreements that are U.S. dollar-denominated and some other agreements like IT services or IT licensees that are dollar-denominated. As such, the Central Bank does not allow us to hedge it through our net foreign exchange position, okay? So letters gave an increased signs of foreign exchange position from the 5%, which was later reduced to 4% up to 30%. We were well below the 30% mark. But it helped us cover some of the -- or try to hedge our U.S. dollar contracts that we could not hedge otherwise because of Central Bank regulations.

When you look at the overall size of the position compared to our market share and compared to our size, we believe it was reasonable. Well, our -- if you want, our mistake was, we were not expecting that this administration will default on certain debt, because all of the maturities that we had in our portfolio were maturing prior to November or up to November, so.

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And finally, there is another thing we are in this, which is the comparability of our figures compared to other banks that are reporting probably being listed. In our case, we have been booked in our trading position. So that means that you will see everything, all the results probably -- prior to other -- or how you...

Alejandra Gladis Naughton - *Grupo Supervielle S.A. - CFO*

Within the market (inaudible).

Carlos Gomez-Lopez - *HSBC, Research Division - Senior Analyst, Latin America Financials*

It is not available for sale, you mean?

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

That's right. They were not held for sale. So you see, above the line rather than below the line, as other banks have been reporting that. So I think that when you analyze everything, you have to compute both things to see the actual impact that we have.

And we've been comparing ourselves with other banks in terms of proportion in size, and it was a reasonable size of our position. It was not something that we were completely exceeding in the position we have.

In the -- regarding the capital question, in the holding company, we have ARS 650 million. But we're completing it already in the portfolio evaluation of 11.8% of Q1.

Carlos Gomez-Lopez - *HSBC, Research Division - Senior Analyst, Latin America Financials*

Sorry. Could you repeat that? So you said that the capital available...

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

The capital available at the holding company to make further investments is ARS 650 million. But the capital ratio we published is a pro forma that already takes into consideration those ASR 650 million.

Carlos Gomez-Lopez - *HSBC, Research Division - Senior Analyst, Latin America Financials*

Got it. Okay. Yes, so the 11 -- yes. I see. I see. So the 11.9% is pro forma?

Alejandra Gladis Naughton - *Grupo Supervielle S.A. - CFO*

Exactly. If you compare that with the capital level of the bond, that is 11.2%. So if you consider strictly the bank, you'll find our level of capitalization, 11.2%. But however, as we have France as the holding company, available for capital injections, we published with pro forma, that includes that funds of the holding company level, that sum up to 11.8%. So the 11.8% shows our ability to -- our [actual] capital base.

Carlos Gomez-Lopez - *HSBC, Research Division - Senior Analyst, Latin America Financials*

Can you remind us what you think is the minimum that you want to have?

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Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

Around 10%.

Carlos Gomez-Lopez - *HSBC, Research Division - Senior Analyst, Latin America Financials*

10%.

Operator

(Operator Instructions) Our next question comes from the line of Rodrigo Nistor of Itaú.

Rodrigo Nistor - *Itaú Corretora de Valores S.A., Research Division - Research Analyst*

Well, actually, most of my questions have already been answered. But just a quick one regarding the new reserve requirements for demand deposits. What kind of measures are you taking there to defend your margin? And also, if you're expecting any additional changes in the reserve requirement front?

Julio Patricio Supervielle - *Grupo Supervielle S.A. - Chairman of the Board*

Yes.

Jorge Oscar Ramírez - *Grupo Supervielle S.A. - First Vice-Chairman & CEO*

Yes. Clearly, that has an impact. But for us, it's more or less like -- this comes around to ARS 2 million less of Leliqs in the portfolio of both Central Bank securities and our investment. The way we're trying to handle that is by means of streamlining liquidity in physical money, in bills, in the branches, which enables us to -- because that one does not compute as legal reserve requirements. So that liberates some funds. And -- but remember, we have been keeping extraordinary levels of liquidity at the branches levels in order to serve through a very volatile environment.

And we're doing other measures in terms of managing the exposure of the NPL portfolio as a way of recovering liquidity as to that, that will enable us to start investing in securities or in loans that are better performing. So it's a combination of different measures that we're taking to compensate for that. But in the short term, we expected it will have an impact, clearly.

Operator

We have reached the end of the question-and-answer session. I will now turn the call back over to management for any closing remarks.

Ana Bartesaghi - *Grupo Supervielle S.A. - IR Officer & Treasurer*

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 update next quarter. In the interim, we'll remain available to answer any questions that you may have. Thank you, and enjoy the rest of your day.

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Operator

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

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