Banco Santander Chile

CONFERENCE CALL TO DISCUSS BANCO SANTANDER CHILE FINANCIAL AND OPERATIONAL RESULTS FOR THE FIRST QUARTER OF 2021.

Company: Banco Santander Chile

Date: 2021

Participants:

- Emiliano Muratore, Chief Financial Officer
- Robert Moreno, Managing Director of Investor Relations
- Claudio Soto, Chief Economist

Operator
Ladies and gentlemen, thank you for standing by. And I would like to welcome you to Santander Chile's first quarter 2021 results call. At this time, all participants lines are in a listen-only mode. The format of today's call will be a presentation by Santander Chile management and IR team, followed by a question-and-answer session. After the call, you will have the opportunity to ask questions. If you are dialled in via the web, you may also ask questions using the voice feature.

So, without further ado, I would now like to pass the line to Emiliano Muratore, the CFO of Santander Chile. Emiliano, the floor is yours.

Emiliano Muratore, Chief Financial Officer
Good morning, everyone. Welcome to Banco Santander Chile's first quarter 2021 results webcast and conference call. This is Emiliano Muratore, CFO. I'm joined today by Robert Moreno, Managing Director of Investor Relations, and Claudio Soto, our Chief Economist, from our Research team.

Thank you for attending today's conference call. We hope you all continue to stay safe and healthy. During the quarter, Chile faced the second coronavirus wave, but the successful vaccination program should enable a wider reopening and economic recovery soon. We have a lot to discuss today with various important messages. Claudio will start with an update on the economy and macro scenario, beginning on the slide 4. Then we will go into the results of the Bank during the quarter. And finally, we will explain how we continue to progress in our digital strategy and other initiatives.

So now, I will hand the call over to Claudio.

Claudio Soto, Chief Economist

Thank you, Emiliano. During the last quarter, Chile has confronted another wave of contagions, reaching a new peak in the first part of April. However, the vaccination process has proceeded fast. By mid-April the country had vaccinated more than 7.5 million people and almost 40% of the target population had already received two shots.

This, and the massive lock downs imposed during March, have begun to reduce the rate of contagions. Despite this, we estimate a return to a new normal will occur only by the middle of the third quarter. The Government has implemented a new set of measures to support households and firms, including direct cash transfers and a new guarantee program for SMEs.

On slide 5 we can also see how the country has benefited from a substantial improvement in its terms of trade. Copper price has reached its maximum levels in a decade, while other export prices have also risen. A better external outlook, plus the fast deployment of vaccines, have led to substantial upward revision for growth this year.

While during the second quarter we might see a mild downturn, in the third quarter the economy should recover to its pre-pandemic levels. For the year, we estimate GDP will grow between 6% and 7%, a similar range as published by the last Inflation Report by the Central Bank.

The labor market has remained weak. There are almost 1 million or 10% fewer jobs than before the pandemic, and the speed of job creation has slowed down.
Despite a couple of upward surprises, inflation is still contained due to the slack in the economy and the currency appreciation in recent months.

On slide 6 we show our forecast for inflation and rates. Going forward, we expect prices will slowly accelerate as the economy recovers. In spite of this, we estimate the Central Bank will keep its monetary policy rate unchanged during the whole year and will begin hiking in the first quarter of next year. Medium- and long-term interest rates had begun to rise in response to external interest rates increases, and a better outlook for the Chilean economy.

Last week, the Congress approved a constitutional reform to allow for a third pension fund withdrawal. We estimate the total amount that could be withdrawn is about $17 billion (6% of GDP), similar to the amounts available in each of the previous two reforms.

According to estimates by the Central Bank of Chile, a sizable share of the resources from past pension fund withdrawals have been used to reduce debts and increase other types of savings. Less than 20% has been spent in consumption or investment. Still, there are large amounts in banking accounts that could easily be translated into expenditure. That poses an upward risk for both activity and inflation.

In the short run, the required portfolio adjustment by AFPs will induce some financial price volatility. Interest rates will move upward - as we have seen in recent days - and the exchange rate could appreciate. The Central Bank has announced a liquidity program to contain such volatility. In particular, it will reopen the special securities' buy-back program for bank bonds and term deposits, with resources for up to $10 billion. Also, the REPO window for Banks will be extended until August 2021.

This week, the Chamber of Deputies approved a Constitutional Amendment for a new transitory wealth tax on the "super rich" and a reduction in VAT. The bill has to go to Senate. If finally approved, the reduction in VAT would have an important downward short-term impact on prices and will entail an extra boost to consumption that may create inflationary pressures in the medium-term

Robert Moreno, Managing Director of Investor Relations

Thank you, Claudio. We will now move on to explain our strong balance sheet and results, which showed strong trends in the last quarter.

Moving on to slide 8. Net income in 1Q 2021 totaled Ch$182 billion and increased 26.2% compared to 1Q 2020. It is important to point out that these results include an additional provision of Ch$24 billion recognized in order to increase coverage ratios, considering the uncertainty still surrounding the potential impacts on credit quality of the COVID-19 crisis. The higher net interest income, a rebound in fees, an improvement in asset quality and cost control drove our results. The Bank's ROAE surpassed 20% for the second consecutive quarter.

One of the most important drivers of our strong results in 2020, as can be visualized in slide 9, was net interest income. Despite asset growth being focused on lower yielding and less risky assets, we still managed to obtain a 11% increase in NII with a strong NIM that reached 4.2%. UF inflation was strong at 1.1%, although lower than the previous quarter. Going forward we expect UF inflation for the next quarter to average around 0.8%-0.9% per quarter. This should be positive for NIMs but there are some important headwinds that must be mentioned. These are: a decrease in non-interest-bearing liabilities as current growth rates are difficult to sustain, the velocity at which short-term rates begin to rise, the rate of change in the loan mix as the economy begins to recover and the incorporation of lower VAT tax for some products that could lower current inflation expectations in the short term. For these reasons our NIM expectations for the full year remain at around 4%.

As we can see on slide 10, the Bank outperformed the market in evolution of NIMs and NII, especially since the onset of the pandemic. Our NIM outpaced all our main competitors. Our NII increased 10.4% during the last twelve months compared to a decline of 0.3% for the rest of the system and a decline of 8.5% for our main competitor. This reflects not only our better balance sheet management but also the strong growth of client deposits, especially checking accounts.

As we can observe on slide 11, non-interest-bearing demand deposits increased 42.2% YoY due to high growth of retail checking accounts, continued strength in the Bank's transactional banking services for companies and the positive impact of the second withdrawal from pension funds.

On slide 12, on the right-hand side, we show how this growth of demand deposits occurred across all segments with demand deposits in retail banking leading the way and increasing 6.2% QoQ and 50.6% YoY. With this growth our market share in demand deposits reached 21.4% placing us again in the number 1 spot in this product.

Simultaneously, as shown on slide 13, the Bank continued to enforce strict price discipline in its CLP deposits, improving our time deposit funding cost in nominal pesos in absolute terms and compared to our main peers. In 1Q, the average quarterly costs of our CLP time deposits were 0.39%, below the Monetary Policy Rate and lower than our main peers.

On slide 14 we review loan growth. Total loans increased 0.4% YoY and 0.3% QoQ. Loan growth remains subdued due to ongoing lockdowns and high liquidity levels at the corporate and personal levels. Loan growth was mainly driven by the SME segment, which increased 1.5% QoQ and 20.8% YoY. In the quarter, Ch$241billion were disbursed under the new FOGAPE Reactiva program.

In January, the government launched a second phase of Fogape, called Fogape Reactiva, with some important differences compared to the initial program. Fogape Reactiva loans can be used to invest in new projects and not just for working capital. The average yearly rate for a FOGAPE Reactiva loan is approximately 8.4% compared to 3.5% for the original FOGAPE program and maturities can reach up to 8 years.

Loans to individuals increased 2.0% YoY and 1.4% QoQ. Consumer loans decreased 2.3% QoQ and 11.4% as ongoing lockdowns and withdrawals from pension funds has kept demand low for these products. A bright spot in consumer lending in the quarter was Santander Consumer Finance. Auto loans were up 6.0% YoY and 7.2% QoQ. Profits from our auto lending business were up 129%. YoY.

Mortgage loans increased 8.7% YoY and 2.1% QoQ. Long-term interest rates have remained at attractive levels, contributing to the sustained growth, especially among high-income earners.

In the middle market and CIB, loan trends were similar to previous quarters as demand for working capital lines waned and new project development has still not gained momentum. Our strategy with these segments continues to focus on non-lending activities. This has resulted in an improved funding mix with high growth of demand deposits driving net interest income in the Middle-market and CIB to increase 25.7% and 38.8%, respectively in 1Q21 compared to 1Q20.

Moving on to asset quality in slide 15. In this slide, we show the breakdown of asset quality by loan product. The NPL and impaired loan ratio continued to show positive trends after the expiration of payment holidays. The coverage ratio of NPLs continued to rise to 257%. The NPL and impaired loan ratio decreased to 5.1% and 1.3%, respectively.

Regarding the evolution of payment holidays on slide 16. As of March 2021, less than 1% of the total loan book was still under a payment holiday. 86% of FOGAPE loans were under normal payment schedules and only 14% still had a payment holiday with an overdue ratio of 1%. It is important to point out that for the FOGAPE Reactiva in 1Q21 we did not give payment holidays, but do not rule out this option in the future.

For the rest of the loan book for which a payment holiday was granted, 99% of these loans have resumed their normal payment schedule with an impaired loan ratio of only 2%.

As we can see on slide 17, these positive asset quality indicators led to a cost of credit of only 1% in the quarter, including the recognition of Ch$24 billion in additional provisions. We now have in our balance sheet Ch$150 billion in voluntary provisions to cover unexpected events in 2021. We have not yet reversed any additional provisions.

It is important to point out that in April 2021, we will be recalibrating some of our internal consumer loan expected loss model. This will signify a cost of around Ch$25 billion to Ch$29 billion in provisions in April. Including this, the cost of credit for the second quarter is still expected to be around 1% as all asset quality indicators remain robust. Therefore, we will have a small jump in provisions in April normalizing in May and June, and in the full quarter shouldn't be any major rise. For the full year we have improved our guidance from 1.2%-1.3% cost of risk to 1.1%-1.2%, which is still conservative as we wait for the full effect of reopening and vaccines.

On slide 18 we take a quick look at non-interest income trends. Fee income had a good quarter, increasing 9.3% QoQ and 1.4% YoY. Fee growth was driven by the strong opening of checking accounts, greater client loyalty, the rise in insurance brokerage especially through our digital platforms and a good quarter for CIB in investment banking activities.

Total income from financial transactions increased 29.1% YoY mainly due to higher client treasury income. This was offset by a loss in non-client treasury income. Various liability management operations were executed in the quarter which lowered current results, but which should have a positive impact on NIMs going forward.

The rebound in revenues in the quarter, was also accompanied by good cost control as shown on slide 19. Operating expenses increased 1.5% YoY and the Bank’s efficiency ratio reached 37.6%. This rise in administrative expenses in the quarter was driven by costs associated with the launch of Getnet and greater overall activity as we prepared for the reopening of the economy.

On slide 20 we see how this low growth of costs is leading to greater productivity. We continue forward with our US$250 million investment plan for the years 2021-2023 mainly focused on digital initiatives and automatization. In the quarter, the Bank continued the process of transforming its branch network focusing on the WorkCafe model and closing less productive branches that have low client flow. With these investments, productivity continues to rise with volumes defined as loans plus deposits per branch increasing 8.5% YoY and volumes per employee rising 8.7% YoY.

Regarding capital ratios on slide 21, the Bank finished the quarter with strong capital ratios. Our core capital ratio reached 10.9% compared to 10.7% at year-end 2020. The total BIS ratio reached

15.4%. At the Annual Shareholder's Meeting held yesterday, a dividend of 60% of 2020's net income was approved and paid on April 30, 2021.

On slide 22 we give an update regarding BIS III. The phase-in of BIS III has commenced and will be fully in place by December 2025. Beginning this quarter, banks include as AT1 capital subordinated debt for up to 1.5% of RWA. These will be gradually replaced with perpetual bonds in the following years. Under these new requirements, we have transferred Ch$502 billion of sub-debt from Tier II to Tier I. At the same time core capital now includes minority interest. The new weighting of risk weighted assets and the incorporation of operational and market risk will begin in December 2021.

We also present in this slide our assumptions for the phase-in of BIS III and the minimums required of the Bank. This includes the various buffers, our assumptions for Pilar 2 and the additional buffer to be set by the Bank's Board. In summary, by the end of this year we expect the minimum BIS III ratio required of us will be 12.8% rising to 14.0% by 2025. According to our estimates which should already be above these levels at year-end.

In the final portion of this presentation starting on page 24 we will give an update on our most significant strategic and business initiatives. Key advances were made in Life, Superdigital and our digital insurance platforms and we finally launched Getnet with great success.

On slide 25, we show how Santander Life continues to be the main contributor to client growth. Total Life clients increased 239% YoY and in 1Q 2021 Life opened 126,666 checking accounts. Life already has more than 611,600 clients, 75% of which were digitally onboarded. The marginal cost of acquiring a new client through digital onboarding continues to decline and is approximately US$1.

Superdigital opened a record amount of debit accounts in the quarter, providing an attractive alternative for unbanked Chileans to manage the money received from government initiatives during the pandemic. At the end of March 2021, we already had close to 150,000 clients.

Further good news came from Getnet as shown on slide 26. Getnet was officially launched in February 2021. Client reception has been positive. Getnet has already sold over 16,700 POSes to date to more than 14,000 clients. Moreover, 65% of the clients have auto installed their new POS, which demonstrates the efficiency of Getnet's systems. A star feature has been the deposit of sales receipts up to 5x daily, including weekends.

On slide 27 we show how our digital insurance brokerage platforms also had a positive quarter. Klare continued to expand its product offer and now brokers online health and dental insurance and signed alliances with various new insurance companies.

Autocompara also shined in the quarter. The sale of auto insurance policies increased 55% YoY, consolidating their leadership in this market.

Moving on to slide 28, we show how the success of our digital initiatives has led to a 31% increase in digital clients, a 9% rise in loyal clients and we continue to open 3x more checking account than the rest of the banking system combined. This has been accompanied by a strong improvement in our NPs score to 54 point, cementing our leadership in this indicator. This reflects that our strategy is working on all fronts, in terms of client growth, client satisfaction, productivity and profitability.

Moving on to slide 29 we update our most recent achievements in ESG. During this quarter, there were some major events to highlight in terms of ESG.

Our rating under MSCI was ratified at A, being a leader especially in the ESG pillars of human capital development and financing environmental impact.

We also published our Integrated Annual Report for the year 2020. For the first time our Integrated Annual Report complies not only with GRI standard, but SASB standards as well, placing us at the forefront of ESG transparency.

Santander won first place in the Great Place to Work ranking for the year 2020 for companies with over 1,000 employees. The Bank achieved an average score of 92 points. This is notable considering the pandemic and lockdowns. This also reflects that not only have we transformed in a digital sense but culturally as well.

In terms of our environmental footprint on slide 30 we also show how we greatly reduced our environmental footprint in 2020. Every significant metric showed a double-digit reduction. Teleworking clearly had an impact on these figures and this has taught us how a lot can be achieved while consuming a lot less.

On slide 31 we also show that we made progress in our ESG funding strategy. In the first months of this year, we issued two women SME bonds for a total of US$150 million. The objective of this transaction is to contribute to the growth of small and medium businesses - with annual sales less than Ch$ 2,000 million - owned and operated by women. These two private placements are our first approach to sustainable bonds.

We are very content with our advances in ESG and as displayed on slide 32 we announce that in the second half of this year we will hold our first Santander Chile ESG Talk with a similar format as our successful Digital Talk. We will be sending a save the date with additional information soon.

To conclude some update on guidance for 2021 given the progress made in the first quarter. The positive results achieved this quarter permits us to be cautiously optimistic for the rest of the year, but there are still risks in the road.

Regarding loan growth, these should accelerate as the year progresses but with a new pension fund withdrawal growth should remain in the low single digits.

We see NIMs for the rest of the year at 4%. We expect a UF inflation of 3.7% for the full-year 2021, while the MPR should remain at 0.5%. This should be positive for NIMs, but this could be partially offset by a decrease in non-interest-bearing liabilities as current growth rates are difficult to sustain, the velocity at which short-term rates begin to rise, the rate of change in the loan mix as the economy begins to recover and the incorporation of lower VAT tax for some products that could lower current inflation expectations.

Asset quality is clearly showing positive trends and we have improved our cost of credit guidance from 1.3%-1.4% to a level between 1.1% - 1.2%.

Fee growth should be another important driver due to the reopening of the economy and the success of our various digital initiatives. We expect fees to rise 8%-10% this year. Possible regulatory changes remain the main threat to this forecast. We expect cost to grow in line with inflation and we have improved our efficiency ratio outlook to 38%-39%.

Finally, all this said, we have risen our ROE expectations for this year from 15%-16% to 16%-18%.

At this time, we will gladly answer any questions you may have.

Operator

Thank you very much for the presentation. We will now be turning to the Q&A session. [Operator Instructions] Our first question comes from Ernesto Gabilondo from Bank of America. Please go ahead, sir.

Ernesto Gabilondo, Bank of America

Hi, good morning. Emiliano, Robert and Claudio thanks for your presentation and the opportunity to ask questions. My first question is on the economic and political outlook. There is a potential fourth withdrawal on pension funds, which I think continued to be very positive for the asset quality of the banks, but it is also becoming a structural problem. Can you hear me? I was talking about this forth withdrawal on pension funds and saying that it will continue to be very positive for the asset quality of the banks. But I think it could also become a structural problem. We have seen in media, the potential for withdrawal could be equivalent to six years of savings. I remember that the social unrest happened because of the low savings once people retire. I would appreciate your thoughts on this.

And then, on the other hand, we're seeing a very good economic activity as you pointed out, high commodity prices, Chile is facing the fast vaccinations in the region. So, why did you decided to build additional provision charges? And also, when you're expecting a lower cost of risk for the year, what do you need to see to release provisions at some point? And what could be that potential amount? Thank you.

Emiliano Muratore, Chief Financial Officer
Okay. Thank you, Ernesto for your question. Claudio, can you please cover the first question?

Claudio Soto, Chief Economist
Sorry. I had an interruption. Can you summarize the question for me? Sorry.

Robert Moreno, Managing Director of Investor Relations
The talk of the fourth pension fund withdrawal which is a fact -- sorry, the third. And basically, the question is how you view it? On one hand, we see a lot of good news on the economic activity, but on the other hand, the pandemic is leading a lot of structural problems in the savings and the pensions fiscal. So, how you think all of that is going to factor out in growth and on the political side. And then there's another question about provisions which we'll answer.

Claudio Soto, Chief Economist
Okay. We had experience from last year where the withdrawal of funds from the pension account has an important impact on activity, we saw other surprises in growth during the third and fourth quarter last year. It was very clear when you break down the figures for GDP, there you can see for example, the retail sector being very strong. Today, actually, we have done numbers for March and sales, retail sales, went up very, very strong at almost 25% year-on-year, which is reflecting the consumption has been relatively robust in this month and the withdrawal will provide support to income so that you can sustain relatively solid consumption going forward. It's true though and this has been shown by the Central Bank that large amount of the money withdrawn from pension accounts have been used to reduce debts on one hand, and also for new type of savings, so all type of savings and also a lot of money in current account. I mentioned in the presentation that there is this other risk that, if all of a sudden all that money that is in current accounts goes to expenditure we might have a shot to expenditure that may on the one hand, produce a more fast recovery of the economy if the pandemic condition allows

it; and also, you may have some inflationary pressures in the short run. Now in the medium term of course, this pension fund withdrawal, it may affect the domestic savings and that is an important issue.

You have to have in mind in any case that we are in the middle of a discussion about the new pension reform and also the discussion about the constitutional change. And I think within that discussion, the country has to set up the conditions for a new pension system. What is clear is that you need more contribution, I think that it is pretty clear that you need more contribution. It is not that clear what would happen in the medium term with savings. It's true that in the short run, savings have been declining, although I have to say that the high copper price helps a lot, because it makes fiscal savings on the other hand more robust. We are estimating the fiscal deficit for this year between 3.4% and 4% which is not particularly high, considering the amount of fiscal expenditure that has been deployed to help families and companies. So, it's very difficult at this moment to be more clear about the evolution of savings in the medium term. It is clear though that there will be a reform to the pension system and in that reform, you may have an outcome that at least can sustain the savings that we have now.

Emiliano Muratore, Chief Financial Officer
Thank you, Claudio. Going to your second question, Ernesto, about provisions, basically, the reason why we took the voluntary provisions in the first quarter is because as we said in the past, we think the crisis is still going on, this is not finished yet. And before the pandemic in the first quarter of last year, we were basically having 1% cost of risk, around that. So, even though the behaviour of the portfolio is being really good, we don't feel comfortable at this moment of the crisis to keep showing cost of risk significantly below the pre-COVID levels. It's difficult to argue that we can be as low as we are seeing today compared to pre-COVID and that's why the 1% cost of risk of the first quarter was built between two-thirds of that, of natural or underlying cost of risk and the other by voluntary provisions. In the second quarter, as Robert mentioned, we are having this recalibration that will add one off to cost of risk, basically we are going to be around 1% again with this one off. So, no need to build voluntary provisions in order to be around 1%.

Talking about potential reversals of those voluntary provisions, that should happen when the higher cost of risk produced by the COVID crisis shows up. But we don't see that happening in the near future; among other things because of the withdrawal from pension funds and also all the government help to households and families. So, a good period in the near future is, I would roll out reversals of voluntary provisions and maybe we can see farther voluntary provisions in case for the second half, we continue to see this healthy and extremely good behaviour of the portfolio. It's fair to say that it's a conservative approach, but I would think that the way to do for the banking is to be conservative, and even though vaccination is doing extremely well, it's also true that number of cases and new cases is still in the middle of the third wave and we are expecting those numbers to go down; and the vaccination should be the big support for recovery and an opening in the second half. But we prefer to still be prudent and conservative in the way we manage coverage and the stock of voluntary provisions.

Ernesto Gabilondo, Bank of America
This is super helpful. Thank you very much. Let me make just one last question on the evolution of NIMs for the next quarters. I don't know if I heard correctly, but you are expecting a reduction in VAT, and that could help to improve consumption, and that of course, would translate into higher consumer loan growth; just want to be clear up on that.

And then you pointed out that it could also bring high inflation and then that eventually could lead to higher rate. So, how are your thoughts on NIMs in the next quarters? And if you experience at some point higher rate, what will be the impact in the short term?

Emiliano Muratore, Chief Financial Officer
Okay. In terms of NIMs, basically, we were expecting flat NIMs for the rest of the year, like around 4%. Because, as you said, there are some tailwinds regarding NIMs; first is inflation, not only in Chile, but also in the rest of the country, there's a kind of upwards pressure to inflation. And also, all this consumption fever that we are seeing out of the pensions, withdrawals and also, all the help from the government. And also, as you said, the potential reduction of the VAT tax, that should sustain and take up consumption and that

should be good for inflation. It's also true that the interest rate going up especially in the first phase of the tightening cycle where we should see that the short end moving up faster and sooner than the longer end of the curve. So, that kind of flattening of the curve is going to hurt our NIM, but we don't see that happening this year. It's more an issue for 2022.

The potential VAT reduction is a law project that is in Congress that came out this week. That's going to have a short-term downward pressure to inflation, basically because prices go down, because the VAT is lower. It's difficult now to see how the final outcome of the law is going to be. It's true that as it is right now, the fiscal impact is significant, something around $6 billion a year. So, it's difficult to say at this moment what's going to come out from Congress as the final approach. But it's going to have this two-stages impact and then the first inflation is going to be lower and down. Maybe by the third quarter, we should expect that impact on UF for the third quarter of this year. But then, in the medium to long run, it's the stimulus to consumption to families and that should sustain prices as the second derivative of the move. That's why we are seeing that potential risk to NIM for the rest of the year. I would say it's a one-off first, because it's the law is proposing a temporary reduction of VAT. So, the VAT should go up back in 2023, so in a two-year horizon, that effect will be neutral. And also, in the meanwhile, we are going to have this upward pressure to inflation, because of higher consumption. So, last week, I would say that the 4% for the rest of the year was pretty fair expectation to have. Now, it might be lower for this year because of the VAT reduction, but that should recover from 2022 onwards. In order to also compensate the potential headwind coming from interest rate going up. That's going to be a headwind by the jump or the increase in inflation because of all the consumption situation should compensate that in the 12 months to 24 months' horizon.

Ernesto Gabilondo, Bank of America
Very helpful. Thank you very much.

Operator
Thank you very much. Our next question comes from Neha Agarwala from HSBC. Neha, your line is open. Please go ahead.

Neha Agarwala, HSBC
Hi. Congratulations on the results and thank you for taking my question. I wanted to ask is there any regulatory changes anticipated which could impact your fee income growth? I believe you mentioned that as a threat to your guidance.

Robert Moreno, Managing Director of Investor Relations
Hello. As we said, there's always something coming up new and that's why we always try to give a broad range in our guidance because there's a lot of good news coming from the economic side, from the bank, what the bank is doing. But there is this noise. Specifically, regarding fees, I would say one piece of legislation everyone should be looking out is potential fixing of the interchange fees for credit cards. I think that law is rather technical. The good news is, it's in quite technical hands and so I think the outcome should be something relatively decent, but that's something you have to keep your eyes on to see what levels they end up actually fixing interchange fee. Obviously, that could impact fees from credit card, but at the same time that could actually be -- once again, we have to see what the final outcome is, could be positive for Getnet; bad for us as a card issuer, positive for Getnet, especially as Getnet is growing and obviously this market is probably going to grow a lot because of Getnet, because of people taking on more cards both debit and credit, because of online banking, digital etc. So, that's it basically. The main thing regarding fees is to keep an eye out on how this legislation evolves. And as we said, that's something that every day we recommend looking at the newspapers and sees what comes up and to follow this.

Emiliano Muratore, Chief Financial Officer
And to build on Robert's comment, it's true that the potential fix of the interchange fee could impact the fee revenue, but it's also true that we'll need to review the whole economics of the card issuance business. And so, I think we can also manage that impact on the revenue expenses, and on the fee expenses and in the sense of mileage programs, all the loyalty programs that we have with our cards and our clients. Those are sustained on the current environment

of interchange fee. If the interchange fees change, we'll need to review the full economics of the business.

Neha Agarwala, HSBC
That's very clear. Thank you so much.

Operator
Thank you. [Operator Instructions] Our next question comes from Sebastian Gallego. Your line is open. Please go ahead.

Sebastian Gallego, Credicorp Capital
Thank you for the presentation and congratulations for the nice results on the first quarter. I have a couple of questions. The first one, your guidance on loan growth shows a low single-digit but is accelerating as year progresses. I just want to go deeper on the consumer segment. Why are you so positive that loan growth on personal loans will pick up in a scenario of high liquidity and further withdrawal. Is it just the vaccine rollout and some other economic progress? Or are you looking to have a more aggressive strategy, or you have more risk appetite?

And second question, I would like to understand better on ROE guidance, it is true, and you have done great on operating results, and therefore higher ROE. But it is also true that part of that higher ROE is explained by the higher leverage on your balance sheet. Can you go over that point, and how do you see leveraging your balance sheet declining for the following years? Thank you very much.

Robert Moreno, Managing Director of Investor Relations
Thank you, Sebastian. Regarding loan growth, as we said, we're talking about low single digits for the four year, so we're not really expecting a huge increase in loan, but definitely we expect that when the economy starts reopen and of all that goes as planned, there has to be some reverse. You saw up to now in the last 12 months, consumer loans are falling more than 11%-12%. So, what we're saying basically, there will be a stop to that fall, a stabilization and then things will slowly start to begin to grow. But it's not

really part of our big risk appetite. I think it's just more of an end to the decrease in our loan book.

And one important point is that in general people have not been using their credit card. And why don't people use their credit card? Obviously for many different things, but there's two or three items that are usually very, very big. And one of them is travelling. When you see people start to travel more, reopening, people start to use more their credit card. So, we think that's going to be a major thing. And the other thing is that we've already seen a pickup in auto loans. The only loan product that grew in the consumer loan book was auto loans and we actually had a spectacular quarter in the auto lending business, which also triggered a really nice quarter in the auto insurance business. So, that's basically it with loan growth. We're not seeing a major acceleration, but enough to reach by your end, a low single-digit growth.

Emiliano Muratore, Chief Financial Officer
And about your second question, about ROE and the impact of leverage there. You are right if you look from a pure accounting point of view, leverage is higher and ROE has been going down, but when you look it on a risk-weighted look, that is not the point, that's not the case. Our CET1 ratio, it's actually, I would say in the higher part or higher range of the last 4-5 years, between 10.5% to 11%. So, going forward, we don't expect leverage to go down; we don't need it to comply with BIS III. It's not going to be an issue for us. The reason for that accounting higher leverage is that today we have definitely a higher number of low or zero weighting assets, basically government bonds, that has to do with the amount of liquidity in the market and also, the environment for interest rate where you can get an attractive carry out of those security. That might change in the future, and if that's the case, we would reduce that part of the balance sheet even though the weighting for capital consumption is zero, it's more an opportunistic stance if you want. But on a risk-weighted basis, we don't expect leverage to play a role in ROE going forward. I mean should be neutral from where we are now.

Sebastian Gallego, Credicorp Capital

Perfect. Very clear. And if I may, just to ask you one last thing on efficiency. You brought down again your efficiency target to a pretty much a very good level of 38-39. Is this something coming from new initiatives? Can we see even lower number? Or would you say that, that would be probably the bottom that can be achieved?

Robert Moreno, Managing Director of Investor Relations
We brought down or improved our efficiency outlook, because I think cost growth has been lower than we expected, and income growth was higher. I think the cost growth line will continue. We put their line with inflation around 3%, 3.5%. It's not easy to achieve, but we have more control of that, which kind of the uncertainty regarding this ratio is more the income side. But on the cost side, if you look at our numbers, you see that personnel expenses have been relatively flat. And even though a lot of wages, or all the wages are indexed for inflation, I think the improvements in productivity we do there has a lot to do with the investments in technology changing the branch network. Those have been really big driver. I would say the main reason around our improvement in guidance regarding cost and efficiency is productivity. And you can see that especially in personnel, while on the admin side, we continue to reflect some of the investments, launching of Getnet and so forth. So, how far can it go? Well, in the end it really depends little bit more on the income side. But I think costs, we can maintain this low level of cost growth for the next few years and that's at least our goal.

Sebastian Gallego, Credicorp Capital
Perfect. Very clear. Thank you so much.

Operator
Thank you very much. Our next question comes from Jorg Friedemann from Citibank. Please go ahead, sir. Your line is open.

Jorg Friedemann, Citibank
Thank you very much for the opportunity. I have two questions. The first, I got positively impressed with your fee income guidance, even though we are in the bottom of this 8% range. And you mentioned

that Getnet might be positively impacted in the new regulations that affect interchange. But until when can we really count with Getnet revenues consolidated by Santander Chile? As you know, Getnet is being spun off in Brazil as the headquarters in Spain launch this global platform. So, how would Chile fit this global strategy? This is the first question.

And the second question is related to the effective tax rates that we expect to be at about 21%. This seems low, and especially considering that as long as I understand the effective tax rate in the first quarter was slightly higher, so, could expect even lower than 20% rates for the coming quarters. Thank you.

Robert Moreno, Managing Director of Investor Relations
Regarding fee income and Getnet, we're obviously well aware of the situation in Brazil with Getnet and the spin-off. Remember, we just started this business and it's a subsidiary of the Bank and obviously for the next few years as we grow this business and gain traction, it should remain as part of the Bank and any other future operation way down the road obviously, will be done with taking in the interest of all shareholders. So, for now, obviously, there is no plan of a spin-off here and Chile. I can't speak farther down the road. But today, idea is to grow Getnet to be an integral part of our business and integral part of our product line, to grow and to have that contribute to our bottom line. And that's the situation where we're managing today regarding Getnet which once again, is doing quite well. But it just started, and even though Chile is not small, but we have 16,000 POSes. So, Getnet has a lot of potential and we think it's going to contribute, and the plan is to be an integral part of the Bank's product line.

Regarding the tax rate, remember, as a general rule, in Chile, the corporate tax rate is 27%, but in the banks' tax books in Chilean tax accounting, you still do an inflation accounting. And for banks, since we have a lot more capital than fixed assets we readjust our capital in our tax books for inflation and that produces a lower net tax rate; it produces a tax loss, that we adjust in capital due to CPI, and that's why we usually pay a rate lower than 27. And usually when we have inflation around 3%, the effective tax rate is more or less 21%, 22%.

Second, there is some seasonality in our tax rates. Usually the seasonality depends on inflation. But let's say we had the similar inflation in every quarter, just because we pay our taxes in April and we get some rebates on some tax credits usually in the second quarter, if inflation is going to be high in the second quarter plus the normal lower rate we usually pay in the second quarter, the second quarter is always lower, and then you have normal third and fourth quarter. So, when you add all of that together, you get an average around 21%.

Jorg Friedemann, Citibank
It's very clear, Robert. Thank you very much.

Operator
Thank you very much. Our next question comes from Yuri Fernandes from J.P. Morgan. Please go ahead, sir. You line is open.

Yuri Fernandes, J.P. Morgan
Thank you, everybody. Very clear presentation as always and very good results. I have a first question, a follow-up on Getnet. You've provided in the presentation some expectations for market share, like 15% market share in two years. My question is, market share in TPV or market share in POS. Because I guess the focus of you is basically SMEs strategy for Getnet. So, maybe I don't know if this 15% is volumes, but we may have more than 15% of the number of POS or 15% is the number of POS that we are discussing the presentation, and maybe our share in TPV, maybe is slightly lower. So that's the first. And a follow-up, what is the market share in SMEs in Chile? Because maybe, okay, this is a target for three years, but maybe the potential for Getnet is bigger just based on your natural market share on SMEs. So that's the first question.

My second question is also related to fees, very good guidance and I understood that most of the growth would come from the credit business, Getnet. But what else can we expect to hear, what can you help us to understand on other potential upside, investments, insurance? I know you excluded some new ventures, like Klare, things like that, but I think they are pretty small still. But what else can drive fees up? Thank you.

Emiliano Muratore, Chief Financial Officer
Thank you, Yuri, for your question. About Getnet, the target of 15% is I would say more a number of POSes, like number of merchants. As you said, we are targeting SME, so it's the number of shops in the system, it's not about volumes, and it's not about big retailers at this moment and this stage of the development. So, we don't target one company with 1,000 POS, we would rather go for 1,000 shops with 1 POS each. So, that's the target. And you're right, the ambition in the medium to long-term, it's much higher than 15%, 15% is the near-term, the initial target. We are doing extremely well in that sense; we think that we can reach the 15% market share really fast. And as you said, in order to with our natural market share in SMEs, there is an opportunity and room for growing beyond that, but it's just a matter of timing if you want. The 15% was the initial milestone, and we'll definitely want to go higher than that when we reach that first milestone.

Robert Moreno, Managing Director of Investor Relations
I'll take the other one. Regarding SMEs, our market share, it's hard to run clear figures regarding SMEs and every bank defines it differently. But remember, we define SMEs are companies that sell less than Ch$2 billion, that's more or less $3 million a year. So, it's very small companies. And we calculate, we believe we have the largest in Chile. And when we look at our Fogape market share, it was around 23%, and I think that's a good indication, we have 23% to 25% of the SME market, what we define as SMEs. That is kind of a natural market share, obviously, there's all types of businesses, they're not all our merchants, but that is definitely our market share we believe in small businesses in the local market.

Regarding fees, in this quarter, we made Ch$75 billion, last year was pre- pandemic, so we don't grow. But if you take that Ch$75 billion and you just put a similar figure for the second, third and fourth quarter, you more or less get to the 8%. So, that's why this quarter, we think, was really good in fees, because we're still in the pandemic kind of, and we're already at the same levels of fees we had at the beginning of last year which was just the very beginning of the pandemic. And where are we seeing growth? Well, obviously the new products are key. Obviously, Getnet will slowly begin to start generate. But I think in the beginning more importantly will be Santander Life. Santander Life is going to be generating fees, because Santander Life has a really interesting model, which tends to monetize rather quickly. So, Life is rather hassle-free in a sense they don't charge for transferring, they don't put maximum allowance, they don't charge you for minimum balance. But you can take out money free from the ATM and whatever. But they charge you a fixed fee of around 2,400 pesos. The more Life clients we get, the more fees, flat fees that we earn. Life has a very good product, very simple, it doesn’t have hidden fees, it just has these flat fees. So, the more we grow Santander Life, we're going to get an initial fee, which really helps to cover costs. As we said today, the marginal cost, the marginal direct cost for Life is around 800 pesos. On top of that, Life will -- clients who are approved can get a credit card, so then they'll be able to get loans there, etc. So, I think Life will be a big growth.

And the other big growth should come from the insurance brokerage. And I think this quarter kind of showed that. I think the big start in the quarter was Autocompara. Autocompara is this platform, it's semi-digital, because you can buy fully onboard, but a lot of people have questions and need help, so it does have a good call center platform as well. But Autocompara is a clear example of how when car sales started to rebound in Chile, a part of the pension fund withdrawals went to buy cars and we were looking for an auto insurance. Asset management should improve, I remember that as rates rise -- rising rate has different effects, but it should improve the average fee for some of our funds and people should start to invest again more risky.

And finally, our corporate banking had a weak fee last year. This year, even though we haven't seen loan growth, we did start to see interesting movement, some different types of projects and investment banking. There was an initial wave of business, and that generated fees. So that's where we think fees will come from growth. And that's why we have that guidance.

Yuri Fernandes, J.P. Morgan

Super clear, Robert. If I may, just a follow-up here on fees, any plan of the banking opening a marketplace or something like that, like a more retail view? Because as you said in the presentation, you are going here for platform model for some business, the insurance broker, the auto broker, all those things. Any idea of the marketplace, something like that?

Emiliano Muratore, Chief Financial Officer

That's the trend we are trying to follow in the medium to long-term and trying to go to a more platform strategy and insurances that maybe the most evident example because we cannot underwrite insurances. So, basically, we always try to go as open as possible, we do have this partnership with Zurich, but also when we went with Klare, we began the opening the platform. We are doing some pilots and experiment more on the, if you want, retail part, selling by phones and all other products offering, and at the same time financing for that or miles with our loyalty program. So, the idea is to go into that direction and try to get into the platform dynamics of the revenue, but we are at the early stage and we'll try to progress and in that direction.

Robert Moreno, Managing Director of Investor Relations

And we have something called the WorkCafe community. The WorkCafe will have this market platform, where people our SMEs can offer, start to offer and we offer SMEs other products. So, that's really important. We have the WorkCafe community, which we've talked a little bit about in the Digital Talk. But I think when the reopening comes, we'll have that a little more advanced.

Emiliano Muratore, Chief Financial Officer

And that's why what Robert was saying about Life is crucial, because at the end, you can talk about marketplace platform or ecosystem, and at the end, the ecosystem of Life is growing extremely fast. We have now more than 0.5 million new clients. And Robert was talking about fees, the management fees that people pay for that account, but also when you look and we can show the breakdown in the future, when you look at what's happening in cards fee, the debit card fees are growing extremely fast and that's because people with a Life account, they're using their card to pay. And then you look into the potential of all the dollar ecosystem, there is a huge wave of immigration now in Chile or there has been in the last few years; when you look at those people and the potential for them to have one account in pesos, one account in dollar and all that, the transactions that you have in that combining those two accounts. So, at the end, it's building different building blocks and trying to build the ecosystem as big and as wider as possible.

Yuri Fernandes, J.P. Morgan
Perfect guys. Very clear. Thank you very much again.

Operator
Thank you very much. Our next question comes from Alonso Garcia from Credit Suisse. Please go ahead, sir. Your line is open.

Alonso Garcia, Credit Suisse
Hello, good morning, everyone. Thank you for taking my question. My question is on cost of risk. One is a clarification, just wanted to clarify that you are not including reversal of provisions, in your 1.2% -- sorry, 1.1% to 1.2% guidance. And second on cost of risk. What level do you see as a normalized cost of risk going forward, considering that you see attractive growth in the retail segment in coming years with Santander Life under different initiatives. So, this 1.1%, 1.2% be like a new normal going forward? And my second question on ROE is very similar to that point on cost of risk, after 16% to 18% ROE this year, what do you see as a sustainable level for ROE going forward? Thank you.

Emiliano Muratore, Chief Financial Officer
Thank you, Alonso for your questions. In terms of cost of risk, we have not included any reversal of voluntary provisions into that guidance. And regarding he level after -- the underlying level of cost of risk, we think that this area where we are now, 1.1%, 1.2% is similar to what we had pre-COVID. And so, we don't expect the normal new cost of risk to be, after the crisis I mean, to be above that. It could be in line or slightly lower we think. And why is that? Because we think that after the crisis people will tend to be a bit more conservative in their approach to borrowing and to savings, and all that. So, we think that after the crisis, the cost of risk should be in line or slightly below the one we had pre-

COVID. Even though that's still to be seen and it's a bit early to make a strong call, but that's our view so far.

And in terms of ROE, yes, the range from 16% to 18% is relatively big and it is based on many moving parts. One of them being the inflation for this year and the final effect from the VAT reduction. But we think that the long-term ROE can be in that range too. It would be consistent with the target for this year and also looking farther.

Alonso Garcia, Credit Suisse
That's helpful. Thank you very much.

Operator
Thank you very much. Our final voice question comes from Brian Flores from Citibank. Please go ahead, sir. Your line is open.

Brian Flores, Citibank
Thank you. Just a quick follow-up on the level of sustainable ROE. Can you repeat the figure? I have some interference. Thank you.

Emiliano Muratore, Chief Financial Officer
Yes. I said that the 16% to 18% range for this year can also be the long-term range ROE.

Brian Flores, Citibank
Perfect. Thank you.

Operator
Thank you very much. We are seeing no further voice questions at this point. I'll pass the line back to Santander Chile team for their concluding remarks.

Emiliano Muratore, Chief Financial Officer

Thank you all very much for taking the time to participate in today's call. We look forward to speaking with you again soon.

Operator

Thank you. This concludes today's call.