Santander Chile

CONFERENCE CALL ON SANTANDER CHILE'S RESULTS FOR THE 4Q OF 2023

Moderator:

Ladies and gentlemen, thank you for standing by, and I would like to welcome you to Banco Santander Chile results conference call on the 2nd of February, 2024. At this time, all participants' lines are on listen-only mode. The format of the call today will be a presentation by the management team followed by a question and answer session. So, without further ado, I would now like to pass the line to Mr. Emiliano Muratore, the CFO. Please go ahead, sir.

Emiliano Muratore:

Good morning, everyone. Welcome to Banco Santander Chile's fourth quarter 2023 results webcast and conference call. This is Emiliano Muratore, CFO, and I'm joined today by Cristian Vicuña, Chief of Strategic Planning and Investor Relations, and Carmen Gloria Silva, our economist. First, I want to express my gratitude for your presence at this quarterly meeting. Let's go down to business. We are here to discuss our performance during the fourth quarter. The macro conditions were more favorable as we anticipated in our last call, which helped our margins and net income recover. The central bank of Chile has continued its rate reduction strategy, which has had a positive impact on funding costs. We'll delve into the specifics of our quarterly results in a moment. Now I pass the line to Carmen Gloria for the macro update.

Carmen Gloria:

Thank you, Emiliano. On slide five, I present a summary of the macro overview in the country. After a necessary process of macroeconomic adjustment, 2023 was marked as a year of global economic growth, exchanging global financial conditions, and emerging geopolitical tensions. All of this occurred in a context where the process of inflationary convergence was consolidated, which would have facilitated the end of the cycle of rate hike by the main monetary authority. In this global environment, economic activity in Chile continued its deceleration during 2023. Its investment persisted in the adjustment process of previous years, and private consumption presented year-on-year reductions in response to elevated interest rates and the continually decelerating labor market. Indeed, the labor force participation rate showed virtually no progress, hovering around 61% of nearly the entire year, below pre-pandemic levels, and the unemployment rate escalated to 8.5%. Despite this weakness, economic activity was bolstered by transient effects emanating from specific supply factors. On one hand, the added value of electricity generation received an additional impetus due to increased rainfall in the country. On the other hand, the mining sector displayed improved performance due to the start of new projects. The level of activity could have contracted marginally in 2023, exhibiting an annual variation of minus 0.2%, less than the figure previously estimated. For the current year, economic activity is projected to grow at a rate of around 2%, propelled by a less-restricted financial environment, increased labor market dynamism during the latter half of the year, and a surge in mining production. This process will persist through 2025, culminating in an expansion of 2.5%. Domestic inflation continued its descent at a faster pace than anticipated. The CPI concluded 2023 with an annual variation of 3.9%, falling below what was projected. And the U.S. variation closed at 4.8%. The adjustment in the national energy prices, the weakness in domestic demand, a contractionary monetary policy, and the appreciation of the exchange rate

at the first half of the year were pressure factors for due supply. In the next month, inflation will persist in this downward trend until reaching 3% at the onset of the second quarter, and it will hover with some temporary increases around that value until the year's end. As of January 2024, a new consumer basket was considered in the CPI calculation. According to our preliminary analysis, this new basket would not introduce any bias to price dynamics. Our inflationary pressures permitted the continuation of the monetary normalization cycle. The central bank accumulated a reduction of 300 basis points in the monetary policy rate during 2023, concluding at 8.25%. For the third year, the reductions continued, with a cut of 100 basis points in January. And for the coming meeting to be held at the beginning of April, a new rate decrease is projected between 100 and 125 basis points, and it will descend to 4% at the year's end, close to its neutral value. The exchange rate has recently depreciated again, beyond the value explained by its fundamentals. This upward trend exceeded that observed in other regional currencies, responding to the minor rate differential. In our central scenario, the exchange rate would rectify its deviation and appreciate it towards the year's end, to level approaching 870 basis points. This in response to the anticipated weakening in the dollar globally, the recovery of international copper prices, and adjustment in the global monetary cycle, particularly by the Fed, which will alleviate pressures on the rate trend.

Cristian Vicuña:

Thank you, Carmen Gloria. Turning our attention to slide seven, let me begin by reminding you of our commitment to our four key strategic pillars that are part of our Chile First strategy. We would like to take the opportunity to highlight some of our main achievements in 2023. Firstly, we are the largest bank in Chile in terms of total volume, the sum of loans and deposits, with a market share of 17.4%. Our place in the Dow Jones Sustainability Index for emerging markets was confirmed, being the only Chilean bank to qualify for this index, and emphasizing our leadership in sustainability. In this context, we issued our first green bond for around $50 million under our ESG framework. This issuance was the first in Chile to state green mortgage as the use of proceeds. Currently, we have a growing portfolio of approximately 100 billion pesos in green housing that complies with the highest housing energy certifications by the Ministry of Housing and Urban Planning in Chile. We offer preferential interest rates to clients choosing green housing, and we also contribute to conservation and preservation projects in Chile. We continue to remain committed to financial inclusion through our digital initiatives and from their life on Mas Lucas. Just in 2023, we have contributed by facilitating access to a bank account to more than 167 thousand people. The advances in our digital initiatives have driven our clients to reduce their cash transactions, allowing us to accelerate the transformation of our branches. By year-end 23, we reached 91 work cafes, including five expressos, which we will hear more about in a few slides. Thanks to these advances, we have the highest quality service among Chilean banks for the fourth consecutive year, with an NPS of 60, and we have been recognized as best bank in Chile by Euromoney and The Banker. Our earning potential has been acknowledged by the market, with our total shareholder return reaching an impressive 35.8% in 2023, the highest among our Chilean peers, and double the return of the Chilean stock index in 2023. Moreover, we announced our new investment plan for 23 to 26 for $150 million to continue with the modernization of our branch network, as well as tech initiatives to progress with our strategic pillars. Now, moving on to our strategy, Chile First on page 8. First and foremost, we are steering a transformative journey towards becoming a digital bank with branches. Our transformation into a digital bank is not only adopting the latest technology, but also about creating a physical presence through our innovative work cafes. These spaces are more than just places to interact with customers. They are dynamic hubs that promote connectivity. With advanced technology and a commitment to excellent service, our work cafes are designed to redefine the banking experience. Our second pillar is centered on providing

specialized value-added services tailored to our corporate, middle market, and private banking clients. Our commitment is to deliver premium transactional trade, foreign exchange, and advisory products and services, ensuring our clients receive a top-notch experience. In our third pillar, we are committed to fostering innovation and propelling growth. We are not content with the status quo. We aim to lead the change in redefining the banking landscape. We actively seek out new business opportunities, pioneering the sustainable transformation of our clients. By challenging conventions, we aim to drive growth and cultivate success. Lastly, we place great importance on the role of our organization. To realize our objectives, we are dedicated to building an agile, collaborative, and high performance culture. We recognize that diversity is our strength, and individuals will flourish based on merit. We are constructing a thriving community where talents are nurtured and innovative ideas are highly valued. The outstanding success of our digital products has been firmly established during 2023 with the continuous growth of our digital client base. Key initiatives such as Santander Life and, more recently, Mas Lucas have been instrumental in achieving this. The Mas Lucas account was launched in March 2023 and is the first 100% digital site-on-saving account for the mass market. It now has over 117,000 clients, exceeding our initial expectations for the year, and it currently accounts for more than 30% of our new account openings per month. Notably, the onboarding process for Mas Lucas is entirely digital, featuring facial recognition technology and no password requirements. This account comes with no fixed or variable cost and has accepted deposits up to 5 million pesos. On slide 10, we can see how the advances of our digital strategy is allowing us to continue the transformative transformation of the branch network through work cafes to improve productivity. Our bank's work cafe branches are expanding to cater to the specific needs of our clients. We have launched three new types of work cafe formats, including the Work Cafe Expresso, which consolidates cash operations into transaction hubs while maintaining a Work cafe Ambience. This is a great initiative as it provides an efficient and secure banking experience for our customers. We have already opened five of these branches in 2023, and since its launch, the NPS of the Work Cafe Expresso is 74 points, which has helped improve the overall opinion of the bank by 30 points. We also have our Work Cafe Startup, which offers a comprehensive solution to all the needs of entrepreneurs, and especially to increase banking usage, carry out pilot programs with the bank, and even offer financing. This is a great way to support entrepreneurs and help them grow their business. Finally, we have launched Work Cafe Inversiones, a dedicated asset management work cafe designed especially for investment advice for clients and non-clients, independent of their income situation. In this branch, we offer weekly talks about different investment products or economic trends to provide advice, services, and in this way support financial education. At the bottom of the page, you can see how the use of digital channels and the transformation of our branch network is leading to a strong decrease in our branch footprint, decreasing 24% in 2022 and a further 14% in 2023, reaching a total of 247 branches by year end. Notably, 31% of our branches no longer have human sellers, with these branches providing value-added services like our traditional work cafe. At the same time, our productivity has continued to improve, with loan and deposit volumes per branch increasing by 24% year over year, and an 8.9% rise in the same metric per employee during the same period. On slide 311, we can see how our key initiatives with SMEs are driving an impressive growth in this segment. Our digital life account for SMEs continues to drive a 19% year over year increase in total SME clients, with more than 386,000 SME clients. Moreover, there has been a 21% year over year increase in active SME clients. When considering current accounts for businesses, as reported by the CMF, we see a remarkable 35% increase capturing close to 35% of the total market as of October of 2023. GetNet, our acquiring business, continues to be an important driver for capturing new SME clients, as well as expanding into larger clients requiring a hospitable solution for more sophisticated clients requiring a more integrated payment system. Currently, GetNet operates more than 163,000 active point of sale, POS, terminals across the country. During 2023, GetNet generated fees totaling 45 billion pesos and

a net income of 11 billion pesos. Slide 12 illustrates how we have the best cost dynamics in the industry and the tight cost control supported by our digital transformation that we have been able to exercise during 2023. As you can see, with our growing client base and launch of various channel first initiatives such as Más Lucas and Work Cafe Expresso, we managed to reduce our cost in 57 billion Chilean pesos. This was thanks to proactively implementing higher standard for passwords for the online account and our dynamic CVD on credit cards. This, among other initiatives, enabled us to renegotiate our fraud and cybersecurity insurance. Furthermore, we are in the process of implementing Gravity, the Santander Group's home ground digital cloud native core banking platform. This technology is unique in the industry and has helped Santander become the first major bank in the world with in-house software that digitalizes core banking, allowing the bank to serve our customers faster, better, more efficiently, and reliably. We are in Chile in the finishing stage of the implementation of Gravity, with Santander being the first consumer already implemented in 2023 and the rest of Santander, Chile in the first half of 2024. Our recurrence ratio, that is our net fees divided by total expenses, is currently at 58 percent, substantially higher than the rest of the Chilean system. Therefore, the fees generated by our clients through current accounts and value-added products like credit cards, insurance, mutual funds, are covering 58 percent of our expenses. Our costs represent only 1.1 percent of our assets compared to 1.5 percent in the industry. These key performance indicators underscore our organization's transformation towards agility, collaboration, and high performance. On slide 13, we're pleased to show that we have maintained our leadership in terms of our NPS Net Promoter Score, creating a four-point lead in the fourth quarter with our closest peer and reaching a total of 60 points. Our NPS score is based on feedback from more than 60,000 surveys, measuring over 30 NPS metrics across our various service channels on a daily basis. This invaluable feedback allows us to proactively manage and improve our client service. Our digital and remote channels continue to receive very high levels of satisfaction from our clients with our app and website reaching scores of above 70 points. Our contact center is also highly rated outperforming our peers. On slide 14, we can see how we are moving forward with our employees. For the fifth consecutive year, we obtained the Top Employer Certificate. During the year, we carried out three employee surveys called Your Voice where we measured commitment, leadership, and SPF, simple, personal, and fair. We can see in the graph how these indicators have been steadily improving. We also want to highlight that in January, we reached a new collective agreement with our 23 employee unions with inclusion of further employee benefits and the adjustment of the working week to 40 hours, reaching the country's regulatory target years in advance. In terms of diversity, we continue to steadily increase the number of women in higher position and senior management, and with our board elections in April 23, we became the listed Chilean company with the highest participation of female directors in the board. Slide 15 shows our impressive progress with our term-responsible banking goals. As you can see, a number of our regional goals have already been met, such as being among the top employers in Chile, 100% of our energy coming from renewable sources, thanks to our solar plant, the elimination of 100% of single-use plastic, the granting of more than 19,000 scholarships and internships since 2019, far surpassing the regional goal, and reaching 100% cargo neutrality. Our remaining goals are progressing along nicely and are well on their way to meeting their target for 2025. We have added an extra goal to have 40% to 60% of women on board of directors, something we achieved in 23 with 44%. Going forward, we will be reviewing where our challenges lie for the coming years and setting ourselves more ambitious targets that I am positive we will meet. On slide 16, we can see how our efforts are translating into recognitions of our leadership in the Chilean banking industry. In 23, the banker awarded us Best Bank in Chile, while Euromoney recognized us as the Best Bank in Chile and Best Bank for SMEs, Corporate Social Responsibility, Diversity and Inclusion, and ESG. Furthermore, Global Finance also awarded Best Bank for SMEs, and we gained recognition for our commitment to sustainability in the Latin Trade Index America Sustainability

Awards 2023. Furthermore, our advancements in sustainability have been recognized by prominent sustainability indexes with solid ratings from Sustainalytics and MSCI. More recently, we were confirmed as the only Chilean bank to qualify for the Dow Jones Sustainability Index for Global Emerging Companies. Now, let's talk about the trends in our results and balance sheet in 2023 and the fourth quarter. On slide 18, we show our results for 2023. As you can see on the quarterly graph, the net income attributable to shareholders rebounded very strongly, producing the highest quarterly ROE in the year of 16.6%. With this accumulated net income for 2023 total, 496 billion pesos, decreasing 39% year over year, impacted by the pressure on margins from the higher cost of funding. Our operating segments that excludes the corporate centers and ALM continue to perform well, with 34.7% year over year increase in their net contribution, with an important expansion in NII and fees, with costs demonstrating the results of our strategy across the segments. Furthermore, the book value of our equity increased 5.8% year over year, with our TNAP per share and dividend per share growing 12%. Overall, the accumulated return over our achievement for the year reached 11.9%. The results of our corporate and investment banking, or CIB, have continued to be impressive, reaching a 65% year over year growth. Net contribution from the middle market of corporates increased 27.9% year over year. Both of these commercial segments experienced an important rise in deposit spread, as well as high growth of fees and treasury income. The focus of these segments continues to be on our non-lending activities, driving profitability. On slide 20, we can see that retail banking results increased 25.6% year over year, driven by the greater client base and more activity by our clients. Our active individual clients include 8.8 thousand private banking and wealth management clients, and 62.7 thousand Santander consumer clients, and total individual active clients increased 8.1% year over year. Meanwhile, our active SME clients have grown 20.9% compared to December last year. The margin in this segment increased 22.3% year over year due to a better mix of funding and loan growth. Fees in this segment increased strongly by 21.1% year over year, driven by card fees due to greater usage and the increase in the client base, as well as the fee generated by GetNet. Provisions increased 56.7% year over year due to the growth of the portfolio, slowing economic growth and the normalization of asset quality of our retail loans after historically low levels of non-performing loans due to the increase of liquidity of our clients in recent periods. Operating costs increased in a controlled manner by 4.1% year over year as the bank continues its digital transformation, generating greater operating efficiency. On slide 21, in the fourth quarter, loan growth was driven by retail lending. Retail banking loans grew 3.1% year on year and 7.3% year over year, driven by growth in mortgage. In recent periods, the origination of new mortgage loans has decreased due to high inflation and rates. However, in the second half of the year, mortgage loans once again grew stronger than inflation, reaching a growth of 2.5% in the quarter and 8.5% year over year, in the way that clients adjust to market conditions. Consumer lending grew 6% year over year, mainly due to credit card growth after quarters of construction. Between the end of 2019 and 2021, these loans decreased 7%, as clients reduced large purchases such as travel and hotels, which fueled credit card loans. At the same time, many clients paid off credit card debt with the liquidity obtained from government transfers and pension fund withdrawals. At the end of 2022, as household liquidity levels returned to normal and holiday travel resumed, credit card loans began to grow again. Retail banking loans grew 3.1% in the quarter and 7.3% since December 31, 2022, driven by growth in mortgage. In recent periods, the origination of new mortgage loans has decreased due to high inflation and rates. SME loans grew 2.4% in the quarter and after several quarters of construction. The COVID-forgotten loans are now finishing, and therefore we are seeing a reactivation in demand for loans, as well as the impact from the expansion of the SME client base to our default accounts and get net. The middle market segment increased 2.1% year-over-year and grew 1.5% in the quarter. This increase is mainly due to the effect of translation gains on the loans in dollars, mainly for our import and export clients. Around 21% of our commercial loans are in the US, and the Chilean peso depreciated

2.9% in 2023. This is also explained in part by the 3.3% year-over-year increase in CIB and the 1.5% decrease in the quarter. Overall, loans have grown 5.3% year-over-year, and we expect loan growth to remain around mid-single digits in 2024. Slide 22. Liquidity levels remain strong in the quarter. The bank's total deposit increased 3.9% quarter-on-quarter and 9.6% year-over-year. The increase was driven by time deposits that increased 3.1% quarter-on-quarter and 24.3% year-over-year, mainly due to an increase in large corporate deposits as the high-interest rating remained attractive to clients. While our demand deposits have decreased 3.9% year-over-year due to a shift to time deposits, the year-end saw a strong increase of 4.9% Q-on-Q in demand deposits as our clients maintained higher liquidity levels. Our client investment through mutual funds intermediated by the bank also grew in the quarter, reaching an increase of 5.4% Q-on-Q and 25% during the year. Bonds issued increased 9.8% year-over-year and 1.1% for the quarter. During the year, the bank has issued bonds in US, Chilean pesos, dollars, and Japanese yens, taking advantage of attractive opportunities in the various fixed-income markets locally and abroad. In the first days of 2024, the bank issued a senior bond for a total of 1,225 million Swiss francs in the Swiss markets with a term of three years and a rate of 2.445%. It had been a while since we tapped this market and we saw great interest and demand from investors. The bank's liquidity coverage ratio, which measures the percentage of liquid assets over net cash outflows as of December 31st, 2023, was 202%, well above the minimum. At the same day, the bank's net stable funding ratio, an SFR, which measures the percentage of illiquid assets financed through stable funding sources, reaches 106.5%, also well above the current regulatory minimum set for this ratio. On slide 23, we have a simplified balance sheet to help explain the different sensitivities on our structural balance sheet. In terms of inflation, on the asset side, we have around $45 billion in loans, of which nearly 60% is linked to inflation. On the liability side, the bank does have some deposits and bonds in US. However, we also use derivatives to control our exposure to inflation. In terms of interest rates, our time deposits, some $18 billion, have a maturity of 30 to 60 days in general. This means that with the rate increases, the cost of funding increases quickly. However, now that the rate caps have started, the pass-through for our cost of funding is relatively quickly. We also have interest sensitivity due to the FCIC line from the central bank. At the beginning of the pandemic, the bank received a fixed rate credit line from the central bank as part of the FCIC program, which we swapped to variable rate in 2020. The FCIC is to be paid in two installments during 2024, on April the 1st and July the 1st. In October 2023, the central bank launched a liquidity deposit program that offers central bank instruments at floating monetary policy rates with maturities on the FCIC payment date. The bank began to replace part of the central bank papers that were in the available for sale portfolio with these liquidity deposits recognized in the help-to-collect portfolio. As of December 31, 2023, the bank has invested $3.9 billion in this instrument. For us, the payment of the FCIC will not have a significant impact in our NII as we will be paying a variable rate liability with the variable rate liquidity deposit from the central bank. In terms of our net interest margin ratio, we should see an improvement as the denominator our interest earning assets decreases as we use our liquidity assets for the payments. In terms of margins, the bank's NIM in the quarter reached 2.9% and 2.2% for the year. As shown on this slide, we separate our client NIM from our LALM activities. The client NIM, which is defined as NII from our business segments over interest earning assets, has increased as deposit and loan spreads have risen. However, our non-client NIM shows the effects of the U.S. gap between our assets and liabilities and our liquidity management. In general, the bank is well positioned for a fall in real rates with our liabilities repricing faster than our assets. The variation of the U.S. in the fourth quarter was very high at 1.6%. However, we're expecting a very low inflation for the first quarter of 2024. This pass-through of the lowering variation in the U.S. to our margin is immediate and will pressure our margins downward at the beginning of this year. Meanwhile, the Central Bank of Chile cut interest rates again by 100 basis points in January and we expect further cuts in the coming quarters. For 2024, we expect our NIMs to start weaker than the

fourth quarter. However, recovering strongly as the year goes on to reach total NIMs of 3 to 3.5% for 2024 depending on the evolution of rate caps in Chile. Moving on to asset quality on slide 25. The NPL ratio reaches 2.3%, a little below current trend due to a calendar effect of December 31st. The coverage of NPLs as of December 2023 reached 157% and there has been no reversal of voluntary provision. Our impaired loan ratio, which includes the NPLs and restructured loans, reached 5.6%, still below pre-pandemic levels, but showing the same upward trends. We believe that NPLs should continue to increase slightly as asset quality follows the economic cycle and the labor market. On slide 26, we show how the asset quality of the loan product was over the last four years. We now have higher coverage for all our products. While the NPL ratio has been rising, the impaired ratio remains under control for consumer and mortgage loans. Our commercial loan book is showing more signs of deterioration with NPLs reaching 3% and the impaired ratio 7.6%. As we can see on the graph on the right, most of the effect is concentrated on the small and medium-sized companies. As a reminder, these SME loans account for around 9% of our total loan book. As we can see on slide 27, overall, our cost of credit remains in line with our guidance of 1.2%. In the graph on the bottom left, we can see how the cost of risk per segment is now similar to where we were before the pandemic. We expect cost of credit to remain at those levels for 2024 with a better performance in the second semester. On slide 28, we move to non-net interest income revenue sources which continue showing exceptional growth trends. Income from fees and treasury rose 6.4% compared to a fourth quarter in 2022 and decreased 5.2% in the quarter. This decrease was mainly due to lower insurance brokerage and lower collection fees. However, commissions of our products continue with good trends. The gradual implementation of the new interchange fee regulation started in October and will reduce fee growth in the fourth quarter and we estimate a negative impact in fees in 2024 of 25 billion pesos and 47 billion pesos for 2025. Considering this impact, for 2024, we expect these line items to grow around 8% with strong growth from client and products mitigating the interchange fee impact. The result from financial transactions increased 37.9% year-over-year mainly due to higher gains on foreign exchange hedges and decreased 30.2% quarter-over-quarter mainly due to negative results in the inefficiency of hedges of the portfolio managed by financial management and the sale of portfolios in the period. As shown on slide 29, we also can see the bank's efforts to continue increasing productivity and to control costs. Operating expenses decreased 5.6% year-over-year and increased 3% in the quarter. The quarterly decrease in personal expenses is mainly due to lower spending on short-term incentives in fourth quarter in line with the decrease in number of branches. Meanwhile, our administrative expenses grew 18% in the quarter mainly due to higher IT and communication expenses and outsourced services such as technological developments in the quarter. During 2023, the bank has focused on advancing in the execution of investment plan of $450 million for the years 2023 to 2026 with a focus on digital initiatives and the renovation of branches. Moving on to slide 30, we observe a positive evolution of our capital ratios. At the end of the fourth quarter of 2023, the bank reported a core equity ratio of 11.1% and a total ratio of 17.6% after the distribution of final dividends that amounted to 60% of the 2022 earnings. In May, the regulator announced that from next year, the Chilean banks will need to include a countercyclical buffer of 0.5%. This together with the conservation buffer of 2.5% and the systemic buffer of 1.5% means that our minimum fully loaded core equity Q1 will be 9% in December 2025. On January 17, 2024, the CMF applied the current regulation on additional capital requirements according to Pillar 2, which contemplates two main topics, credit concentration risk and the market risk of the banking book. A Pillar 2 requirement was established for six banks in the Chilean system. They did not assign a charge to Santander, Chile on this occasion. However, the measurement of the market risk of the banking book will continue to be discussed and capital charges may be made in the coming years. On slide 32, we conclude with some guidance for 2024. Our strategy of a digital bank with work access will continue to provide us with greater digital client base with solid free growth and advances in

operation efficiencies. For 2024, our market expectations are more positive with an estimated GDP of close to 2% and a U.S. variation around 2.5%. We have a monetary policy rating ending 2024 at 4%. With this, we expect loan growth to reach mixed single digits as the economy reactivates. As rates continue to fall, our margins will continue to recover, reaching a range of 3% to 3.5% in 2024 depending on the evolution of rate caps. Non-NII should be growing around 8% with good customer product trends but impacted by lower interchange fees. Cost of risk should be stabilizing during the year around 1.2% with asset quality following the economic cycle. Cost should be growing in line with its inflation while maintaining best-in-class levels and effective tax rates will be normalized. With all of this, our ROE for 2024 will be recovering towards normalized levels, around 15% to 17% with the first quarter of 2024 impacted by the low quarter inflation and reaching an ROE in the neighborhood of 10% the first quarter with profitability improving during the year. Finally, our guidance for long-term ROE remains unchanged at between 17% to 19%. With this, I finish my presentation and now we will gladly answer any questions you have.

Moderator:

Thank you very much for the presentation. We will now be moving to the Q&A part of the call. If you have a question, please press star 2 on your keypad. That's star 2 on your keypad for a voice question. You may also ask a voice question if you are dialed in via the web. Our first question comes from Mr. Tito Labarta from Goldman Sachs. Please go ahead, sir.

Tito Labarta:

Hi, good morning. Thank you for the call and taking my questions. A couple of questions. I can just follow up a little bit on the asset quality and loan growth. Sorry, I'm seeing a little deterioration there but as you mentioned more normalization. How much more do you think you could expect in terms of asset quality deterioration and in terms of how that could impact the loan growth? If things recover faster than expected, do you think there could be upside to your loan growth or any risk to get into that mid-single-digit loan growth and maybe just some color on the loan growth by the different segments where you see the bigger opportunities? Thank you.

Cristian Vicuña:

Thanks, Tito. First on the loan growth part, we don't see relevant risks regarding our guidance of mid-single-digits 5% to 6%. We see different composition in the way that growth should happen. We see more opportunities in the second half of the year for our consumer loan portfolio due to lower rates, lower short-term rates that are going to be probably in the market by the third quarter. Apart from that, we don't see any extraordinary risks to our guidance. We should see a relevant growth in our retail portfolio of SMEs and personal loans compared to the larger corporate customers. Regarding the cost of risk, we're currently at a 1.2% cost of credit. We see some pressures that are coming along with the cycle. Unemployment goes to 9% to 10% for the country, so this is pressuring a little the NPLs. So NPLs should be going up to 2.5 to maybe 2.6 levels in the work part of the period and then normalizing. We see a more favorable second half of the year, so we are thinking of a total year guidance of 1.2% for the cost of credit.

Tito Labarta:

Okay, that's very clear. Thank you.

Moderator:

Okay, thank you very much. Our next question comes from Mr. Ernesto Gabilondo from Bank of America. Please go ahead, sir. Thank you.

Ernesto Gabilondo:

Hi, good morning Emiliano and Cristian. Thanks for taking my call. I have a couple of questions from my side. The first one will be on your NIM guidance. So when making the numbers, I believe you're expecting NIM expansion between 110, 130 basis points to the 3.5%. So having said that, can you walk us through on how should we NIM during 2024, especially considering the maturity of the derivative hedge and after paying back the credit line to the central bank? So just wondering if we can divide how should we expect NIM for the first half and NIM for the second half. And then my second question will be on Santander Life. Can you talk a little bit more on how profitable is already Santander Life? I don't know if you can share like a P&L for this segment. What could be like the efficiency and the ROE for this segment? And I don't know if you have like a medium term target for this business. Thank you.

Emiliano Muratore:

Hello, Ernesto. This is Emiliano. Thank you for your question. I'll take the first one and I'll leave the second one for Cristian. So regarding the NIM profile for the year, I think that it would be useful to see the NIM slide where you see the evolution during the quarter in 2023 that definitely the effect on NIM is the combination between the level of inflation and the level of rates. So as you saw in the fourth quarter last year, we still had high rates, but the level of inflation was high enough to be able to sustain a NIM close to 3% for the quarter. So in 2024, we have the first half with a NIM lower than the total year, lower due to two main reasons. First, that we have this negative CPI in December that it's impacting the U.S. in the first quarter, so the NIM for the first quarter will be in the low 2%, if you want. I've been assuming that low inflation, but it's true that the rate scenario has been evolving favorable for our balance sheet because the central bank cut 100 basis points on Wednesday and also provided a quite, let's say, dovish forward guidance. Then, when you go to the rest of the year, the NIM will be going up because rates will keep going down and inflation will be closing the year in U.S. variation around 2.5, 2.7 for the year. And the second half will have NIM going north of 3.5, probably, because of the combination of rates and inflation. And also, as you mentioned, that the expiration of the FCIC will imply a significant reduction on the denominator because the balance sheet, I mean, the total interest bearing assets will go down because basically we will be deleveraging the balance sheet, paying off that liability with short-term securities. And so, that will make the arithmetic of the NIM to take it north of 3.5 for the second half. And as you said, finishing the year between 3 and 3.5 depending on the combination of inflation and rates during the year.

Cristian Vicuña:

Thank you for the live question, Ernesto. While we are not disclosing yet a specific P&L for Life, I can give you some numbers for your better understanding of the initiative. Currently, we have about $1.3 billion in customer deposits related to Life and about $100 million in consumer loans in the Life account. Fees for the segment means about $32 million a year in card fees for ourselves. So, the monthly fees that a customer pays to access the card, that costs about $3. And we are currently having close to 100% of our Life customers on a digital model with no relationship manager assigned to them. Very, very helpful for us to drive the cost of serving the customer very low. And the customer acquisition cost for every single Life customer is paid

within three months. That means that on the fourth month that a Life customer gets into the bank, it's already profitable. So, those are some figures to give you some flavor of how the Life is currently performing.

Ernesto Gabilondo:

Thank you very much Emiliano and Cristian. Just a follow-up on Santander Life. How many clients do you have today? I don't know if you have a target to get or to approach to a certain amount of clients.

Cristian Vicuña:

Currently, in terms of current accounts, total current account customers for the bank, we have about 300,000, a little more than 300,000 SME customers. About 1.3 million Life current account customers and about 1 million traditional current accounts. So, that's 2.6 million current accounts total. We're aiming to get by 2026 to an area of 4.5 million customers. So, we're closely monitoring these figures to drive our customer expansion.

Ernesto Gabilondo:

Perfect. Thank you very much.

Moderator:

Okay. Thank you very much. Our next question comes from Yuri Fernandes of JP Morgan. Please go ahead, sir.

Yuri Fernandes:

Hey guys. Thank you very much for taking my question. I have a first one regarding the normalization of taxes in the guidance. What normalizes tax mean? If you can provide a range on that. Then, I would like to ask about deposits. I like a lot your breaking down by business units, right? You have the retail, the middle, the corporate. But when I check the deposits growth, it seems that most growth is coming from CIB, right? Like potentially larger like more wholesale kind of funding. So, my question is what you're seeing on the funding side? Are you, I don't know, maybe households are still in a more challenging scenario and you don't see a lot of retail deposits. But just want to get some help to understand a little bit the funding cost on the bank going forward because a point of concern is that the wholesale funding may be a little bit more expensive. So, I would like to get your thoughts on this different deposit growth. And then, I may do a follow-up. Thank you.

Cristian Vicuña:

Thank you, Yuri. I'll take the next one and Emiliano will address the first one. Regarding tax to the current regulatory tax rate for Chilean entities, Chilean corporations is 27%. Normally, our historical tax rate on normal inflation years without other effects is between 23% to 25%. We expect inflation will be more in the 2.5% range this year to be reaching those levels. Anticipating a little Emiliano's answer, there is some certain seasonality in the last quarter in terms of how corporations display their end-of-year manager of their deposits. So, it's like a sort of flight to quality and we see interesting flows from those companies in December. But more details with Emiliano.

Emiliano Muratore:

Hello, Yuri. Thank you for your question. Regarding cost of deposit, I think that going forward we have two main tailwinds. First is the rates going down. So, the cost of time deposits will go down significantly during the year. We have been doing, I would say a very aggressive tactic in terms of pricing the different segments in individuals and SMEs trying to increase the margin coming from time deposits. Actually, when you look at the EBITDA, taking the EBITDA, the average cost of time deposit in pesos for the whole bank compared to the monetary policy rates, we were able to take that from 92-93% of the rates to close to 80-82%. I mean, that's because we have been implied, as you mentioned, some kind of loss of balances from maybe affluent or private banking clients that are more price-sensitive. But as an overall strategy, it was very profitable for us. So, the cost of time deposits will be positive going forward. And the second is the mix. As you were pointing out, the wholesale or middle market to bigger corporates has been doing better in terms of liability balances. But it's also true that it was the first segment to stop falling in demand deposits and stabilizing and now starting to grow demand deposits, which are non-interest-bearing. So, also the mix between time and demand deposits that was part of the headwind we had this last few years because of the level of rates and the opportunity cost that the clients had. Now, going forward, we expect that mix to start improving from where we are now and we are relatively optimistic with how the cost of funds will support the names going forward.

Yuri Fernandes:

Super helpful Emiliano and Cristian. If I may, just on a more strategic question here on the client mix, you discussed Life previously and you have this breakdown of customers by segmentation, you were doing GetNet, you have [53 min 12 sec] strategy. My question to you is regarding the mix of clients going forward. Historically I think most of your retail clients, they are higher income. Is there any change to that? Is Santander willing to go more lower income in Chile? How should we think about your positioning on the customer mix in Chile going forward? Thank you.

Cristian Vicuña:

Definitely, as you said, if you compare the mix in terms of number of clients now our composition is much more geared to the middle low part of the pyramid. I would say that the main driver for that switch of strategy and also going forward is digitalization. The cost to serve clients with branches and with an account representative for each client, that is a very expensive model to serve and that historically produced that only middle to high income individuals were able to create enough revenue to sustain such an expensive model to serve them. But now, with all the work we have been doing in developing the digital solutions, we are able to have a very efficient, cost efficient model to serve any kind of clients. As we are showing, the Life initiative because of the balances it created in terms of deposits and also the credit presentation we are seeing is a very profitable source of business for us. I would say that we have the ambition to grow in number of clients and in the composition, definitely compared to 5-10 years ago, that will be much more massive if you want. We don't have at this moment of the cycle a specific high appetite for lending or for credit because we are seeing the economy is still going out of the recession we had, but definitely that will provide some raw material going forward to cross-sell or to up-sell and even the pure transactionality with how efficient we are in the digital solutions makes a business scale to sustain the client on their payments, on their transactionality looking forward to up-sell and cross-sell them depending on their behavior and their profiles.

Yuri Fernandes:

Phenomenal. Super clear and makes a lot of sense. Thank you guys for the answers.

Moderator:

Thank you. Our next question comes from Ms. Neha Agarwala from HSBC. Please go ahead, ma'am.

Neha Agarwala:

Hi. Thank you for taking my question. Could I clarify on the liquidity after you repay the central bank bonds in the middle of this year? Should that pressure your liquidity? Could you clarify that? I think you have deposits to cover for it, but if you could clarify any impact on liquidity coming from that. And my second question is on asset quality. You mentioned the pocket where you're seeing some worsening is the SMEs, but any other part of the loan book where you're seeing stress and any extraordinary provisions that you would like to make during the year for any of these investments? Thank you so much.

Emiliano Muratore:

Hello, Neha. Thank you for your question. I'll take the first one and I'll leave the second one for Cristian. So, regarding the maturity of the FCIC, that won't create any liquidity pressure because as we mentioned in some calls in the past, the central bank in January of 2023 established a kind of phase out strategy or regulation for banks that basically forced banks to start buying high liquidity assets starting January 2023 to cover 100% of the maturity of the FCIC. What that means is that by the date of the maturity, we and all the rest of the banks will have 100% of that money in short term, or maybe not short term, but highly liquid assets. And that's why in terms of the calculation or computation of the NIM and any other ratio that uses total assets or interest bearing assets as a numerator, that will create because at the end we have, roughly speaking, like 10% of the assets in that facility that will go away together with the liability. So, in terms of liquidity, let's say that we'll reach that maturity with 100% pre-funding on that and it won't impact. I mean, it has been impacting if you want during this last year and by the date of maturity we'll have it fully funded.

Cristian Vicuña:

So, Neha, regarding a deep dive into our asset quality, first we're very happy with the current performance of our consumer loan book. It's actually very, very healthy. Regarding the mortgage loan, the mortgage loan book, we are monitoring very closely the performance because there are some specific, very specific parts of the portfolio that are suffering due to the higher rates and the relevant inflation of the last years that have increased their monthly payments. But it's something that's very concentrated on a specific little part of the portfolio in the mortgage book. And regarding the commercial portfolio, let me remind you that we have about a 14% total market share for the commercial portfolio. And when you look at how it's composed, we have about an 11% market share in the single name like individual large middle market and corporates and about a 20% market share in the SME portfolio. So, we are actually quite at ease with the larger part of the portfolio, the commercial middle market and corporates. But in the SMEs we see pressures in three specific industries. Construction and real estate, that has been something that's happening worldwide. Very, very short term funding, stressed by high rates and increased cost of materials and construction costs that is impacting that

segment. Agricultural, particularly in Chile because of the flooding of the El Nino range in the third quarter that has impacted crops. And hotels and restaurants that have been suffering since 2019 and COVID and there are specific names there in the SME portfolio that are stressed. So, all in all, we see this as a very contained and I expect that I give you a little more understanding of how this is going to be working on.

Neha Agarwala:

Super helpful. If I could just verify the numbers. You mentioned that you have about 10% market share in the very large corporates and about 20% market share in the SMEs. And it is in the SMEs where for specific cases you are seeing some problems, but the large accounts are okay.

Cristian Vicuña:

Yeah.

Neha Agarwala:

Perfect. Thank you so much.

Moderator:

Okay, thank you very much. Our next question comes from Mr. Ewald Bittencourt from BICE Invisiones. Please go ahead, sir.

Ewald Bittencourt:

Hello, thanks for the presentation. How do you expect to evolve the addressable market size of lower income clients and thus the profitability of digital initiatives in targeting those segments, considering the regulators increasing some loan loss provisioning needs, capital needs?

Cristian Vicuña:

Thanks. So, Tomas, can you explain a little more your question?

Ewald Bittencourt:

Well, my question is how do you expect what is your expectation for the total market size of lower income clients to evolve, given that the regulator has increased some loan loss provisioning needs or at least is targeting to increase those loan loss provisioning needs? My question revolves around if you expect to still be profitable those digital initiatives you are targeting, given that the total size of potential clients could decrease?

Emiliano Muratore:

Yes, I'll take it. Your question implies more on the economics of lending which definitely is a revenue source for our business, but in that kind of middle to low part of the pyramid clients, like most of Life clients, also Mas Lucas clients, we can make money without lending much. Our customer acquisition cost for those digital clients, in the best part of the life cycle, it was close to $1 or $2. That was maybe too good to maintain. Now we are closer to $7 or $10 of customer acquisition cost. And when you look at the lifetime value of those clients, mainly on liabilities, transactionality, and business you see you get a payback close to four or five months in that,

and then you have some attrition. So we think that we can make a profitable business with that number of clients despite the fact that when we consider lending and start penetrating them with different products for lending, we have to factor in, as you said, higher cost in provisioning and also in capital but we do expect to keep being profitable in acquiring those kind of clients despite the regulatory pressure.

Ewald Bittencourt:

Okay. Thanks very much.

Moderator:

Thank you very much. Our final question comes from Mr. Daniel Mora from Credicorp Capital. Please go ahead, sir.

Daniel Mora:

Hi. Good morning and thank you for the presentation. I have a couple of questions. The first one is regarding the performance of the new credit card loans. We saw during the last quarter a strong pace of growth of double-digit growth, even quarterly and annual and I would like to understand if you are feeling comfortable with the performance of these loans, with these new vintages, or should we start to think that the performance is worse than, for example, the loans that were disbursed at the beginning of 2023 or 2022? That would be the first question. The second one is regarding the guidance of ROE. Just to understand, the 15-17 range that you provide in the presentation is the full year ROE because if we start with the first quarter with a 10% ROE, it means that in the second half of the year we should be close to the 20% or even above. Thank you so much.

Cristian Vicuña:

Hello, Daniel. Thank you for your question. I mean, starting with the second one, yes, that is the full year guidance for ROE and as you mentioned, starting at 10% fourth quarter, assuming the path of rates that even after the Wednesday meeting that the central bank stated that the neutral rate of 4% will be reached during the second half, you get ROEs close to 20 that, let's say, give you that average of 15-17% for the full year. And regarding asset quality in credit cards, I mean, we are comfortable. I mean, what we are seeing when you look at the graph of the evolution of credit cards, you have to factor in also the effect of inflation. I mean, definitely in terms of nominal pesos, the credit card business has a very tight link to inflation, and so when you look at the evolution of the balances in real terms, let's say we are going back to the pre-pandemic levels, I mean, at the end what happened is that households get a lot of liquidity from the pension funds withdrawals and also from the fiscal helps during the pandemic, so part of that liquidity was spent, part of that liquidity was invested, and part of that liquidity was used to pay back debt. Basically, households got some delivery during the pandemic, and now they are going back to normal levels of leverage, and we know quite well that the clients have their profiles, and we are not seeing a specific iteration of the new vintages in the credit cards business.

Daniel Mora:

Perfect. Thank you so much. That will be all from my side. Thank you.

Moderator:

Okay. Thank you very much. It looks like we have no further questions. I'll pass the line back to the management team for the concluding remarks.

Emiliano Muratore:

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

Moderator:

Thank you very much. This concludes today's conference call. We will now be closing all the lines. Thank you, and goodbye.