SANTANDER CHILE

CONFERENCE CALL TO DISCUSS SANTANDER CHILE Q1 2022 RESULTS

Company: Santander Chile

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Participants:

- Emiliano Muratore, Chief Financial Officer
- Claudio Soto, Chief Economist
- Robert Moreno, Investor Relations Manager

Michael:

Ladies and gentlemen, thank you for standing by. And I would like to welcome you to Banco Santander Chile Q1 2022 results conference call on the 29th of April 2022. At this time, all participants' lines are in listen only mode. The format of the call 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. Please go ahead, sir. Your line is open.

Emiliano Muratore:

Good morning, everyone. Welcome to Banco Santander Chile's first quarter 2022 results' webcast and conference call. This is Emiliano Muratore, CFO, and I'm joined today by Robert Moreno, Managing Director and Head of Investor Relations, and Claudio Soto, Chief Economist. Thank you for attending today's conference call. We hope you all continue to stay safe and healthy.

Emiliano Muratore:

The bank has continued with strong momentum into 2022 with a strong ROE and solid financial performance thanks to our successful digital strategy, a strong client growth, sound asset quality and impressive efficiency levels.

Emiliano Muratore:

As many of you probably already noticed in first quarter 2022, Chilean banks moved one step closer to adopting full IFRS accounting standards, with the adoption of IFRS 9 for evaluating financial instruments, with the exception of the methodology for calculating expected loss or credit risk, which is still calculated using the expected loss models defined by our regulator, the CMF.

Emiliano Muratore:

At the same time, all Chilean banks have adopted a new financial statement preparation standard. We have restated our historical figures to match the current format, and this restatement is included in our new management commentary. If you have further questions about this new format, don't hesitate to contact our IR department for help. Before we get into our shorts, Claudio Soto will start with an update on the macro scenario beginning on slide four.

Claudio Soto:

Thank you, Emiliano. Since our last call, the pandemic in Chile has receded substantially, new cases have dropped, and sanitary restrictions have been lifted. After finishing 2021 significantly above trend, the economy has begun its slow-down a little earlier than expected. Monetary tightening by the Central Bank in the second part of last year, a fiscal contraction this year and political uncertainty, have led to a moderation in domestic demand. These factors will continue pushing down the economy during the rest of 2022. A negative impact on global growth of the war in Ukraine will also affect local activity. All in all, we expect GDP will grow by 1.5% this year, as seen on slide five.

Claudio Soto:

Inflation has continued increasing. The Consumer Price Index, CPI, rose 9.4% year on year in March, its highest rate in more than 10 years. Behind this phenomenon were global pressures, a relatively weak currency, and second round effects from past price hikes, in a context of still abandoned domestic liquidity. March figures also reflected the impact of the war in Ukraine, which pushed up local food prices. Estimated inflation will keep rising until the end of the second quarter, reaching 11%. After that, it should begin slowing down, as global prices soften and local activity moderates.

Claudio Soto:

The Central Bank has continued tightening its monetary policy by raising the monetary policy rate 150 basis point in March, reaching 7%. We expect the monetary authority will increase its policy rate by a 100 basis points in the meeting next week, and eventually by another 50 basis point in June. This implies finishing the hiking cycle with a monetary policy rate at 8.5%. After that, they should keep the rate on hold during the third quarter, and begin cutting by the end of the year as inflation and activity slow down.

Claudio Soto:

After the dovish tone in the monetary policy report published at the of March, short and medium term market rates adjust downward. However, after the high CPI in March, which significantly surprised on the upside, they increase again.

Claudio Soto:

The new government has ratified its compromise to fulfill the current budget, which implies a substantial contracture in public expenditure this year. While it might be detrimental to growth, that will help contain inflationary pressures, and a further increase in public debt. Recently, the Ministry of Finance announced an agreement with the Central Workers Union to increase the minimum wage by 14%, and a package of cash transfer to low-income families for about $350 million US, to compensate for the loss of value of the currency. This package would be financed through adjustment in the budget, without increasing total expenditure. Also, the legal initiative allowing for new pension fund withdrawals were rejected in Congress. Similar proposals should not be discussed anytime soon, reducing the risk of massive new liquidity injections.

Claudio Soto:

Going to slide six, the constitutional process is in its latest stages. There are still key element to be defined, and adjustment to the draft in the so-called Harmonization Commission. The actual referendum which will take place on September 4th this year will produce uncertainty. However, in the case that the approve option wins, there will still be a large transition period to implement the new constitution. In case that the reject option wins, it is likely that important amendments to the current constitution will take place.

Robert Moreno:

Thank you, Claudio. We will now move on to slide seven, to focus on the evolution of our various digital initiatives this year. On slide eight, we summarize our main initiatives, which have been key elements for our recent success in client growth and satisfaction. In the next few slides, I will update the evolution of the main initiatives outlined here.

Robert Moreno:

On slide nine we begin with our most successful initiative, which is Santander Life. Client growth continues strong with Santander Life reaching over 970,000 clients, an increase of 60% year over year. Life's active clients, defined as those in which Santander is their main bank, increase 52% year and year. And loyal clients, which are those that are active and are also profitably using a majority of Life products rose 49% year over year. And then Life's clients are also rapidly monetizing, with gross income around $30 million in the first quarter, a 62% increase compared to the same quarter of last year. Demand deposits remain high at 1.1 billion, a 53% increase, surpassing by many times the amount clients have deposited in similar competing platforms.

Robert Moreno:

On the loan side, Life clients had a total of 310 million in consumer loans, increasing 38% in consumer credit, and 98% in credit card loans. These clients are also beginning to purchase other products such as mutual funds and time deposits, top deposits, which have grown 77% year on year, and 161% respectively. In slide 10 we show the high growth, Superdigital is obtaining. Superdigital is a prepaid digital product aimed at the un-banked who seek a low cost bank account. Superdigital clients have grown 95% year over year, reaching over 292,000 clients. This growth has been helped by alliances with companies such as Cornershop and Uber. Furthermore in January of 2022, Todas Conectadas initiatives by the UN with MasterCard and Microsoft, that looks to offer tools for women entrepreneurs, chose Superdigital as their financial platform for Chile.

Robert Moreno:

Getnet are acquiring business to continue to grow successfully, as shown on slide 11. Getnet was efficiently launched in February last year and has sold over 88,000 POS, and over 500 mobile POSs which were recently launched. 91% of Getnet's clients are SMEs, our target clients. Today Getnet already has a market share greater than 20% in POSs, with around 300 billion in monthly sales through these machines. This product has been quick to monetize generating three billion in fees in the first quarter alone. We expect Getnet to break even by the end of this year.

Robert Moreno:

On slide 12 we showcase our two most recent digital initiatives to help support micro entrepreneurs, Prospera, and Cuenta Pyme Life, these two projects are in the incubation stage as we test different platforms and customer segments. Prospera is for non-incorporated individuals that need a current account for their business, mainly focused on transactionality, with a small monthly fee and a one-time payment for the mobile POS, these clients are rapidly using multiple products from the get-go, with access to a current account with unlimited free transfers and no limits to their monthly balance.

Robert Moreno:

Cuenta Pyme Life has a slightly different focus, targeting incorporated companies that need a current account. The government has a program called Tu Empresa En Un Dia, with around 365 companies created each day fully online. These same companies then seek a product that can be also opened online, and will not require a history with a bank, nor minimum sales. Cuenta Pyme Life builds on the same successful platform we have created for individuals, and also focuses mainly on transactionality as well as responsible lending opportunities in the future.

Robert Moreno:

As can be seen on slide 13, we continue to lead our main competitors in NPS. In the first quarter our NPS dipped slightly, mainly our app as we rolled out a new version which caused some client disruptions, but will allow us to give a better service with heightened cyber security.

Robert Moreno:

On slide 14, we show how these different efforts are translating into record client growth. We surpassed the 4.1 million client mark in the first quarter with a bright outlook for the rest of the year. Since mid-2020 total clients have increased 20%, in the same period total digital clients have grown 51.7%. The main driver of client growth has been checking account openings through Santander Life. As a result, our market share and number of current accounts has increased to 28.9%, or 234 basis points higher than 12 months ago.

Robert Moreno:

On slide 15 we see how the bank continues its process of transforming the branch network, focusing on the Work Cafe model, and closing less productive branches. As the pandemic has eased we have begin to reopen the cafe and co-working areas, welcoming in again both customers and non-customers to these unique branches. Overall, our branch strategy, coupled with our digital initiative, is driving an important rise in productivity, with volumes per point of sale increasing 12.2% year over year, and volumes per employee increasing 10.8% year over year. The Work Cafe community already has 155,000 members, and 5,500 shops. In the last year this platform helped over 25,000 shops or businesses create their website and shopping cart to sell online.

Robert Moreno:

Moving forward to slide 16, we show our 10 responsible banking commitments, which we spoke about in our Santander ESG talk last year, and their progress. We continue to make significant progress in all of our commitments, increasing the amount of women in leadership positions and lowering the gender pay gap. On the social front, we have financially empowered 1.8 million people as of March, and supported 281,000 through our community programs. On the environmental front, we already eliminated all of our single-use plastics, and as of March 2022 we have close to $470 million in sustainable financing on our loan book. We have also already begun construction of our solar power plants.

Robert Moreno:

On slide 17 we can see how our efforts are being recognized by the various ESG indexes. In the fourth quarter, the Dow Jones sustainability index confirmed us as the only bank in Chile to qualify for the Emerging Markets Index, and also this quarter MSCI affirmed its A rating for the bank.

Robert Moreno:

Skipping ahead to slide 19, we will now take a look at our financial results. As a reminder, as of January, Chilean banks have now incorporated IFRS 9, except for the expected loss models for provisions. Chilean banks also adopted a new format for the balance sheet and income statement. The financial information for 2021 has been adjusted to include these changes for comparison purposes. In the first quarter of 2022, net income attributed to shareholders increased 29.5%, compared to the same quarter of 2021, and totaled 235.7 billion peso. Our ROE in the quarter reached 25.6%.

Robert Moreno:

These strong reach results were mainly driven by our client activities, as reflected in the increase of 21.5% in the net income from our business segments, which excludes taxes, voluntary provisions, and the impact of inflation on results. All business segments saw better results, with retail banking's net contribution increasing 10.7%, middle market results up 23.5%, and CIB's profits rising 54%.

Robert Moreno:

On slide 20 we review our loan book, which grew 0.6% Q on Q, and 6.8 year over year. Loans to individuals increased 9.7% year over year, and 1.9% Q over Q. With loan growth in this segment being driven by high yielding auto loans, which grew 57.5% year over year. Mortgage loans grew 11.7 year over year, and 2.0% Q over Q. Growth in this product was mainly driven by the higher UF inflation rates that resulted in a positive translation impact on mortgage loans. New mortgage loan originations fell as inflation and rates increased in the quarter. During the quarter our CIB segment continued to experience strong growth of 6.5% Q over Q, as the economy reopened and large corporates sought funding in the form of corporate loans, as the bond market remained illiquid.

Robert Moreno:

On slide 21 we show the evolution of our funding mix. Total deposits increase 2.8 year over year, and decreased 3.5 Q over Q. After a strong increase in non-interest bearing deposits in previous quarters, due to the success of our digital platforms, and the excess liquidity from state aid and pension fund withdrawals, we have started to see our clients either spend their liquidity or shift it to time deposits as rates rise. The decrease in retail demand deposits was partially offset by the 30% Q and Q increase in corporate demand deposits. As a result, time deposits only increased 0.3% Q over Q. Despite this proactive stance regarding funding costs, we still expect average funding costs to continue to rise as the monetary policy rate continues to go up. These high higher rates will be eventually transferred to our loan book, but given that our interest bearing liabilities have a shorter duration than our interest earning assets, funding costs will go up first.

Robert Moreno:

Moving onto slide 24, we can see how the movements of volumes, rates and inflation resulted in flat NII year on year growth. The bank's net interest margin reached 3.7% in 1Q 22, compared to 4.4 in the fourth quarter, and 4.1 in the same quarter of last year. During the quarter inflation remained strong with a UF variation of 2.4%. This high inflation was offset by the aggressive hike in the monetary policy rate by the Central Bank in the quarter, which deteriorated our funding costs and mix.

Robert Moreno:

Moving on to asset quality in slide 23, we show how the evolution of asset quality remained solid in the quarter. The NPL and impaired loan ratio decreased to 4.5% and 1.2% respectively. The coverage ratio of NPLs also remained high at 279%. These positive trends were seen equally across the different products.

Robert Moreno:

As we can see on slide 24, these positive asset quality indicators led to a cost of credit of 0.8 for the first quarter of 2022. During the quarter, the board did not recognize or reverse any additional or voluntary provisions.

Robert Moreno:

Non-net interest income trends were also very positive in the quarter, as we show on slide 25. Fee income increased 17.1% percent year over year driven by higher client activity and the growth of our client base, which led to growth across most products, thanks to our digital strategy with our key products such as Life Getnet, and our Insurtech platforms. Compared to the fourth quarter '21, fees showed some seasonality with less card transactions due to the vacation season in Chile. Financial transactions also continued to show strong client demand with high appetite for our treasury products, accompanied with positive results from our ALM division. With this, our non-interest income increased 37% year over year, and 29% Q over Q.

Robert Moreno:

As shown on slide 26, operating expensive growth remain controlled during the quarter, despite the higher inflation rates, and our efficiency ratio reached 37.8% in the quarter. Personal expenses remained stable year over year, and administrative expenses only grew 3.6% year over year, despite the record high inflation levels. This exemplary cost control has mainly been driven by our digital investments, which is leading to higher productivity and efficiency levels. The Bank is currently carrying out its 260 million digital investment plan for the years 2022, 2024, mainly focused on digital initiatives, both at the front and back end of operations. Other operating expenses decreased 11%. During the pandemic the bank had established greater provisions for contingencies and operating risks, which have not been repeated in the first quarter, leading to a fall in this item.

Robert Moreno:

Okay, moving on to slide 27, we now analyze our capital as a reminder since year end 2021, we are now reporting under BIS3, at the end of the first quarter the bank reported a core equity ratio of 10.4, and a total BIS ratio of 16.8. Our fully loaded ratios were 10.7 and 17.1% respectively. During the quarter of the CMF set our pillar two requirement at 0%. All in, and considering all the different buffers, the minimum CET1 ratio we must achieved by 2025 is 9.5%, and we are currently above this level. In the slide it says 10, but that's a typo, it's 9.5.

Robert Moreno:

As a result of these strong capital levels, and as we show on slide 28, we paid in April this year our highest dividend ever of 2.47 pesos per share, 50% higher than last year's dividend with an attractive yield of 5.5.

Robert Moreno:

Finally, on slide 29, we are updating our guidance for 2022. Strong results in the first quarter and the evolving microeconomic situation have led us to update our guidance for this year. Our base scenario now assumes a GDP growth of around one and a half, with an inflation rate of around 9%. This should lead to loan growth of 8% to 10%. We have lowered our outlook for NIMs to 3.5 to 3.7, on the back of short term interest rates rising more quickly than previously estimated. On the other hand, our non-NAI revenue should rise 10% to 15%, and our outlook for the cost of risks remains unchained at 0.9% to 1%. Given our efforts with our digital strategy, we expect cost to grow below inflation. All in, we expect an ROE of 21 to 22% for 2022.

Robert Moreno:

With this, I finish my presentation, and we will now gladly answer any questions you may have.

Michael:

Thank you very much. We will now move to the Q and A part of it all. If you have any questions, please press star two on your keypad, that's star two on your keypad, and wait for your name to be called. If you are dialed in via the web you may also ask a voice or a text question. We will now give a moment or so for the questions to come in.

Michael:

Thank you. Our first question comes from Mr. Tito Labarta from Goldman Sachs, please go ahead sir, your line is open.

Tito Labarta:

Hi, good morning, Robert, thanks for taking my question. I guess my questions are on your margins a little bit, just I know you lowered the guidance a bit because the higher interest rate. But just to think maybe on how that's going to evolve, so do you think you'll see that immediate impact next quarter from the higher rates? And maybe some more margin pressure in the short term? But let's say if inflation remains high, is there maybe some upside to that margin outlook, and particularly maybe thinking going into 2023, not sure your inflation expectations for then? But how do you think that can continue to evolve just given the dynamics between inflation and policy rate? If you can give some more call on that it would be helpful.

Emiliano Muratore:

Hello Tito, this is Emiliano, thank you for your questions. I mean, regarding the future for NIMs, I mean second quarter shouldn't be, let's say, significantly worse, it could be around the first quarter because we already know the March inflation which was high, was 1.9 for the month. So that's going to be a significant part of the UF variation for the second quarter, we'll know next week the CPI for April. And so the second quarter shouldn't be, let's say, bad in that sense. The second half could be the one bringing the headwinds, and how hard the headwinds will be will depend on the combination of where the inflation stays, and how the Central Bank reacts to that. So the trending down of NIMs should come in the second half. I mean, maybe with the third quarter being dependent on the timing of the Central

Bank decisions, and also the inflation figures, that maybe the third quarter could be the bottom. And then in the fourth quarter, when the Central Bank might start cutting rates, depending on the evolution of inflation and activity, we can start to see every round in that sense.

Emiliano Muratore:

For 2023, the big question will be the combination of interest rates and inflation. So if inflation stay high it will be positive for us. I mean, maybe the Central Bank will be more modest in cutting rates in that environment, but the overall effect will depend on the reaction of the Central Bank to the inflation.

Tito Labarta:

Great. Thank you, Emiliano, that's helpful. And then looking here at your inflation forecast for 2023, 4.4 with the monetary policy rate coming down to 4.75, in that scenario, how do you think about your margin? Can it remain stable in, say, the second half of 2022? Could you get-

Emiliano Muratore:

This year? Yes. The question mark for there is where we end up this year, but let's say that combination could be stable, around where we are going to be this year.

Tito Labarta:

Okay. And, it'd be more stable with, say, the second half of the year when you see the pressure? Or there could be a little bit of upside?

Emiliano Muratore:

No, we don't know for the year end.

Tito Labarta:

With the full year, okay. All right. Perfect. That's helpful. Thank you Emiliano.

Michael:

Thank you very much. We'll now be moving to the next question from Mr. Alonso Garcia from Credit Suisse. Please go ahead, sir. Your line is open.

Alonso Garcia:

Hi, good morning, everyone. Thank you for taking my question. My question is regarding asset quality. I mean, you've continued to record healthy asset quality metrics across the different segments, and your guidance reinforces the positive outlook for asset quality this year. But just wanted to ask, I mean, the factor behind you feeling comfortable with the asset quality remaining well under control this year, in an environment of lower GDP growth, rising inflation? So just wanted to understand what you are seeing in terms of asset quality in this environment. Thank you.

Robert Moreno:

Okay. So with rising rates and higher inflation and lower growth, obviously there could be some pressures on asset quality. So basically what we did in the first quarter, and if you look at the coverage ratios I think it's more clear, basically there was a little bit of increase in NPLs in consumer, but we basically used the coverage. So the coverage came down from 600% to 500%. And, first of all, we didn't touch any of the voluntary additional provisions. Basically in consumer lending, as people have less liquidity, and there might be some more than weakness, I think consumer NPLs will slowly go back to where they were before the pandemic, and the social outbursts. Okay? But we already have that very well covered, and basically we've used coverage in that portfolio, so it really shouldn't affect too much the cost of risk.

Robert Moreno:

Now, in Chile, as you know, a lot of our mortgages, or all of our mortgages are indexed to inflation. For the back book, the increase in rates for the back book doesn't affect because the real rate is fixed over the life of the mortgage. But obviously the variable part of people's mortgage installments comes from the increase of inflation. So I think there could be some risk there.

Robert Moreno:

Now, we look at the figures in the first quarter, asset quality and mortgage did very well. But to be prudent what we did is, we did increase the coverage in mortgage. Okay? So the increase in provisions in the quarter were mainly through mortgages, even though mortgages asset quality remained very good. We, increase mortgage, I think, to the highest coverage we've had in many years to 130%, that's excluding the value of collateral. So basically we've covered around two years of future potential charge-offs.

Robert Moreno:

So I think that's the benefit of having high coverage, that we basically tweaked a bit the coverage ratios among the different products. So that's why we're able to remain tranquil with our cost of risk outlook for the rest of the year, given the current outlook for the economy, okay?

Alonso Garcia:

Okay. That's very clear, thank you very much.

Michael:

Thank you very much. Our next question comes from Mr. Ernesto Galibondo from Bank of America. Please go ahead, sir. Your line is open.

Ernesto Gabilondo:

Thank you. Good morning, everyone. Thanks for taking my call. My first question is also in terms of long road, and in terms of the macro expectations. So I agree with you on your expectations of one and a half percent GDP growth for this year. However, if we go beyond that and start looking to 2023, will you still as a country need to have a pension reform? Then you need to have a tax reform to finance it, and then you are having tighter fiscal and monetary policies? So just wondering how do you see the GDP grow expectation in 2023, and how can that translated into long road?

Claudio Soto:

Yeah, I'm Claudio Soto, I will take the first part of the question on growth expectation.

Claudio Soto:

We expect GDP growing between zero and 1% next year. That is a little bit above to what the Central Bank has from its latest inflation report. What is behind that growth figure? Well, we expect the monetary policy to begin loosening its monetary policy by the end of this year, as long as inflation slows down. And also this year, the strong fiscal adjustment is occurring this year, this year we have a very tight fiscal policy. But we expect the government will be able to start increasing the budget expenditure by next year, and that will help in supporting the economy. That is basically what we have behind our estimate of low growth GDP. In term of long growth?

Emiliano Muratore:

Yeah, I mean, with what Claudio mentioned in terms of nominal GDP being in the mid single digits, and then I think that the multiplier of long growth to that, it's not so easy to predict. I mean, considering where we're coming from, the pandemic, the leverage from the families, the pension fund withdrawal, so I could say that we can be around also mid single digits, maybe from 5% to 7% nominal growth of loans coming from that zero to 1% GDP growth, and inflation being in the 4% to 5% range.

Ernesto Gabilondo:

Perfect. Thank you. And then my second question is on your ROE; we have seen you have increased the target to 21%, 22% for this year. However, at some point we should expect lower inflation. So where do you see the sustainable or long term ROE?

Emiliano Muratore:

Yeah, I mean, we give our 18% to 19% range for long term ROE, I mean, we haven't changed that. I mean, the first quarter and first half, considering the inflation levels and that are showing above 20% ROE, that we haven't changed our long term expectations in terms of ROE. Because at the end, after this high inflation period inflation will converge. I mean, the Central Bank will take rates down again, and we can go back to, let's say, a more normalized scenario of this 18% to 90% range.

Ernesto Gabilondo:

Okay, perfect. Thank you very much.

Michael:

Thank you very much. We'll be moving to the next caller. The next question comes from Mr. Carlos Gomez from HSBC. Please go ahead, sir. Your line is open.

Carlos Gomez-Lopez:

Yes. Hello. Good morning. I want to ask you about the impacts of the withdrawal from the pension fund on your business now and in the future. From what we read there has already been an increase in long term mortgage rates, and a reduction in the terms in which the banks lend. How do you see that evolving? And how you see that impacting long growth in the long run?

Carlos Gomez-Lopez:

And second, I wanted to ask about the decline in the POSs that we have seen in the last two quarters, again, I think it is related to the withdrawal from the pension fund. Do you see that continuing, and is funding a concern for the next two or three years? Thank you.

Emiliano Muratore:

Hello, Carlos, thank you for your question. I mean, so regarding the impacts of the pension fund withdrawals, I think we are still seeing the effects of the withdrawals in the sense that still there's a significant amount of liquidity around the system, in terms of demand deposit and time deposit. And also as you said, the fact that the pension funds needed to sell long term assets in the market pushed long term interest rates up, that made new mortgages more expensive, and so that reduced the demand for mortgages. And I would think that that's going to be the case for a while. I mean, we don't see long term rates falling sharply, so the level of new origination in mortgages for the next, I don't know, 12 to 24 months, definitely will be lower than the ones we had in the past.

Emiliano Muratore:

It's also true that in nominal terms, the mortgage portfolio will be growing with inflation. So in terms of the nominal size of the portfolio, you cans still have growth to the high single digit numbers, let's say supported by inflation. And also, the effect of the withdrawals was like a reduction in consumer loans demand. I mean, people have liquidity so they are demanding less credit, that's why you see the numbers for us and for the system in consumer loans are modest, or even falling. But that will change after people use the money that they have, and we see that happening more towards the end of this year, maybe next year.

Emiliano Muratore:

What we are seeing in terms of deposit behavior, is that we are seeing people first spending part of the money they have in their checking accounts, and also, let's say, considering the higher opportunity cost that the level of rates is creating, people are shifting from demand deposit to time deposit basically, because now the deals and the rates are, let's say, more attractive to them. So that's part of our pressure on NIMs, but it's not a concern in terms of the funding of the business, because we keep the deposit. I mean, it's more expensive on a time deposit format than on a checking account, but we still have the funding for our business.

Emiliano Muratore:

And going to the first part with demand on the mortgage business being slower than in the past, we don't foresee significant pressure in the long term funding needs for us. We still have access to the domestic market, which is, let's say, still there in a certain sense. And also the international markets have proven to be very accessible for us. So with funding is not a concern for the near future.

Carlos Gomez-Lopez:

Okay. That's clear. Thank you.

Michael:

Thank you very much. Our next question comes from Mr. Rui Fernandes from J P Morgan. Please go ahead, sir, your line is open.

Rui Fernandes:

Thank you all, and thank you for the opportunity and congrats on this very strong ROE. I have a quick one regarding the number of clients. We saw some stabilization regarding loyal clients and digital clients, so just would like to know your view here for this year. Do you think the growth will slow down?

Or you see more competition for clients? Or this just seasonal, first Q versus fourth Q? So that's the first one.

Rui Fernandes:

And a follow up on funding. I totally understand that funding is not an issue regarding the amount, but how do you see them in the positive volume? Because they are still at a very high level, although they decreased this quarter, they are still, I don't know, 62% of your total deposits. And when you go back to historical, the main deposits they were around 40% on their total deposit. So how quickly do you believe the main deposits will shrink? Do you see this like a one, two years? Again, assuming no new pension withdrawal in Chile. How long do you think deposits may normalize, because this has been a very good tailwind for banks? And I don't know, with the rate at seven and more, we could see a quick shift here on the deposit. So just want to hear your thoughts on this. Thank you.

Robert Moreno:

Okay. So regarding clients, I think there's various factors; one is seasonality, the summer months always things slow down a bit. The second factor is, we did do some changes, as we are always upgrading our site, our app, and there was a little bit of disruption there, we're always trying to boost cyber security, and I think that affected in the very short term our NPS, which we saw in the growth of digital clients. But I think it was momentary, and now I think things are back on track.

Robert Moreno:

And the third, it's true that there's definitely more competition, there's a lot of good platforms I think we're still leading. In any case, we should see a client growth, especially digital client growth, start to recover as people adjust to the new formats and the new cyber security features. So we're already seeing in March and April that recovering with the new products through Life, especially like Cuenta Life Pyme, I think that's going to be another game changer that's going to slowly gain momentum. And Getnet continues to do well.

Robert Moreno:

So overall, I think there's going to be more competition. We're going to start launching some new things in the next few quarters. All of that should give the boost again to client growth. So we still think that's going to move forward after a slight dip, especially in the digital side. It was basically in the month of January and February and March there was already a pickup.

Emiliano Muratore:

And regarding the mix of deposits, or the trends for deposits going forward, I think it's first important to mention that apart from the pension funds withdrawals on, let's say, all the fiscal hubs, also we did a significant improvement in all the transactional business with companies. So if you go to slide 21, you could see there that the evolution of the retail part individuals, and the corporate part, middle market, on FCIB is quite different. So we are still keeping a significant part of the demand deposits coming from corporates, basically because apart from the, let's say, reasonable optimization of their margins and their financial business, that money is more related to the, let's say, loyalty and the transactional relationship with the bank, that still is strong, and we are positive going forward.

Emiliano Muratore:

It's also important to mention going to your mix of between time deposits and demand deposits, going to some years before now, that also the system, and also we had a significant pool of time deposits coming from institutional investors and pension funds. I mean that's not going to come back, so I think that it's a long term effect, where the share of demand deposits for us, as total deposit, will stay higher than where it was in the past.

Emiliano Muratore:

So going to your question, we do see, especially in the retail part, the opportunity cost, and also the usage of the liquidity from households will put a headwind in demand deposit growth going forward, and maybe some shift to time deposit. But then when you see the overall, including the corporate segment, we don't see a fast or significant shift, rates are already at 10%, so a big part of that opportunity cost shift has already passed. And so we are not concerned of having a rapid or sharp mix shift from demand to time deposit, in an overall deposit base during the next months.

Rui Fernandes:

No, that's super clear. The concern was inflation coming down and demand deposits coming down, right? That would be painful. And also guys, congrats on that new release, that's my final comment here, it was very good. The new informations we are bringing to the release. Thank you very much.

Emiliano Muratore:

Okay. Thank-

Claudio Soto:

Thank you.

Emiliano Muratore:

Thank you for comments, Rui.

Michael:

Thank you very much. Our next question comes from Mr. Juan Recalde from Scotia Bank, please go ahead, sir.

Juan Recalde:

Hi, thank you for taking my question. The question is regarding fee income growth. We saw very strong growth of around 17% year on year in the quarter. I was wondering how sustainable is this, and what is your expectation for fee income growth for 2022 and 2023?

Robert Moreno:

Okay. Yeah. So we've had, I think, probably one of the more better parts of our results have been the positive effects of all the growth in clients, and in transactionality on fee growth. And we've seen fees grow across the board. And I think that's good news for the rest of the year. As aside now, remember that, and as we mentioned in the management commentary, and in the script, we have to begin to absorb beginning in April, the new interchange fees, and that's going to cost us this year 29 billion pesos, so basically April through December. So that will probably lower a bit the ongoing growth of fees, especially through cards, even though it should have a slight benefit for Getnet. So overall fee growth will probably not continue the trends we saw in the first quarter because of this, even though the non-credit card related product, we should continue to have a very good year because of the increase in transactionality.

Robert Moreno:

So, the 17% growth in fees will probably come down by the end of the year, as we absorb these 29 billion, to levels probably around 8% or 9%, okay? And then next year, once we have this absorbed, we should go back to growth in the teens because the client growth, the transactionality, should continue to push fees. So this is like a one-off that we absorb this year, and then we should continue growing. So, even though there are some pressure in margins, as we mentioned, I think the fee part is quite clear.

Robert Moreno:

And the other thing is that the income treasury in the first quarter was 57 billion. We had very good client treasury, non-client which was a loss last year, non-client treasury should be more or less positive, or not repeating the loss. So when you add fees and the treasury, everything that's basically non-net interest income, that should grow around 15% this year. So I think that's one of the positives we have this year. So even though we have to adopt the interchange fee, the rest of the fee products should grow well, and our treasury should also have a good year, and that should continue through next year as well.

Juan Recalde:

That's very clear. Thank you for the comments.

Michael:

Thank you very much. We have received three text questions. I will read them out individually. So the first one is, "Any potential regulatory risk for the Bank to flag, pertaining to constitutional convention?"

Claudio Soto:

Well, in term of the constitutional convention, it is hard to foresee right now what are the specific implications for the financial industry in general. The constitution is defining political rules, is defining a list of social rights, and the working of the political system, and the legislative, and judiciary system. So it's hard to think right now to specific impacts on the financial industry. Regarding other type of regulations, one of the things that is going on right now is the Fintech Regulation that is being discussed in Congress, and another regulation to have a consolidated debt repository, that is something that has been discussed for many years already in Chile, but now it's advancing in Congress.

Michael:

Okay. Thank you very much for that. The next text question, "Considering the current economic slowdown, how do you see loan growth evolving in 2022, especially in the retail segment? Do you think loan growth of 8% to 10% is feasible in this context?"

Robert Moreno:

Yes. Hi. I think so, in part because inflation went up, everything that's denominated in UF. So we didn't really change our nominal long growth forecast too much versus the previous guidance. What really changed was the inflation went up, so the real long growth is actually around almost zero. So basically, we're not seeing terrific numbers in loan originations, except for auto loans, the rest of the consumer loans are stalled. New mortgage originations have fallen. And there is some interesting activity in the more [inaudible 00:50:12] side [inaudible 00:50:12] the loan growth. But I think really, the most recent push is translation gain through the UF, okay? To higher inflation.

Michael:

Okay. Thank you very much. The next text question is about inflation again. So, "How much inflation is too much, in the sense that even higher inflation is good for market margins, there must be a point where it begins to affect customers? Lower consumption, higher delinquency et cetera." Thank you.

Emiliano Muratore:

That's a difficult question to ask. We think that we are still at levels of inflation where those pressures exist, but are still manageable by our clients and by ourself. And we also have, let's say, trust in the Central Bank doing their work in helping inflation to converge. Also, the GDP forecast for the economy should help to have inflation converging. And the one coming from abroad, the imported inflation coming from all the situation in Ukraine, and all the supply chain disruptions, that also should fade away in the future, maybe not so soon, but yes, a bit away from now.

Michael:

Okay. Thank you very much. We have a final voice question from an individual analyst, and this is Mike George. We'll open the microphone, please go ahead, sir. Okay, I believe we have no further questions then at this point, I'll pass the line back to the management team for the concluding remarks.

Emiliano Muratore:

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

Robert Moreno:

Goodbye.

Michael:

Thank you very much. This concludes our call for today. We'll now be closing all the lines. Thank you, and have a great weekend. Bye-bye.