BANCO SANTANDER CHILE

CONFERENCE CALL DEDICATED TO BANCO SANTANDER CHILE FINANCIAL RESULTS 3Q 2022

Date: 28.10.2022

Participants:

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

Moderator:

Ladies and gentlemen, thank you for standing by and I would like to welcome you to Banco Santander Chile 3Q 22 Results Conference Call on the 28th of October, 2022. 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 of Banco Santander Chile. Please go ahead, sir.

Emiliano Muratore:

Good morning everyone. Welcome to Banco Santander Chile Third 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, our Chief Economist. Thank you for attending today's conference call. The bank has continued to achieve strong results in the third quarter of this year with a high ROE and solid financial performance. Our successful digital strategy and customer oriented product offerings continues to attract new clients indicating great growth opportunity going forward. In the quarter, the Central Bank of Chile also continued to tighten monetary policy. We will be given a more detailed analysis of the impact this will have on our margins. To begin, I invite Claudio Soto to give us an update on the macro scenario beginning on slide four.

Claudio Soto:

Thank you, Emiliano. I suspected that the local economy has been slowing down since the second quarter. Activity grew 0% year over year [inaudible 00:01:40] and the next monthly print will be negative. Despite that, some sectors have been more resilient than expected. As a result, we have revised our growth estimate for the year up to 2.25%. Excess liquidity from pension fund withdrawals and cash transfers in 2021 have been draining away in a context of high interest rates. The labor market

has weakened with low job creation at the margin. In turn, investment prospects remain subdued. Because of that, domestic demand will suffer a relevant contraction in 2023. In turn, the external sector would be affected by low global growth although, we forecast that GB will have a contraction close to -1.2%. In 2024, we would see a recovery of the economy back to trend. The current account deficit which has been widening should start shrinking during the following month as domestic demand contracts and term of trade stop falling.

Inflation remains elevated but has shown some signs of slowing down. September's CPI was in line with expectation and historical patterns, but the October's figure will still be high. However, in the following month, we should see a gradual moderation due to low commodity prices and a weak economy. We estimate that inflation will close the year somewhat above 12.5% and next year it will fall to almost 6%. The central bank has announced that in the most likely scenario, the hiking cycle has concluded with a monetary policy rate at 11.25%. We have expect the rate will remain on hold during the December monetary policy meeting. The board might decide to begin an initial cycle as soon as in their general meeting, although it is more likely they start cutting at April's meeting. We estimate the monetary policy rate will end that 2023 at around 7%.

The fiscal balance has improved amid strong revenues and a sharp fall in expenditure. This year there will be a fiscal surplus of about 1.6% of GDP and gross debt will fall back to 36% of GDP. Next year, there will be a mild explanatory expansion with gross debt climbing up to 38% of GDP. Political uncertainty remains high but should decrease during the following quarters. After the rejection of the constitutional draft written by the constitutional convention last September, different political forces are building a new agreement on how to continue this process. Until now, there is consensus on the need for a new constitution and certain borders of an eventual new text, including establishing a stronger worker's pay protecting human and property rights and ratifying autonomous bodies of the state most notably the central bank. In terms of the legislative agenda, the tax reform has been subject to important amendments in congress and its scope has been narrowed down. The pension reform should be sent to congress soon.

Robert Moreno:

Thank you Claudio. We will now move on to slide 8 to begin to begin discussing our financial performance. Year to date, the bank's net income totaled 707 billion pesos, an increase of 29% compared to the same last year. With these results, our year to date return on average equity reached 25.9%. Our net income to shareholders in the third quarter reached 186 billion pesos increasing 5% year on year and decreasing 35% Q/Q. This fall was mainly due to lower NIMS in the quarter, as inflation decelerated and interest rates continue to rise.

As we show on slide 9, this was offset by very strong results from our business segments. The net contribution from our business segments increased 20.6% year to date and 23% QOQ. It is important to note that the results from our client segments excludes the impact of inflation and the cost of our liquidity, and therefore presents a clear review of the sustainable and long term trends of our business.

On slide 10, we show the results from our largest segment, which is retail banking that includes the results from individuals and SMEs. The net contribution from this segment increased 9.8% year over year driven by an 11% rise in revenues as client growth and higher product usage continues to drive results in this segment. On a quarter on quarter basis, netting come from the retail banking group 21% despite a 1.3% decline in NII. The rise in non-NII in this segment has more than offset the impact of the shift and funding mix as clients move away from demand deposits to time deposits. These positive results can be broken down to a single key factor, client growth. As can be observed on the left of this slide, our active individual clients that is clients that have a minimum average balance and or interaction

levels are growing 9.2% year over year and our checking account customer base are growing at an impressive 23.8% year over year.

Our SME client base is also evolving favorably with active clients increasing 16%, checking account clients are up 32% and loyal clients in the SME segment have grown 9.5% year over year. As can be seen on slide 11, one reason for this positive rise in client numbers is our NPS figure. After a slight dip in our net promoter score at the beginning of the year following some necessary changes implemented to improve cyber security protection, the NPS has rebounded as our digital platforms, our website contact center and work cafes continue to be highly valued by our customers. Moreover and is shown on slide 12, Santander LIFE continues to shine as one of the best innovations introduced into the Chilean banking market in recent years. As of September, this platform had over 1 million clients and was growing 28% year over year.

As can be seen from the graph, we started the Life program in 2018 and this platform really gained traction once we launched the Cuenta Life in June, 2020, the first 100% fully digital checking account. Building on this success in 2022, Santander LIFE also began offering clients the ability to open a dollar checking account 100% digitally for an additional fee. Santander LIFE's clients are also rapidly being monetized with gross income from Life's clients, increasing 62% year over year. Demand deposits remain high at 846 million dollars surpassing by many times the amount clients have deposited in similar competing platforms. On slide 13, we show how Superdigital's client base continues to expand at a rapid pace. Superdigital is a prepaid digital product aimed at the unbanked who seek a low cost bank account. Superdigital clients have grown 69.5% year over year reaching over 364,000 clients. This growth has been helped by alliances with companies such as Cornershop and Uber as a way of attracting new clients.

As we stated before, the growth of our SME client base is also accelerating. On slide 14, we show our two most recent digital initiatives that are piggybanking on Life's platform to expand our presence among SMEs and micro entrepreneurs, Prospera and Cuenta [inaudible 00:10:12] Life. Both platforms have been a successful way to reach new SME clients by offering a reasonably price checking account plan for every client with no previous financial history.

The other important driver of our SME client base is Getnet as shown on slide 15. Getnet has already reached a market share of 15% with over 131,000 POS's sold. 89% of Getnet clients or SMEs are target clients and 99% of the POSs are sold to the bank's distribution channels. Getnet is currently processing 388 billion in monthly sales. This product has been quick to monetize generating 17 billion pesos and fees year to date. Furthermore, Getnet is also churning a profit after just over a year of operations.

Moving on to the middle market on slide 16, this segment's results have increased 29% year on year and 18% QOQ driven by positive loan spreads and a focus on green financing with over 47 billion in green loans dispersed this year. A special interest was our involvement in the importation of 1000 electric buses on behalf of the largest Mercedes dealer in Chile for Chile public transportation system. Non-lending activities also led to an increase in revenues with fees increasing 9.4% and treasury income 14.7% year over year. This led to a 19.8% increase in total income in this segment.

The results of something that corporate and investment banking or CIB have also been quite impressive this year as shown on slide 17. Net income grew an impressive 42% year over year and 36% QOQ due to positive spreads on loans and deposits and strong growth of non lending activities such as cash management and treasury. With this total, income increased 43.7% year on year and 14.9% QOQ.In the quarter, we also continued advancing and achieving our responsible banking commitments as we can see on slide 18. In 2022, we were once again awarded as the top employer award here in Chile by the Top Employers Institute. The percentage of women in managerial positions has already met the target for this year of 28% with a target of 30% by 2025. The gender pay gap is currently at 2.9%, but we are

committed to reaching 2% by year end. In sustainable financing, we accumulated more than 685 million in refinancing since 2019. 28% of our energy is coming from renewable sources and this will reach 43% by year end considering the operations of our new solar plants in the fourth quarter.

Moving on to the next section, detailing our balance sheet and results, on slide 20, we start with loan growth which grew 1.8% QOQ and 8.9% year over year. The growth in loans is mainly due to conversion gains produced by high inflation in the quarter which was plus +3.5% on loans denominated in UF and conversion gains produced by the depreciation of the Chilean peso against the dollar which is around 4% QOQ for loans denominated in foreign currency. Approximately 20% of our commercial loans portfolio is denominated in foreign currency mainly dollars and 50% of our loans are denominated in UF, mainly mortgages and some commercial loans. Loans to individuals increased 11.7% year over year and 2.5% Q/Q.

High yielding outer loans continue to grow by 2.7% QOQ and we are seeing interesting trends in credit card loans, which should be a driver of growth in the fourth quarter and next year as lifestyles return to pre-pandemic levels. During the quarter, loans in our CIB segment grew 6.6 Q/Q and loans for the middle market, it grew 2.2 in the same period as corporate sought funding in the form of bridge loans and other short time or short term financing products.

On slide 21, we show the evolution of our funding mix. Total deposits decrease 5% year over year but increase 2.4% Q/Q after a strong increase in non-interest bearing deposits. In the last two years, we have started to see clients shifting their money to time deposits as rates rise. As a result, time deposits increased 15.8% Q/Q. With this shift we expect average funding costs to continue to rise as a monetary policy rate continues to go up. These higher rates will be eventually transferred to our loan book, but given that our interest bearing liabilities have a short shorter duration than our assets, funding costs will go up first.

Moving on to slide 22, we can see how the movements of volumes, rates and inflation have been affecting our margins in the quarter. The UF variation and third quarter reached 3.5%, a decrease from 4.3% seen in 2Q pressuring our interest earning asset yield. This was coupled with an increase in the average monetary policy rate, which rose from 7.95% to 9% in the quarter and led to 134 basis points increase in our cost of funding. In general, net interest income from our business segments remains strong with some QOQ deceleration due to the deposit shift mix. Net interest income included in the line other mainly includes the effects of our inflation gap and the spread earned over our liquidity. Here it is evident the impact the lower inflation and higher rates had over our NIMS. Considering all of the above NIM in the quarter was 3% and the NIM year to date reached 3.7%. For the fourth quarter, we are forecasting a further decline in NIM and we expect the NIM to reach 3.3% for the full year.

On slide 23, we give further insights into our margins for next year. For every 100 basis point decline in inflation, our NIM falls by an average of 20 basis points and for every a hundred basis point rise in the average monetary policy rate, our NIM falls by 30 basis points in a 12 month period. Our base case scenario for 2023 is an average monetary policy rate of 9.4 and a UF inflation of 6.3. Under this base scenario, the NIMS in 2023 should reach 3% starting below this level in the first quarter of 2023 and rising back to levels greater than 3.5 by year end and 2024. These lower margins in 2023 will be compensated by the strong revenue generation from our business segments and tight cost control, which should lead us to achieve ROEs between 18 and 19% and 2023, maintaining our guidance unchanged.

Moving on to asset quality on slide 24, the rise in the NPL ratio to 1.7% in the quarter is mainly related to household liquidity levels gradually returning to post-pandemic levels and a weaker economy. This has mainly affected clients who are already impaired pre-pandemic. With the end of state aid and pension fund withdrawals, these clients' loans have become nonperforming at a greater rate. However,

it is important to note that the impaired loan ratio, which includes NPLs plus loans that have been renegotiated decreased from 4.7% in 3Q 21 and it's second quarter 22 to 4.4% in third Q 22. Reflecting that the rate at which new clients are becoming impaired remains subdued. The coverage of NPLs as of September reached 200% and there has been no reversals of the voluntary provisions we recognize in 2020 and 2021.

As we can see on slide 25, these overall positive asset quality indicators led to a cost of credit of 0.9%, in line with our guidance for this year. During the quarter, the board decided to establish 35 billion pesos of voluntary provisions in line of the expected slowdown of the economy expected in 2023. Most of the voluntary provisions have been assigned to the consumer loan book. Also during the quarter, our regulator, the CMF published the draft of new standardized provisioning models for consumer loans. The consultation for commenting on this new regulation has been extended to year end. Our initial estimate is an increase in provisions of between 100 and 150 billion pesos mainly in our auto lending and credit card portfolios. We are permitted to use voluntary provisions to comply with this new regulation.

On slide 26, we move on to non-net interest income revenue sources which continue showing exceptional growth trends. Total non-NII expanded 22.8% quarter or quarter and 6.7% year over year in 3Q 22. Fee income increased 17.9% year over year and 12.8% Q/Q driven by higher client activity and the growth of our client base as previously described with more commissions generated from all products. These trends we expect to continue in 2023 as we continue to see strong client growth and greater client usage. In this line item, we can clearly see the strengths of our digital platforms.

As shown on slide 27. We also can see the bank's efforts to continue increasing productivity and to control costs. Operating expenses in the third quarter increase 7% year over year and decreased 1.6% Q/Q well below inflation trends. The bank continues ahead with its $260 million technology investment plan for the years 2022, 2024, and because of these investments, we are expecting costs to grow significantly below inflation levels in 2023.

As shown on slide 28, the bank continues with its process of optimizing the branch network. This year we have close 10% of our branches and have opened 10 new work cafes that are not only a major improvement in client experience but are also more efficient. As a result of these initiatives, coupled with our digital strategy, productivity is rising significantly with volumes per point of sale increasing 13.5% and volumes per employee increasing 9% year over year.

Moving on to slide 29, we take a look at our capital ratios. At the end of the third quarter, the bank reported a core equity ratio of 10.1 up from 9.6% in June. Our shareholders equity increased 7.6% in the quarter which resulted in a 50 basis point increase in our capital ratios. We are on track to finish this year with a core capital ratio of around 10.5% and we are maintaining our guidance of a dividend payout of somewhere between 50 and 60% of 2022 earnings.

Finally, on slide 30, we conclude this presentation with initial guidance for 2023. We fulfilled our guidance for 2022. We should fulfill our guidance for 2022, achieving an ROE of 22%. For 2023 considering our base case scenario of GDP falling 1.2% inflation of 6.3 and an average monetary policy rate of 9.4, we should see mid single digit long growth strong client result results, a NIM of 3%, non-NII rising 15 to 20%, a slight uptake in the cost of risk and a very low increase in total costs. With this, we should achieve a solid return on equity of between 18 and 19%. With this, I finished my presentation and now we will gladly answer any questions you may have.

Moderator:

Thank you very much for the presentation. It will now be moving to the Q and A part of the call. If you have any questions, please press the star two on the keypad. If you are dialed in via web, you may also

ask a voice question. Please note that we will not be taking text questions on the call today. Thank you very much. Our first caller question comes from Mr. Tito Labarta from Goldman Sachs. Please go ahead, sir. Your line is open.

Tito Labarta:

Hi, good morning. Robert and Emiliano. Thank you for the call and taking my question. My question on asset quality and cost of risk. You mentioned a few things that asset NPLs have deteriorated a bit. Your cost of risk remains fairly low. You're just going into next year with the economy deteriorating some more. Do you expect any significant deterioration in asset quality from here and could that have any other significant impact on your cost of risk? You mentioned in the guidance for next year slide up, and I think there's some additional provisions you need to do, but if you can help quantify a little bit how much costs the risk can go up and how much more NPLs can go up from here, particularly in a slowing economy. Thank you.

Robert Moreno:

Okay. Tito, hello. So in the quarter, as you said, there's the NPLs have been rising. What we've seen basically is as the excess liquidity, no more pension fund withdrawals, et cetera, some people obviously have fallen back into NPL, but the majority of these clients I would say, especially in retail, are people who had shown some weakness even before the pandemic, so basically that's why if you look at our impaired loans which are MPLS plus any loans that have been refinanced, those have been still trending downwards. Basically people who are already marked as refinance or impaired before, some are slipping into NPLs, but the amount of new people entering impaired status is still actually falling and why is that? Because during the last two or three years, people have reduced their debt levels. As you saw, our credit card portfolios going to begin to grow now, but the last two or three years it's fallen 30% overall.

For example, the central bank just published its report on household finances and you can see that in general, debt servicing levels, household debt levels are below 2017, 2018 levels. On top of that, our coverage remains high and we still have around 290 billion in voluntary provisions in the balance sheet. We do expect NPLs to continue to go up and probably impaired loans eventually to start an upward trend, but for now, given that the economy is going to fall 1%, we think NPLs should go back to levels 2% or slightly higher than 2%, more or less where they were in September of 2019.

But with the high coverage and still not expecting to use our voluntary provisions, this should translate into a cost of credit around 1.1% next year. I say there is some pressure on asset quality, but given where we're entering this cycle, it's still something that we think is absolutely manageable and not a huge threat. The other thing, as we mentioned, there's a new provisioning requirement for consumer loans that's being discussed, the regulator published for consultation, a new standardized provisioning model for consumer loans. We have until the end of the year to discuss and present our comments, and this will probably be implemented somewhere at the end of the first quarter, beginning of the second quarter. We estimate the impact, and this could change because it's still being discussed, but we think this will more or less signify that we'll have to increase the stock of provisions for consumer loans somewhere between a hundred and 150 billion pesos and we're allowed to use voluntary provisions to meet this.

We'll have to see this in the end, but it shouldn't have an impact on the cost of risk, but it might have an impact on the size of our voluntary provisions in the quarter. This quarter, third quarter, we already set aside some voluntary provisions mainly for consumer loan. The board has also been proactive and knowing that the situation next year could be a little weaker, but said all of that as today, we still see

that the cost of risk will rise a bit, but absolutely manageable with the cost of risk around 1.1% next year.

Tito Labarta:

Great, That's very helpful. Robert. Thanks for the color. Maybe just one follow up there. I mean if NPLs do get back to the 2% level that you mentioned, should the cost of risk rise more longer term to get closer to that or... I know your coverage is still high. I don't know if you think about should that coverage ratio continue to come down, what would be, maybe either normalize coverage ratio going forward?

Robert Moreno:

Yeah, so I think the coverage ratio has come down. As I said, we're not to forecasting to use the voluntary, the coverage of 200 includes around a little, around 12, 15, 20% of our stock of loan loss provisions are voluntary and we don't expect to use them, but excluding that. Basically, remember that a lot of the things that are falling into the MPL either have good collateral or they already have provision. That's why I think the coverage ratio will slowly begin to go down because some of the things that we already expect or have partly provisioned or to have a collateral are going to be entering NPL. Effectively the coverage ratio should come down. Before the pandemic it was around 130, so an easy way to see it long term is 130 plus the voluntary provisions. It's probably like 150 and then we have to see what happens with the voluntary provisions.

Tito Labarta:

Yep, perfect. Great. Thanks a lot Robert.

Moderator:

Thank you very much. Our next question comes 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 first question is a follow-up on asset quality. You are mentioning NPL could go back to the 2% or slightly higher, basically a normalization in the NPL metrics. Just wanted to get some color on what would be the main drivers for that increase. I don't know if you are mainly concerned or maybe not concerned, but if you think this integration can come mainly from the consumer segment, the mortgage segment or if you have any kind of concerns on the commercial side of the group. We have been reading in the news very frequently about companies in their real estate and construction industries going bankrupt or so. I don't know if you could provide some color on NPLs by segment.

My second question is on long road for next year. 5%, it's pretty much in line with the inflation you expect, but again, I don't know if you could provide some color on how this should look by segment. In the case of consumer, I don't know how much appetite you have to grow in this environment. In the case of Santander LIFE, you are showing very nice growth in terms of clients, but again, not sure what's your appetite to grow in this segment next year and same thing for the commercial portfolio. Which segments are presenting more demand? Which segment would be more attractive or at least more defensive to grow next year? Thank you.

Robert Moreno:

Okay, so in asset quality, now going to be like a traditional downturn, higher rates, economy coming down, unemployment probably will begin to rise, so there will that be some pressure on consumer on the consumer side. The good news is that as I said before, we've gotten out of the low-end of consumer lending. The middle high-end hasn't really grown and this relates to the other question that we still think that there is the fact that people are starting to travel, more hotels, cars. The credit card loans will probably grow more and we don't see that's going to be a major factor in asset quality because it's all higher income. Overall there might be some deterioration in consumer following the normal cycle, but that's why we're also sending more voluntary provisions to that portfolio and the coverage of consumer I think is around 400%.

That's another thing that this is going to be very traditional cycle, but we're entering it with some of the highest levels of coverage we've had before any downturn. Then the other segments, I would say the large corporates in Chile are very healthy and during the pandemic we also went through that portfolio, what case by case and either provisioned more for weaker positions or got rid of other ones. That portfolio is in very good shape. Then you have more of the SMEs. I would say they're very obviously more elastic to the cycle and there should be probably some more NPL pressure there. That's also why we're not being too aggressive in growing the SME portfolio even though it's a key segment and it's doing very well. As we saw in the presentation retail banking is doing really well despite a little bit of pressure on the asset quality and the key there is the non- lending.

Like you said, Santander LIFE we're basically growing in non-lending activities. All the new clients are generating good deposit spreads. There is some loans but very low, but basically they're generating non-lending income, which is going to be the driver, the focus next year more than lending. So asset quality, I would say consumer and SMEs, but at once again, we're entering this cycle with a very good portfolio structure. In terms of the other sectors, one sector that there has been in the news is construction. Obviously with not much building going on, high rates, this is a sector that has been suffering a bit. We have around 730 million in construction. The NPL ratio is 2% I believe. I would say in general, our clients there are a good quality. There might be some needs of provisions there, but it's once again, it's more or less factored into the cost of risk I mentioned in the previous quarter. It's not something that we are overexposed and feel that's going to be a big threat to us.

Emiliano Muratore:

Hello Alonso, regarding your question about long growth for next year, I would say that in the retail part, the consumer loan book should grow maybe above the average partially because in this inflationary environment, nominal volumes tend to grow and not because as you said, it's and especially increasing our appetite but it's true that our customer base has been growing strongly through LIFE, so now we have a lot of new clients and we have a lot of information in order to assess their credit quality and so we feel comfortable to offer them some great solutions. Also, the timing in the cycle when the liquidity from pension funds and from the government aids this are brain, so the households will start to demand more credit and those, so that will be a stable win for the consumer book. We plan to take advantage of that not by being especially aggressive, but by taking advantage of the more leverage that the households will be taken from a very low point of leverage where they are now.

In terms of the mortgages, we don't see real growth for next year, but the US inflation will be growing the nominal value of the portfolio basically because the level of rates and the level of activity we don't foresee especially high real growth in mortgages.

When you go to commercial lending there, the situation depends on the segments. In SMEs we expect the loan book to grow almost nothing or even full. Remember that we have all the [inaudible 00:37:00]

portfolio that was lent during the pandemic with the government support. Basically that book is going away with the time so that it's downwards pressure for the book.

In terms of the rest of the SMEs, we do see all our client growth through Getnet support or table for long growth, but overall SMEs should be growing almost nothing. Then going upwards in the corporate, definitely real estate is not a sector. With that we are planning or we are seeing high dynamics for next years in terms of long growth and we see more on the working capital solutions and more trade related lending. We are not seeing a big plan for CapEx in our clients like big corporates or big projects. We are not expecting them. For next year, we do see all the green finance transition as a business opportunity for the commercial book. We are seeing across the board investments from our clients to transition to see remissions or to lower their remissions and there we see we have a huge opportunity as part of the group to take advantage of that.

Alonso Garcia:

Thank you very much, Emiliano and Robert.

Moderator:

Okay, thank you very much. Another question comes from Mr. Daniel Mora from CrediCorp Capital. Please go ahead sir, your line is open.

Daniel Mora:

Hi, good morning and thank you for the presentation. I have a couple of questions. The first one is regarding NIM, even though you already gave us the guidance of 3.3 for this year and 3% for the next year. I would like to know what is the NIM strategy that the company is looking to implement in the next year considering the normalization of inflation and the still hike rates. If we see the financial statements in this year, we see that there are also a negative impact coming from the accounting hedge or the use of derivatives. I would like to know if Santander is considering another strategy in 2023 to mitigate the potential contraction of margins. That will be the first question. The second one, as related to capital ratios, do you already present that the target is above 10%? I would like to know, do you feel comfortable with set one above 10% or you will like to see this figure increase and two levels close to 11% or close to that figure? Thank you so much.

Emiliano Muratore:

Hello. Thank you for your question. I'm starting with the second one. I would say that 10.5 is [inaudible 00:40:16] target ratio by the end of the year in a fully loaded basis. So we feel comfortable to be around that 10.5. We might be closer to 11 or closer to 10 depending on the long growth of the moment. But the 10.5 area targets is where we want to be and that gave us enough caution or buffer to the regulatory minimums that we have. In terms of the NIM strategy, going forward we think that first, all the commercial, the client's NIM is doing really, really well. As Robert showed the NIM's presentation, even factoring in the change in mix from demand deposits to time deposit that it's pressuring the commercial spread so that it's a tailwind going forward to support NIMS. And in terms of the markets or the ALM NIM, we have our historical strategy of having a negative sensitivity to hiking rates in order to compensate the structural mismatch we have in UF or inflation on the asset side. That has historically proven to be a compensating factor that has helped us to sustain NIM around 4% for the last few years. What we are seeing this year and starting next year is a mismatch between the pace of that adjustment of the central bank interest rate to the inflation scenario. You can see that on slide 24 that basically when the pace of the two variables we had for example in first quarter this year, very high inflation and

not so high rate NIM went up to 4.4 and this last third quarter when inflation is going down and the central bank is still hiking the rate, the NIM went down to 3% and might go even lower for the fourth quarter where the rate will be at it's peak and inflation will be conversion downward.

Going forward, the strategy is also to try to keep this neutral position that having a hedge to lower inflations and what we are seeing for the next few quarter is some frictions between the mismatch of the pace to the rhythm when the central bank will start adjusting a certain rate. At the end if you want, it's a real rates situation where today we have real rates at historical maximums, the one year real rate is at 5%. That's because nominal rates are double digits and inflations expectations for the next 12 months are around 6%. For the next few quarters, we'll face this low NIM until the real rate start to adjust. As Robert mentioned, by the end of next year we expect NIM to go back to 3.5 or higher and the same for 2022. We see this as a temporary adjustment for the monetary situation in Chile and that will imply lower NIMS for the next two quarters.

Daniel Mora:

Perfect. Thank you so much. Very clear.

Moderator:

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

Ernesto Gabilondo:

Thank you, Claudio, Emiliano and Robert. Most of my questions have been answered but I have a couple of questions. The first one is on your effective tax rate. I believe this year could be ending around 12%. It has been benefiting because of the inflation, so how should we think about it next year? Then my second question is on your guidance for next year. You have mentioned that you're expecting the NIM [inaudible 00:44:47] of around 30 basis points but could be partially upset by the higher non-credit related revenue. You're expecting around 15 to 20 and also lower OPEX growth, which is expected to behave below inflation. When incorporating the numbers of your guidance for next year, I'm getting at an ROE above 19%, but at the same times it implies relatively flat or modest earnings contraction. So you just want to double check if that is what you're expecting in terms of earnings next year. Thank you.

Robert Moreno:

[inaudible 00:45:47] 23. Okay, so with the [inaudible 00:45:52].

Moderator:

Very short message, I think Mr. Emiliano, your line was muted for the last 30 seconds, so if you don't mind please just restart your answer. That'll be very helpful for Ernesto. Thank you.Please go ahead.

Robert Moreno:

Hello. Can you hear us? Hello? Sorry, can you hear us?

Moderator:

Yep.

Robert Moreno:

Sorry about that. Sorry, the computer is locked. We heard the question. So Ernesto, basically what you're saying is correct. So next year with the GDP falling and the Chilean economy into recession, the focus will be on our non-lending activities that are showing really strong momentum. Risks, as we said will go off a bit, but controlled.

Basically between non-lending income and a very tight control of costs, we should reach this ROE to range now 18, 19, which obviously means a slight dip in that income, which I think in the scenario we're leaving globally is very good. That also means that in 2024 which is far away, but basically we should have an important uptake not only in margins but in profitability. The tax rate effectively next year as inflation come down, we're going to be paying a higher tax rate, so pre-tax the fall isn't important, but next year the tax rate should be somewhere between 17, 18%, the effective tax rate, which is directly in line with the lower inflation. As time goes by and we go back to 3% inflations, if we ever go back there, the effective tax rate should be around 21.

Daniel Mora:

Perfect, super helpful. Thank you very much, Robert.

Moderator:

Okay, thank you very much. Our final question for today comes from Mr. Jason Mullen from Scotiabank. [foreign language 00:48:14] Jason, your line is open. Please go ahead sir.

Jason Mullen:

Hi. I wanted to ask about the sensitivity of your results to interest rates and inflation. If you can give us an update on where we are and particularly if rates start to decline, maybe you can give us a view. I just logged in because I thought the time has changed till 11:00 AM start time, but if you can just talk a little bit about the sensitivity of the results to rates and inflation and where we are in the cycle. It's something there truly will benefit as rates decline relative to the pain I think I saw as rates increase. Thanks.

Emiliano Muratore:

Hello Jason, are you able to see the presentation?

Jason Mullen:

Yes, I can. I'm logging in.

Emiliano Muratore:

No, are you seeing a slide 23 now?

Jason Mullen:

Hold on one second. Yes.

Emiliano Muratore:

Okay, so basically there we put the metrics for NIM for next year where you can see the sensitivity to the inflation for the year and also the average monetary policy rates. Our base case there is inflation to be around like 6.3 and the average monetary policy to be around 9.4. If you break down that NIM for the year into the quarters, you can see what you were basically mentioning that will start below that 3% because first quarter we'll still have rates at the double digits and inflation normalizing to the single

digits territory. When the year progresses and we expect the central bank to start adjusting rates either first quarter or more likely second quarter next year, we'll start the NIM expansion from the market's NIM if you want.

We expect to close the year at 3.5 or higher when the central bank takes the rate around like 7% and inflation is conversion to the 6% territory. That's on the market NIM. On the client's NIM, we are seeing very positive trends in terms of the pricing discipline and the ability to have a very pricing opportunities in this higher rates environment that the pressure we are seeing the last part of this year is that the change in mix deposits between demand deposits and time deposits that we expect that headwind to banish starting next year and so we see client's NIM as a tailwind for the total NIM in next year.

Jason Mullen:

That's helpful. Thank you very much. I am looking at the presentation now. That great. Thank you.

Emiliano Muratore:

You're welcome.

Moderator:

Okay, thank you very much. It looks like we have no further questions at this point. Maybe we'll give another minute or so for anyone else, start to, for any additional questions. Okay. Looks like we have no further questions. I'll pass the line back to the management team for the conclusion remarks.

Emiliano Muratore:

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

Moderator:

Thank you very much. This concludes today's call. We'll now be closing all the lines. Thank you.