Santander Chile

CONFERENCE CALL ON SANTANDER CHILE'S RESULTS FOR THE 2Q OF 2024

Moderator:

Ladies and gentlemen, thank you for standing by and I would like to welcome you to Banco Santander Chile 2Q 2024 results conference call on the 2nd of August 2024. At this time, all participant 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's 2Q 2024 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. The agenda for today is the following. First, Carmen Gloria will discuss the macro scenario. Then Cristian will review the strategy and results of the 2Q and guide us for the year. And finally, we will have a Q&A session. Now I pass it on to Carmen Gloria.

Carmen Gloria:

Thank you, Emiliano. The Chilean economy has continued to show signs of recovery, although at a more moderate pace. Following a better than expected performance at the beginning of the year, the preliminary estimate for GDP growth for the second quarter is just 1.6 percent annually. This result has been influenced by transitory factors, such as the decline in educational services and the calendar effect. However, the seasonally adjusted activity index exhibited growth consistent with this trend. Domestic demand has been gradually recovering, especially in consumption, while investment performance has remained weak. The contribution of the mining sector to activity growth has been substantial, and the external impulse is greater, given the higher international copper prices and better terms of trade. The labor market continues to gain momentum, with the participation rate approaching pre-pandemic levels. Real wages continue to rise, which, along with employment growth, has been supporting private consumption. Looking ahead, we estimate that the economy will continue to grow. However, the recent lower level of activity has led us to revise the annual GDP estimate downward this year, from 2.8 percent to 2.5 percent, and to 2.4 percent for 2025. The exchange rate appreciated by 4 percent in the second quarter, but exhibiting high volatility. The most important drivers were the rising copper prices and the shift in risk appetite from global investors. In the baseline scenario, we estimate that the local currency will continue a gradual process of convergence toward its equilibrium values, led by expectations of a greater interest rate differential, hovering at a level slightly below 900 pesos as of December this year. In the first half of 2024, inflation

followed the predicted trend, with a decline in both the total and core indexes. This reflects a moderate pass-through of the depreciation of the peso in the first month of the year, and the increase in oil prices. Inflationary pressures are expected to rise in the coming month, due to the anticipated adjustment in electricity rates and the rebound in domestic demand. Therefore, the CPI estimate has been raised from 3.9 percent to 4.3 percent, which means a U.S. variation of 4 percent this year, and to 3.4 percent for 2025. Inflation is expected to reach the 3 percent target in the first quarter of 2026. The central bank continued with the rate-cutting process during the first half of 2024, accumulating a decline of 250 basis points in the monetary policy rate. In this week's meeting, the board held the rate at 5.75 percent, and highlighted that it would have gathered the bulk of the cuts foreseen for this year. In the central scenario, the rate will be reduced further over the two-year horizon. With this, we estimate a reduction of between 25 and 50 basis points for the following meetings of the year, bringing the rate close to 5.25 percent by December 2024, and to its neutral value of 4.25 percent in the first quarter of 2026. On slide five, we present the advances in the relevant regulatory framework. The tax compliance bill aims to increase tax revenue by 1.5 percent of GDP, and reduce tax evasion and avoidance. This bill is currently being discussed in the Senate, where it has received support from opposition parties, and was approved in general terms. Meanwhile, the pension system reform is still undergoing intense negotiation process in Congress to gain approval. The government presented new proposals related to the distribution of the 6 percent additional contribution, considering 3 percent to individual accounts, and 3 percent to solidarity. The first impressions from opposition parties suggest that there's still a long way to go to reach an agreement. In July, the CMF published the regulatory framework for implementing the open finance system. The rule becomes effective 24 months after publication, and considers the progressive submission of information to be shared by bank and payment card issuers within the next 18 months, with an additional 18-month period for the rest of the participants. Recently, changes to the fraud law were approved with the aim of containing so-called self-fraud. The responsibility remains with the issuer, but now the client must file a compliance before requesting a refund. It also establishes situations where reimbursement can be suspended, and thresholds for reimbursement are reduced. Finally, the consolidated debt registry law was published in June, and will become effective in 21 months.

Cristian Vicuña:

Thank you, Carmen and Gloria. Turning our attention to slide seven, let me begin by reminding you of our commitment to our Chile First strategy. We aspire to lead the Chilean banking industry in terms of contribution to its various stakeholders. This strategy we have named Chile First, with four pillars. The first two pillars focus on what we want to become, and the second two pillars on how we want to do it. So first and foremost, we are engaged in a transformative journey towards becoming a digital bank with branches. Our transformation into a digital bank is not only about adopting the cutting-edge technology, but also about having a friendly physical presence through our innovative Work/Cafes. These spaces are more than just places to interact with retail customers. They are dynamic hubs that promote connectivity for both customers and potential customers. With advanced technology and a commitment to excellent service, our Work/Cafes are designed to redefine the banking experience. The medium-term

objective is to reach 5 million customers and 450,000 SME clients. Our second pillar is centered on providing specialized value-added services tailored to some business segments. Our commitment is to deliver premium transactional trade, foreign exchange, sustainable finance, and advisory products and services, ensuring our clients receive a top-notch experience. Examples of this include our corporate investment bank, our specialized attention model for commercial banking, our Santander consumer business that offers cash financing and Getnet, our acquiring business. In our third pillar, we are committed to fostering innovation and propelling growth by challenging the status quo and creating new business opportunities. A good example of this is the disruption we incurred in Chile with the four-part model when we introduced our acquiring business Getnet to the market. So, we aim to lead the change in redefining the banking landscape. We actively seek out new business opportunities, pioneering the sustainable transformation of our customers. 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 need the best talent. We are dedicated to building an agile, collaborative, and high-performing 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 23, and is the first 100-percent digital site on savings account for the mass market. In recent months, we have launched a Mas Lucas account for young people, too. In total, there are now more than 177,000 Mas Lucas accounts with activity, exceeding our expectations, with an average of 15,000 new accounts open 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 costs and accepts deposits of up to 5 million pesos. On slide nine, we can see how the advances of our digital strategy is allowing us to continue the 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 types of new Work/Cafe formats – successful Work/Cafe Expresso, which consolidates cash operations into transaction hubs, while maintaining a WorkCafe ambience. This is a great initiative, as it provides an efficient and secure banking experience for our customers. We have already opened seven of these branches, impacting positively on the communities that use them, with better levels of experience, extended hours, and increased security. 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 slide, you can see how the use of digital channels and the transformations of our branch network has led to a new level of branch footprint, decreasing 15% in 2023, and a further 1% in 2024, to a level of 244 branches as of today. Notably, 35% of our branches no

longer have human tellers, 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 10.2% year-over-year and 6.7% rise in the same metric per employee during the same period. On slide 10, we can see how we have rolled out key initiatives to meet company needs and add value to their businesses. Our digital life account for SMEs is low-cost and simple to open. It continues to prove popular, with a 29% year-over-year in current accounts for businesses, as reported by the CMF, capturing 37.2% of the market as of April 2024. Getnet, our acquiring business, continues to be an important driver for capturing new clients. Our range of payment solutions integrated with the banking services such as the current account have attracted smaller merchants, and we are now expanding into larger, more sophisticated clients using a host-to-host solution, providing a more integrated payment system. Currently, there are more than 227,000 active Getnet points-of-sales terminals across the country. These POSs serve a total of 170,000 clients, including some 140,000 SMEs. During the first semester of 2024, Getnet generated fees totaling 29.9 billion pesos and a net income of 7.7 billion pesos. On slide 11, we would like to highlight the latest products that we have launched in the last quarter. As we briefly mentioned a few minutes ago, we have launched a Mas Lucas account for 12- to 17-year-olds, free of charge with monthly interest gains. This is a 100% digital side account with a debit card. With this, we aim to attract clients as they begin their banking relationship, delivering digital products that allow for debit cards and in-line transfers. We also launched a complementary health insurance with the UC Christus Medical Center, where they implemented a revolutionary medical model for Chile. Clients have access to a primary care doctor who is available for both in-person and online consultations and who refers patients to the appropriate specialist and maintains a holistic view of the patient, encouraging prevention and reducing waiting times for specialists. In June 24, we opened our Autocompara platform up to non-bank customers. Autocompara is a digital platform to compare car insurance in a transparent and efficient way, allowing people to make an informed decision before purchasing the insurance. This is one of the few platforms available in Chile with this service. We also market our foreign exchange platform. We can currently make currency transfers to 28 countries online through the platform. These transfers are safer and faster than swift transfers and are free of charge for our customers. On slide 12, we are pleased to show that we have been very consistent in leading market in terms of customer recommendation, net promoter scores and NPS, sustaining levels of around 60 points. Our NPS score is based on feedback from over 50,000 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 our website achieving scores of above 70 points. Our contact center is also highly rated, outperforming our peers. On slide 13, we can see how we are highly recognized as leaders in our industry. This year, Euromoney has awarded us with the best bank in Chile for SMEs and ESG, ALAS20, an initiative that evaluates the public disclosure of sustainable development positions as in first place in sustainability in Chile. Following our sustainability rankings, we continue to lead the industry with Sustainalytics improving our rating to 14.1, the best among Chilean banks. Now let's talk about the trends in our results and balance sheet in 2024 and in the second quarter. On slide 15, we show a robust rebound of profitability and return over average equity on the second quarter of the year. As we

can see, we reached an ROE of 20.7% in the quarter and net income in the quarter totaled 218 billion pesos, an 81% increase compared to the first quarter of this year. With this, our ROE year-to-date improved 285 basis points year-over-year to reach 15.8%, well within our guidance for 2024 with net income increasing 28.6% year-over-year. These notable results are mainly due to our improvement in our main income lines as we will see in the coming slides, with operating income improving 19.4% in the quarter driven by better margins. On slide 16, we can see the trends in our loan book. Our retail loans continue to grow steadily with loans driven by consumer and mortgage while commercial loans contracted 5.5% in the quarter. This contraction in the commercial loan book is in part due to a change in our consolidation perimeter. Bansa, a company dedicated to financing automotive dealers, is now excluded from the consolidation of the bank, decreasing the commercial loan book by 1%. Furthermore, the commercial loan book has been impacted by slower economic activity. Mortgage loans grew in line with the UF variation while consumer lending was driven by credit cards and auto loans, with the latter in part explained by a loan portfolio purchased by our subsidiary Santander Consumer. Overall, our loan book is following the economic cycle and we expect modest growth for the full year. Regarding our funding, we see that time deposits decreased 5% in the quarter in response to the fall in short-term rates in Chile, while our demand deposits also fell 2.1%, leading to an overall decrease in our deposit base of 3.7% in the quarter. Despite this quarterly contraction, our total deposits increased 4% on a yearly basis. However, we have seen our clients strongly preferring mutual funds, where we are the exclusive broker of Santander Asset Management. Mutual funds increased 39% year-over-year and close to 8% in the quarter, achieving a high growth of AUMs. Furthermore, the bond insurance went up, taking advantage of local and global fixed income markets. During the pandemic, we obtained a 6.2 trillion pesos in credit lines from the Central Bank of Chile. This credit line had two deadlines, one on April 1st, representing 55% of the credit line, and the second installment and final one on July 1st. We used the liquidity deposit program provided by the Central Bank to make these payments, with no liquidity issues on making these payments. On Slide 18, for the second quarter of 2024, we achieved a net interest margin of 3.6% and 3.1% year-to-date, confirming our recovery as planned. Our net interest income grew 54.5% year-on-year and 26% in the quarter. The NII in the second quarter benefited from higher interest income as the lower monetary policy rate reduced our funding costs to 5% in the semester, down 2% in the same period last year. This improvement in cost of funds is explained by the fall in short-term rates from an average rate of 11.25% in the first semester of 2023 to 7% in the first semester of this year. Our liabilities tend to have a lower duration than our assets, and therefore, when rates fall, the cost of our funding falls faster than the asset yield. Our net readjustment income improved 81.8% in the quarter after a weak start to the year after the UF variation increased from 0.8% in the first quarter to 1.3% in the second quarter. Year-on-year, the UF variation was less than in 2023, and therefore, we saw a year-over-year decrease in this line. The first payment of the FCIC reduced our interest-earning assets by around 5% in the quarter and contributed to the improvement in our NIM ratio. We expect our NIM to keep recovering in the next quarters and to reach between 3.3 and 3.5 for the 2024 full year. This considers a UF variation of around 4% for the year, with an average monetary policy rate of around 6%. With this, our cost of funds should continue to improve in the coming months, and we will see a further reduction in interest-earning assets with the second payment of the FCIC that we made in July the 1st, driving the improvement in

the NIM calculation. Regarding asset quality, we see that our NPL and impaired ratio is rising. The slight deterioration in this asset quality ratio is mainly explained by the effect of the economic cycle on both the numerator, our client's payment behavior, and the denominator, the slower growth of our loan book. The June figure for consumer loans NPLs was 2.4, and the mortgage NPLs was 1.6, while our commercial portfolio NPL was 3.8 for the quarter. As we can see, most of the NPL growth is explained by commercial loans, and to a lesser extent by the mortgage loan book in the semester. The growth in commercial loans NPLs is explained largely by some particular names in the agricultural industry and some real estate companies, most of them already considered in the impaired portfolio. In general, all mortgage loans and some commercial loans have guarantees reducing the risk exposure. Our impaired loan ratio reached 6.2 percent at the end of June. This ratio includes NPLs, restructured loans, and customer deterioration in the commercial single names. The coverage ratio for our NPLs, when including voluntary provision in prior years, reached 138 percent in June. Since the pandemic, the composition of our loan portfolio has changed, with the weight of mortgage loans increasing from around one-third to over 40 percent of the loan book due to the strong growth of the UF-denominated loans in recent years. As mortgages are backed by a property, they need less coverage, so the change in loan mix will require less total coverage. Our consumer loan book coverage is high at 354 percent, while commercial portfolio coverage is at 123 percent, and the mortgage portfolio coverage is 69 percent, with strong collateral and a solid loan to bank. Moving on to cost of credit on slide 20. The cost of credit was 1.25 percent in the quarter and year to date. As shown, our cost of credit has increased slightly, along with the changes in asset quality, although remain contained, thanks to the high levels of collateral. As a head up, in July, the bank will recognize a one-time provision of 18 billion pesos for the commercial portfolio, due to a model adjustment in the evaluation of guarantees. This represents approximately 2 percent in additional stock of commercial provisions and concludes the CMF review from the third quarter of 2023. With all this, we reaffirm our estimation that the cost of credit will stay around 1.3 for the full year, following the economic cycle and labor market conditions. Next, we look at the non-NIR revenue sources. Fee income increased 6.5 percent on the quarter-on-quarter, as our clients used our digital platform more for our main products. The small year-on-year decline is mostly because of the effect of the interchange fee regulation that started in the last quarter of 2023. Income from financial transactions went down year-over-year, mainly because of lower income from derivative contracts, after a strong comparison base last year. In the second quarter of this year, results in this line improved due to better results from our liquidity portfolio. Our core expenses increased 4.2 percent year-over-year, consistent with inflation, and grew 4.7 percent in the quarter, mainly due to aseasonality in personal expenses in the first quarter, related to the holiday season, though, as we can see in this line, decreased 8.5 percent year-on-year, mainly due to a decrease in the number of employees. Our administrative expenses have increased in the year, due to outsourced services indexed to inflation, or in foreign currency, such as our services related to technology. In the first quarter of this year, we recorded a one-time operating expense of 17 billion pesos, related to restructuring provisions. This is aligned with our strategy related to a branch network transformation and the progress of digital banking. As a result of our controlling expenses and improving financial income, our efficiency ratio was 37.6 percent in the quarter, and 42.1 percent year-to-date. During 2024, the bank is continuing to concentrate on the implementation of its $450 million investment plan for

the years 2023 to 2026, for technology projects and branch renovation. Moving on to capital, at the end of June, the bank reported a BIS ratio of 17.4 percent and a core equity ratio of 10.6 percent. In the past shareholders meeting, the board was granted the authority to raise the dividend payout provision above the legal minimum of 30 percent for 2024 and onwards. So in June 2024, the bank increased the dividend provisions to 60 percent of our 2024 income. This 60 percent is in line with our historical dividend payout, and with this, our equity base was reduced, and our capital ratio was impacted by 26 basis points. As a reminder, we currently do not have a pillar two requirement, however, it is important to mention that the measurement of the market risk on the banking book will continue to be discussed by the regulator, and capital charges may be made in the coming years. Finally, on slide 25, we conclude with a review of our 2024 guidance. Based on our current macro expectations for 2024, we have updated our guidance for several line items. Loan growth remains dependent on the economic cycle, and we continue to expect mid-single-digit growth for the full year. Given the increased estimate of the UF. variation and better evolution of the recovery of our NIMS, where we have already reached a year-to-date figure of 3.1 percent, we are increasing our NIMS guidance to the range of 3.3 to 3.5 for the full year. Our fees should reach a growth of mid-single-digits, considering the second stage of the implementation of the interchange fee regulation in the fourth quarter of this year. With financial income back on track, our efficiency ratio should return to normalized levels of high 30 percent. As discussed, we expect our cost of risk to remain around 1.3 for the year. With the ROE year-to-date already at 15.8 percent on our expectations for the second half of this year, we are upgrading our guidance for 2024 ROE to a range of 17 to 18 percent. This signals the return of our performance to historical levels, as we expect 2024 to finish within our long-term ROE range for very high teens. With this, I finish the presentation and hand over to Emiliano Muratore.

Emiliano Muratore:

Thank you, Cristian. Now, we will welcome your questions, please.

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 two on the keypad. That's star two on the keypad for questions. We acknowledge already the questions that have already been asked at the start of the queue. Our first question comes from Mr. Yuri Fernandes from J.P. Morgan. Please go ahead, sir.

Yuri Fernandes:

Thank you. Hi, Emiliano. Good morning, Cristian, and congrats on the quarter. Cristian, I guess I already mentioned Bansa during the presentation, but can you provide more details? Why is this no longer consolidated within the bank? I know it is small, but just to understand the moving parts on this Bansa deconsolidation, where is this going? Are you still consolidating any kind of equity income from this investment? Just any color on this, and then I can ask a second

question. Thank you.

Emiliano Muratore:

Hello, Yuri. So, regarding Bansa, basically, Bansa was the entity that was doing what we call the floor plan, basically the stock financing for dealers related to our auto loan business. So even though, because of legal restriction, the stock financing is not an activity that the bank nor its subsidiaries can do, Bansa was the entity doing that business. Because of the commercial dependence to Santander Consumer Finance, which is the company that does the auto loan, basically, we don't do the stock finance by itself. We do the stock finance because then we create what we call the retail part of the auto business. So that's why, from the accounting point of view, Bansa was consolidating into Santander Consumer Finance. That is a subsidiary of the bank that consolidates into the bank. So basically, Bansa was moving down, was moving up from Santander Consumer to the bank. But on the ownership point of view, neither a consumer, neither the bank owns a single dollar of Bansa. So basically, we were consolidating the balances on the assets and on the liabilities, but 100% of the results of the company were taken out on the minority's interest line. So now, basically, Bansa, because of the relationship with the company that funds the activity in terms of lending, now it's, let's say, more dependent on that company than on the commercial link to Santander Consumer. And that's why, considering the accounting rules, it has to consolidate into the company that funds Bansa rather than Consumer that was, let's say, the commercial partner of Bansa. So basically, it's affecting the consolidated view in terms of assets and liability, but has, let's say, no impact on net income, neither, let's say, ROE, because 100% of that result was taken out on the minority interest line. I don't know if I was clear enough.

Yuri Fernandes:

No, that's clear. But just to be clear, do you receive any money, like any compensation on that, like the consolidation? Is this kind of a sale or, you know, like a regulatory?

Emiliano Muratore:

No, no, no, I mean, no, it's not a sale because there was no ownership on Bansa, neither from the bank nor Santander Consumer. I mean, Bansa is, let's say, owned by other part of the Santander Group. So basically, it was a pure accounting consolidation because of the commercial, let's say, dependence on Santander Consumer to do the stock finance. But there was no ownership on Bansa, neither the revenues or the cost of that activity.

Yuri Fernandes:

Got it. So we never, like, owned the company. We're just consolidating for this regulation. And now you're no longer consolidation, but you were never the owner. You were just consolidating for...

Emiliano Muratore:

Never the owner. So if you look, even though the number is small, that, let's say, part of the minority interest that were taken out of the consolidated net income, now it will be smaller because we don't have to take out the Bansa part. And before it was, let's say, 100% taken out on the minority interest line.

Yuri Fernandes:

No, no, super clear. Now, a little bit more structural question on loan growth. I know we are not discussing 2025 yet, but I think 2024, it's pretty clear, like, the trends are better, margins, you know, you are doing very well on efficiency. Cristian and Emiliano, what can you expect on growth in Chile? Because over the past many years, we have been seeing, you know, very timid loan growth. And I don't know, like, can we anticipate, I don't know, loan growth accelerating even further in 2025? Any kind of color on your expectations for maybe the industry, like, for us to maybe see, you know, high single digits? What could we think about loan growth and where the growth will come from? It will continue to be retail, it will continue to be auto loans. Where can we be more positive on growth here? Thank you.

Emiliano Muratore:

Yeah, so, I mean, regarding loan growth, as you said, I mean, the last few years were very slow pace of growth. And actually, if you, let's say, take out the indexation effect of the UF that in real terms, that was even lower. But it's important to mention that it was in a context of low GDP growth and also the fact that all the liquidity injected into households had through the pension fund withdrawals and the help that the government handed in during the pandemic. So, looking to 2025, with GDP expected to grow in the 2.4, 2.5, in real terms, and inflation expected to be, let's say, between 3 to 3.5, nominal GDP growing around 5, we do expect the multiplier of loan growth to GDP to be, again, above 1, maybe definitely not as high as it was maybe some years ago, that it was closer to 2%. But we do expect the system as a whole to grow in nominal terms in that high single digits, 7 to 8%. And that's driven by consumer, and in our case, auto loans, too, which is a relevant part of our consumer business, and because of some factors. First, GDP growth and activity improving, then rates much lower than in the past. So, the tendency of the propension for people to borrow at this level of rates is definitely higher than in the past. And also, the normalization of the liquidity position of households that was extremely high during the last two, three years, and now, let's say, it's going back to, let's say, normal situation where people, let's say, will have a higher propensity to borrow. So, on the consumer part, we are, let's say, supportive. In terms of mortgages, we already have the UF and the inflation at the base for the growth of the total balance, and then, again, with rates much lower, we do expect the real estate market to improve for next year, maybe closer to the second half of next year when long-term rates normalizes and go down from where they are now and they were in the recent past. And going into commercial, then we see a couple of very positive tailwinds for us, I mean, related to all the growth we are getting through Getnet in the SMEs and all the visibility that the Getnet give us in terms of the flows and the activity of clients. So, we are, let's say, positive on

growth prospects on commercial lending related to the whole SMEs and payments ecosystem. And maybe the higher or the bigger question mark is related to commercial lending with, let's say, more CapEx-oriented or CapEx-related, that definitely that will be driven by the potential rebound or improvement in investment that is expected to be timid going forward. And so, that maybe is where we have the higher level of uncertainty about the growth prospect in terms of lending. But as a whole, the system, we do expect the system to grow that, let's say, from six to eight percent as a range. And we should be also in that range.

Yuri Fernandes:

No, super, very good answer. Thank you, guys. And again, congrats on the ROE improvement lately.

Moderator:

Okay, thank you very much. Next question comes from Beatriz Abreu from Goldman Sachs. Please go ahead, ma'am. Your line is open.

Beatriz Abreu:

Hi, everyone. Good morning and thank you for taking my question. I guess just a quick follow-up on the Bansa loans just to make sure that we understand. So, does that explain the contraction in the corporate CIB line, how much of the Bansa loans exclusion can be explained in that line just because of the big drop there, quarter for quarter? And then just a second question on asset quality, right? So, NPLs did increase quite a bit this quarter. I guess what gave you comfort to keep the cost of risk guidance at 1.3 this year? Is there any chance that you will have to increase provisions going forward in addition to this $18 billion one-time additional provisions for commercial loans that you mentioned? Thank you.

Emiliano Muratore:

Thank you, Beatriz, for your question. I mean, regarding Bansa, that was part of the middle market segment. It's not part of the CIB, so it's not – it doesn't explain any of the CIB fall, but it's much more related to the, let's say, the concentration of the CIB that there are few but larger tickets, and some of them weren't renewed in the quarter, and so that explained the fall in CIB. Bansa, it's in the middle market. It's, let's say, a relevant part but not most of the fall in middle market. It was like 250,000 pesos portfolio that was deconsolidated, so the trends or the drivers in commercial lending related to middle market and the CIB had more to do of, let's say, lack of demand in terms of credit and borrowing and, let's say, the peculiarities in the CIB segment that a few syndicated loans that were originated in lower level of rate environment during the pandemic expired and weren't renewed, but Bansa was not – it's an element, but it was not the most part of the fall. And regarding cost of risk and asset quality, basically, we don't – we are, let's say, in a high level of cost of risk compared to where we were in the past, and we do expect that to stay where it is. So, the 1.25 that we have here to date, we think that will be there

for the rest of the year. So, we are not seeing yet an improvement or a fall in cost of risk, but neither a further deterioration considering what we are seeing in the behaviors of the portfolios and also, as I said before, the level of rates is now definitely giving some room for people regarding the burden of their payments in the consumer and also in the mortgage business. And so, we expect it to stay where we are around like 40 billion pesos in terms of net provisions a month, and that will take us to the 1.3 area cost of risk for the year, even though – and also, let's say, compensating this one-off that we are pointed out that we'll have in July, even considering that one-off we reaffirmed the 1.3 for the year.

Cristian Vicuña:

To add to Emiliano's answer, we are seeing mild improvements in the job market in terms of unemployment figures, and that makes us also be somehow a little more confident on that turnaround coming in the next semester or final quarters of the year, starting to see early signs of improvement in the job market.

Beatriz Abreu:

That's very clear. Thank you so much.

Moderator:

Okay. Thank you very much. Our next question comes from Mr. Eric Ito from Bradesco BBI. Please go ahead, sir. Your line is open. Mr. Eric Ito, your line is open in case you are muted. Okay. We'll come back to Eric's line in a second. In the meantime, we'll take the line 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 just one question regarding the asset quality indicators. When do you expect to see the NPLs to start decreasing, especially in the commercial segment? You already explained that the performance of the NPL has been explained by agriculture and also real estate. But I want to understand if those segments are under control and you're now expecting the second half of the year or in 2025 to see an improvement. And also, I would like to understand what will be a normalized figure of NPLs considering the portfolio structure that you're having, the increase in SMEs, the increase in consumer auto loans, what will be a normalized figure of NPLs when economic activity recovers and rates and inflation will be normal? Thank you so much.

Cristian Vicuña:

Thank you, Daniel. Answering your second question first, what we expect as a normal range of NPLs for the current type of portfolio that we have, it's something in the low 2s, so something between 2.2 to 2.4, a little over what we had at the beginning of the pandemic that was

somehow slightly higher than 2, so a little higher than that, especially because of the increased composition of the SME part in the commercial portfolio and an expectation of an increase in our consumer loan portfolio too. So, that's what we should expect as a stabilized figure in terms of NPLs. In terms of when are we expecting a turnaround on the commercial portfolio, some part of the deterioration of the impaired ratio is explained by the decrease in the total size of the loan book of the portfolio in the quarter. So, that figure actually is not as high as it seems, like the 8.6% of the impaired ratio and the 3.8% of the NPLs actually suffering from the decrease that we mentioned in the quarter. So, having that in mind, we are seeing not a huge increase in the total impaired volume of the portfolio or the NPL figures. We are seeing some sign of a decrease in the acceleration of those figures in absolute terms. So, that makes us believe that we are close to the turnaround point in terms at least of the absolute figures and we are expecting this to happen in the next six to nine months.

Daniel Mora:

Perfect. Thank you so much.

Moderator:

Okay. Once again, we will unmute Eric Ito's line. Eric Ito, Bradesco BBI. Please go ahead, sir. Your line is open.

Eric Ito:

Hello. Can you hear me?

Moderator:

Yes, please go ahead.

Eric Ito:

Okay. Hi, guys. Good morning. Thanks for taking my question here and for the opportunity. I have two questions as well. First one is regarding the expectations for 2025. I think you already gave some expectations regarding loan growth, but maybe a quick follow-up on NIMS. I think this year we should have a quite volatile variation of NIMS because on the one hand, we have these changes in interest rates. We have the impact from FCIC, but I guess next year we should have lower funding, lower inflation, and I guess FCIC will not be an issue again. So, I just want to get what you guys are expecting for NIMS for 2025 considering the loan mix you guys will also have. And my second question is regarding efficiency ratio, mainly focused on fees. I think we should have the full impact from the interchange rate cap fully loaded in 2025. I think you guys estimate an impact of $50 billion for the full year. So, I just want to get your sense on how much can we expect fees to grow in 2025 as well. So, thank you.

Emiliano Muratore:

Hello, Eric. Thank you for your question. I'll take the first one and I'll leave the second one for Cristian. So, regarding NIMS outlook for 2025, as you said, I would say that maybe the biggest source of volatility for next year would be the level of inflation that should be slightly or let's say below what we have this year. So, that's going to be a headwind regarding NIMS. But as you can see in the quarterly evolution, our NIMS during the second quarter was like 3.6 in the second quarter. So, going forward, we expect to be around that level. The inflation in the second quarter was relatively high. So, going forward, it should be below that level. And with that, we see the second semester with a NIMS level of 3.6, 3.7, and that takes us to this 3.3, 3.5 full year for 2024. So, for 2025, as I said, inflation should be a headwind, but interest rates should still fall in the short part of the curve, maybe let's say from 50 to 100 basis points in the next 12 months. So, that will take the yield curve to recover. So, I'm positive it's low. That's also going to be positive for NIMS. And in terms of loan growth and loan mix, that also should be kind of positive. So, even though it's still early to call, we do see NIMS next year to around the level that we'll have during the second half of this year, let's say 3.5, 3.7, subject to the evolution of inflation and rates.

Cristian Vicuña:

Thank you, Emiliano. Regarding your fee question, Eric, so, the main driver of our fee expansion, it's the growth in terms of our customer base and the increased customer's interactions. And you can see how that is translating into our checking account growth year over year and quarter over quarter. This growth has been sustained and it's also impacted positively on our card fees figure. Because if you take into consideration that we have the impact of the interchange fee cap incorporated in the first half of the year figures, actually the growth in the card transactional volume and fees is actually pretty impressive. We also expect Getnet to continue its growth performance, although at a slightly lower rate. And we are also seeing opportunities on the asset management business, because we are seeing some interest for customers to find higher yielding assets from moving out from the deposits, the time deposits that were where they put the money into 2022 and 23 with the high monetary policy rate. With all of that, we are expecting our fees figure to grow slightly higher than our stabilized net interest income figures. So, we should be aiming for a high single digit growth in fees for next year. That should consider also the impact of the card fees. So, mid to high single digit growth in total.

Eric Ito:

Great. And just to follow up, if I may, you mentioned that customers are moving out from time deposits. Could you just recall us what's the cost of funding regarding this time deposit compared to the mutual funds that they are migrating in? Thank you.

Cristian Vicuña:

Yeah. So, let's say that the level are similar in the sense that today when you look at the rate for time deposits compared to the yield of mutual funds on the clients, let's say on the – I don't know how to put it, but on the spot or if you look at the number today, it's like the same. The point is that mutual funds usually the short part, the money market mutual funds are – has like let's say 60 to 90 days average duration and they don't go like mark to market on their net asset value. So, they have like a kind of lag into recognizing the fall of rates. So, when you have a cycle of rates going down, especially a sharp cycle of the one we are having, you still have mutual funds yielding a higher return on investors until the level of rates kind of plateau and stay. So, what I'm trying to say is that for the next still three to six months, you will have let's say higher yields on mutual funds until the level of rates stabilizes and you have some kind of indifference levels. The point there is that when that happens by the end of this year, early next year, again the slope of the curve will be positive again and that will let's say give people more appetite to go a bit longer on their duration and usually that kind of extension in their duration, people tend to do it through mutual funds, fixed income mutual funds rather than taking longer tenure deposits.

Eric Ito:

Very clear. Thank you.

Moderator:

Okay. Thank you very much. It looks like we have no further questions at this point. I'll pass the line to the management team for the concluding 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 again soon.
Moderator:

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