Santander Chile

CONFERENCE CALL ON SANTANDER CHILE'S RESULTS FOR THE 1Q OF 2024

Moderator:

Hello, ladies and gentlemen, and welcome to Banco Santander Chile's first quarter 2024 results conference call. At this time, all participants are in a listen-only mode. Please note that this call is being recorded. Following the presentation, there will be a question and answer session. I will now hand over to Emiliano to begin the presentation.

Emiliano Muratore:

Good morning, everyone. Welcome to Banco Santander Chile's first quarter 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 first Carmen Gloria will discuss the macro scenario, then Cristian Vicuña will review the strategy and results of the first quarter and guidance, and finally, we will have a Q&A session where we will also comment on the recent material facts that was published this morning. First, I want to express my gratitude for your presence at this quarterly meeting. Let's get down to business, where we'll discuss our performance during the first quarter and recent results. The macro conditions have continued its expected trend, and the first installment of the FCIC, roughly 54 percent of the position, was paid on April 1st. All this helped our margins and net income recover in April, where we showed a back to normal net income of 71,000 pesos with an ROE of over 20 percent on the month. We expect Central Bank of Chile to continue its rate reduction strategy, although at a lower pace for the latter part of the year. We'll delve into the specifics of our quarterly results in a moment. Now, I hand over to Carmen Gloria for our macro overview.

Carmen Gloria:

Thank you, Emiliano. Last year, the economy had a significant adjustment, correcting the imbalances accumulated from previous periods. By the end of 2023, we saw a modest rebound with GDP growing 0.2 percent for the year, surpassing previous estimates. However, domestic demand was weaker than anticipated, suffering a decline of over 4 percent, largely in the first month of 2024, pushed by more external demand, better supply factors, like the greater added value of power generation, and a new rise in consumption. The pace of growth will likely slow down, but the initial increase means a GDP growth of around 2.8 percent in 2024, and above 2 percent in 2025, closing the gap with its potential level. This economic trend will be supported by steady improvement in employment and more favorable financial conditions, as monetary policy returns to normal and inflation slows. Finishing the year with a U.S. variation of 4.8 percent, compared to more than 13 percent in 2022, due to lower domestic demand, tighter monetary policies, and stable international prices. Although recent inflation news, price shocks, and currency levels may put some pressure on local prices in the next month, we expect them to ease by the end of the year, with a U.S. variation of 3.7 percent. We anticipate reaching the 3 percent level, targeted by the second quarter of 2025. Considering the exchange rate, we have seen a relevant peso appreciation from levels in February 2024, to close 1,000 pesos per dollar, to current level above 920, 920 pesos per dollar, following the recovery of the copper prices. We estimate that this trend will continue during the year, allowing for lower inflationary pressures.

Considering the growth outlook and inflation path, we expect the central bank to keep lowering the rate, ending the year around 4.75 percent, with a 50 basis point cut in the next meeting and between 25 and 50 basis points for later meetings in the year. The rest of Latin America and the U.S. show comparable patterns. In general, economic activities and inflation are returning to central bank goals. With this, monetary policy actions are likely to be more stimulative this year. This decline in uncertainty in Chile and the region creates a more favorable scenario for this year. Regarding the relevant regulatory framework, the government is carrying out a fiscal pact, seeking to modernize the current tax system. The main sources of financing are measures against tax evasion, for which a tax compliance bill is being discussed in Congress, which seeks to collect 1.5 percent of GDP. It also includes pro-growth measures, such as improvements in permitting processes already in Congress, greater spending efficiency, and other tax reforms related to increasing taxpayer tax burden, while the Chamber of Deputies approved the idea of reforming the pension fund system, considering a social security scheme, among other measures. However, the proposal did not obtain sufficient support for the additional 6 percent contribution, and its distribution between individual capitalization accounts and social security funds has been debated. The reform is now being discussed in the Senate, and it will face intense negotiation process to be approved. The banking industry is facing the process of implementing the open finance system, which will generate more competition on financial innovation. The consolidated debt registry bill is in its final discussion in Congress. The text establishes a registry of information and credit obligations, with the aim of improving people's credit information and, at the end, provide better financial products and services. Finally, the fraud law approved in 2020 established that banks can take legal action if they collect information that proves fraud or serious negligence by part of the use of payment methods. Since its implementation, unknown operations have increased significantly, and a relevant portion of them could be associated to self-fraud schemes, generating relevant losses for the industry. In this sense, the recent amendments to this law will help mitigate these negative consequences.

Cristian Vicuña:

Thank you, Carmen Gloria. This is Cristian Vicuña speaking. Good morning, everyone. Now I will proceed to review strategy and results. Turning our attention to slide 8, let me begin by reminding you of our commitment to our Chile First strategy. We aspire to lead 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 cutting-edge technology, but also about having a friendly physical presence through our innovative work affairs. 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 affairs 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 our business segment. 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 car financing and Getnet, our acquiring business. In our third pillar, we are committed to fostering innovation and propelling growth by challenging 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-performance culture. We recognize that diversity is our strength and individuals will flourish based on merit. We are constructing a thriving community where talents are nurtured and innovative ideas are highly valued. The outstanding success of our digital products has been firmly established during 2023 and 2024, with the continuous growth of our digital client base. Key initiatives such as Santander Life and, more recently, Mas Lucas, have been instrumental in achieving this. The Mas Lucas account was launched in March 2023 and is the first 100% digital site and savings account for the mass market. It now has over 163,000 clients exceeding our expectations. It currently accounts for over 30% of our new accounts opening 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 10, we can see how the advances of our digital strategy are allowing us to continue the expansion of the branch network through Work Cafes to improve productivity. Our bank's Work Cafe branches are expanding to cater to the specific needs of our clients. We have launched three new types of Work Cafe formats, the successful Work Cafe Expresso, which consolidates cash operations into transaction hubs while maintaining a Work Cafe ambience. This is a great initiative as it provides an efficient and secure banking experience for our customers. We have already opened seven as of May 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 offers 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 transformation of our branch network has led to a new level of branch footprint, decreasing 24% in 2022 and a further 14% in 2023, to a level of 246 branches as of today. Notably, 31% of our branches no longer have human sellers, with these branches providing value-added services like our traditional Work Cafe. At the same time, our productivity has continued to improve with loan and deposit volumes per branch increasing 20% year-over-year and 12.8% rising the same metric per employee during the same period. On slide 11, we can see how our key initiative with SMEs are driving an impressive growth in this segment. Our digital life account for SMEs continues to drive a 36% year-over-year increase in total SME clients, with more than 381,000 SME clients. When considering current accounts for businesses, as reported by the CMF, we have seen a remarkable 35% increase, capturing over 36% of the market as of January 2024. Getnet, our acquiring business, continues to be an important driver for capturing new SME clients as well as expanding into larger clients requiring a host-to-host solution for more sophisticated customers requiring a more integrated payment system. Currently, Getnet operates more than 177,000 active points of sale terminals across the country. During the first quarter of 2024, Getnet generated fees totaling 14.3 billion and a net income of 3.3 billion pesos. On slide 12, we are pleased to show that we have been very consistent in leading the market in terms of customer recommendation, net promoter score, sustaining levels of above 50 points. Our NPS score is based on feedback from over than 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 website achieving scores of over 70 points. Our contact center is also highly rated outperforming our peers. Now, let's talk about the trends in our results and balance sheet in 2024 and the first quarter. On slide 14, we show our results for the first quarter of the year. We exceeded our initial guidance for ROE in the first quarter of 2024 achieving a net return attributable to shareholders of 120 billion pesos with a quarterly ROE of 11.2. We have already published our preliminary numbers for April where in the month we made 71 billion pesos being in the best top 10 months in our history in terms of results reaching a monthly ROE of 20%. We are expecting this fast recovery to continue throughout the year. Our operating segments continue to grow steadily and our book value has risen by more than 6% year-on-year resulting in a 10% increase of the total net asset value per share plus dividend per share. On slide 15, we can see the growth in our loan balances. The quarter saw a 1.1% increase in loans and a 5.5% year-on-year rise mainly for mortgage and commercial lending. Mortgage loans grew a bit more than U.S. variation in the quarter but will be in line with inflation going forward. Consumer lending was driven by credit card growth after a period of less demand due to high household liquidity. Commercial loans grew mainly from translation gains since about 23% of our commercial loans are in foreign currency with less demand for new loans due to economic conditions. Our loan book should grow at a moderate rate this year following the economy. The bank's liquidity position was robust in the quarter as its total deposits kept growing a strong 2.2% on the quarter and 8.4% year-over-year. The growth was mainly driven by time deposits, 4.8% in the quarter due to a rise in large corporate deposits as the client found the still moderately high interest rates appealing. Our demand deposits remain stable at end-of-year levels, levels that normally have a seasonal effect in December, something that we consider as positive. Our clients boosted their mutual fund investment through a bank growing an impressive 12.7% in the quarter, achieving a high growth in AUMs. The bond issuance went up taking advantage of local and global fixed income markets. During the pandemic, we obtained 6.2 trillion in credit lines from the Central Bank of Chile. This credit line has two deadlines, one on April the 1st and the other and final one on July the 1st, 2024. We have already repaid the first deadline, 3.3 trillion pesos, which was around 55% of the total using the liquidity deposit program provided by the Central Bank. For the second deadline, we have almost all set up in Central Bank liquidity deposits. We hope the final payment of the FCIC is well covered and will have no impact on liquidity of the bank. After the repayment of the entire FCIC, we estimate that our LCR will be around 170% showing ample liquidity. On slide 17, for the first quarter, we achieved a 2.7% NIM confirming our recovery as planned. Our net interest income grew 31% year-over-year and dropped 4% in the quarter. The NII in the first quarter benefited from higher interest income as the lower monetary policy rate reduced our funding cost to 5.3% in the first three months of the year. But this was partly offset by lower income from readjustment due to the 0.8% U.S. variation in the quarter. We expect our NIM to keep recovering in the next quarters and to reach at least 3.2% for 2024 with our client NIM stable and significant improvement in our non-client NIM. The first FCIC payment reduced our interest earning assets by 6% in April resulting in a monthly NIM of 3.5% for April and a 2.9% year-to-date. This is a yearly improvement of 58 basis points and we expect this recovery to continue throughout the year. Regarding asset quality, we see that our NPL ratio is rising as expected in the face of the economic cycle. The March figure on consumer loans NPLs was 2.3% and the mortgage NPLs was 1.5%. Our commercial portfolio NPLs were 3.5% for the quarter. The recent growth in NPLs is partially explained by a slower increase of the denominator of the ratio. That is to say the loan book is not growing strongly. As we can see, most of the NPL growth is explained by commercial loans and more recently by the mortgage loan book. 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 considering the impaired portfolio. In general, these commercial loans have guarantees reducing the risk exposure and this is true also for mortgage loans. We anticipate NPLs to peak in the next few months and then to start improving the second half of this year. Our impaired loan ratio, which covers both NPLs, customer deterioration in the commercial single names and restructured loans, is still lower than before the pandemic, although with an upward trend. The impaired ratio for March was 5.8%. This results in a coverage ratio of 142% of our NPLs. Before the pandemic, mortgage made about a third of our total loan portfolio. Due to a strong growth of the U.S. denominated loans in recent years, mortgages now account for over 40% of our total loan. As mortgages are backed by a property, they need less coverage. So the change in loan mix will require less total coverage. Particularly our consumer loan book coverage is some 383%. Our commercial portfolio coverage is 124% and the mortgage portfolio coverage is 71%. But this does not consider the collateralization of the portfolio with a strong loan to buy. Cost of credit for the quarter was 1.26. As shown, our cost of credit is slightly increasing along with the changes in asset quality. For 2024, we project cost of credit to stay around 1.3% following the economic cycle and labor market conditions that are expected to improve in the second semester. Next, we look at the non-NII revenue sources. Fee income increased 10.1%, queue on queue, as our clients use 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 and some non-recurring fees generated by our SCIB when compared to the first quarter of 2021. Income from financial transactions went down year-over-year mainly because of lower income from the trading portfolio after a comparable high first quarter last year and a general decreased quarter-on-quarter because of negative results in this line from liability management exercises in the period. In slide 21, our core expenses were consistent with inflation year-on-year and dropped 2% in the quarter mainly due to reduced personal expenses. In the first quarter of this year, we recorded a one-time order operating expense of 17 billion pesos related to restructuration provisions. This is aligned with our strategy related to the branch network transformation and the progress of digital banking. As a result, our efficiency ratio was 47% for the quarter. Again, if we look at the April numbers, our year-to-date efficiency ratio improved to 44.6% with a 37.4% figure for this ratio in April standalone. During 2024, the bank is continuing to concentrate on the implementation of its $450 million investment plan for the year 23-26 for technology projects and branch renovation. We observed a positive evolution of our capital ratios. At the end of the first quarter of 2024, the bank reported a total ratio of capital of 17.6% and a core equity tier one ratio of 10.4%. These figures consider the provision for the 70% annual dividend that was paid after approval by other shareholders meeting in April. On January 17, 2024, the CMF applied the current regulations on additional capital requirements according to Pillar 2, which contemplate two main topics, credit concentration risk and the market risk of the banking boom. A Pillar 2 requirement was established for six banks in the Chilean system. Banco Santander Chile was not asked to establish additional capital for this pillar in this occasion. However, the measurement of the market risk of the banking boom will continue to be discussed and capital charges may be made in the coming years. Another relevant point to consider is that in the last shareholder meeting, the board was granted the authority to raise the dividend payout provision above their legal minimum of 30% for 2024 and onwards. Finally, on slide 24, we conclude with a review of our guidance. As we mentioned, April's preliminary results show how the fading out of the FCIC and the monetary policy rates are benefiting the performance of the bank. We delivered an income of 71 billion pesos and a ROE of 20% for the month, on good track to our historical performance already. Last week, the CPI number for April came out at 0.5%, higher than expectations and implying a solid month for margins in May too, with the second quarter looking considerably stronger than the first. So, these are early signs that we are on track to deliver our 2024 guidance. Our market expectations for 2024 are more positive compared to last year, with an estimated GDP growth of 2.8%, a US variation of around 3.7%. However, with the monetary policy rate ending 2024 around 5%. With this, we expect long growth to reach mid-single digits as the economy reactivates. As we mentioned, in April we'll already see a relevant recovery in our net interest margin. This trend should continue throughout the year, and given our current market expectation, our NIM should reach levels of at least 3.2% for the full year. Non-net interest income should be growing around mid-single digits, with good customer product trends, but impacted by the interchange fee regulation in COR that started at the end of 2023. Cost of risk increasing slightly to 1.3%, with asset quality falling away in the economic cycle. Our core expenses should be growing less than inflation, and the effective tax rate will be normalised. With all of this, our ROE for 2024 will be recovering toward normalised levels. Although our first quarter was weaker, we can already expect a stronger second quarter. So, with profitability improving throughout the year, we should be in the range of 15% to 17% for ROE for the full year. With all of this, our long-term ROE objective remains in the range of 17% to 19%. With this, I finish my presentation and hand over to Emiliano Muratore.

Emiliano Muratore:

Hello, it's me again. In case you haven't seen it, earlier today we released the material fact regarding a cybersecurity event. The disclosure states as follows. The Santander Group has recently become aware of unauthorised access to a database hosted by a third-party provider. Santander Group immediately implemented measures to manage the incident, such as blocking the compromised access to the database and strengthened fraud prevention to protect customers. After the investigation carried out, the Santander Group can confirm that information has been accessed from clients of Santander Chile, Spain, and Uruguay, and from all employees and some former employees of the group. In the rest of the group's markets and businesses, there is no client data affected. It's important to note that there is no transactional information in the database or internet banking access credentials or passwords that allow you to operate with the bank. The bank's operations and systems in Chile, like those of the rest of Santander Group, are not affected, and customers can continue to operate safely. Thanks, everybody. Now we welcome your questions.

Moderator:

Thank you. We will now move to the question and answer section. If you would like to ask a question, please press star 2 on your phone and wait to be prompted. If you're dialed in by web, please click ask via audio. Our first question comes from Tito Labarta from Goldman Sachs. Your line is open. Please go ahead.

Tito Labarta:

Hi. Good morning. Thank you for the call and taking my question. My question is just, I guess, on your long-term expectation, the 17% to 19%. I understand you have some issues this year, but just to go from the 15% to 17% that you're expecting in 2024 to the 17% to 19%, just I want to understand what the drivers will be for that. Would it be mostly further NIM expansion as you get all of the FCIC will be completely off your books next year? I mean, do you expect rates to come down further in 2025? How dependent will it be on inflation? Or do you expect any acceleration in loan growth? Just thinking of all the different moving parts and what gives you comfort that the ROE will expand another 2% in 2025.

Emiliano Muratore:

Thank you. Hello, Tito. Thank you for your question. Yeah. I mean, long-term, 2025, yes, it's longer than 2024, but maybe not long enough. But yes, answering your questions, I mean, the two main drivers compared to 2024, first would be cost of risk. I mean, this year, cost of risk will be above the long-term and sustainable level for us here in the economic cycle and the macro situation for this year. So, going forward, that should be a tailwind for ROE. And the second, yes, is NIM together with the FCIC fade-out plus the normalization of the monetary conditions. I mean, by that, real rates converging to low single digits, I mean, from 2% or below. We are getting there, but not there yet. So, those two factors, along with the cost discipline we have always had, plus the non-NII coming from fees to be a sustainable revenue source, are the main levers to go from the 15 to 17 this year to the 17 to 19 long-term.

Tito Labarta:

Okay. Perfect. Very clear. Thanks, Emiliano.

Moderator:

Thank you. Our next question comes from Neha Agarwala from HSBC. Please go ahead. Hello,

Emiliano Muratore:

Neha. We can't hear you.

Moderator:

I think we lost Neha. Perhaps we can take the question from her later. In the meantime, we have a question from Daniel from Credicorp. Please go ahead. Your line is open.

Daniel Mora Ardila:

Hi. Good morning, and thank you for the presentation. I have one question regarding NPLs. Right now, Santander has the highest NPL compared to the relevant peers, the largest, biggest peers in Chile. I would like to understand what is the situation regarding the commercial NPL. For example, if you are seeing some specific sectors that are driving this increase in NPLs, or the highest NPL compared to the industry level is more related to the loan mix in that segment, and what will be the actions that you will take to improve NPLs going forward? Thank you so much.

Cristian Vicuña:

Hi, Daniel. This is Cristian. It's true that our NPLs have increased in the last year in line in part with this situation of the economic cycle. If we review the evolution of our portfolio, we can see that the growth is mainly explained by two increases, about 40% in mortgage loans and the rest in commercial loans for corporate clients. So, both of them have a strong collateral, and regarding the corporate loans, we identified two portfolios with a concentration of NPLs in single names, so mostly agro and some particular cases in real estate. Both portfolios have very good collaterals that lower the need of provisions and have already been considered in the NPL portfolio. So, actually, we don't see this translating completely into cost of risk. So, we see a very moderate impact in our cost of risk, but we are seeing these NPLs of some deterioration in these corporate loans that we already knew because we already have accounted to them in our NPL portfolio. So, we expect the situation to start improving on the second half of the year, mostly because of better employment figures and a return to growth of the country's GDP.

Daniel Mora Ardila:

Perfect. Thank you so much. It means that the normalized figure of cost of risk for Santander with the economic situation improving, interest rates low, and inflation control will be between 1 and 1.1, or it could be a higher number? Thank you so much.

Cristian Vicuña:

We're seeing something between 1.1 to 1.2 as normalized in the long run.

Daniel Mora Ardila:

Perfect. Thank you so much.

Moderator:

Thank you. Our next question comes from Olavo Arthuzo from UBS. Please go ahead.

Olavo Arthuzo:

Yes. Good morning, everybody. Thank you for taking my question. I have a very quick one related to your business units. I noticed that you guys maintained and changed the guidance for the ROE expectations, but in this first quarter, we saw a contraction in the retail, SCIB, and the middle throughout basically those three main business units of the bank. I just wanted to hear from you what you expect of each of them in terms of recovery throughout the next quarterly results, and which one of them do you see as the most important one for this ROE rebound? Thank you very much, guys.

Emiliano Muratore:

Hello, Olavo. This is Emiliano. Thank you for your question. The first quarter performance in those business at the end has also a base comparison compared to what was the first quarter last year. In some cases, it was a very strong year, but if you look at the sequential of those businesses, especially the revenue part, I'm trying to leave aside regulatory effects like the interchange fee regulation on our retail business that basically got higher by the end of last year. It's putting some pressure on the fee part. The trends on revenues, customer acquisition, customer satisfaction in general are still strong across the board. I mean, we are in the corporate segments, as Cristian was mentioning, dealing with a higher cycle in terms of NPLs, and we are dealing with that, but we are not concerned considering the level of collateral and evolution of the macro on those segments. So, we are still confident on having a high single-digit growth on each of the different segments, because the macro conditions will be favorable first for consumer in terms of employment and GDP growth, and the same for corporate with investment coming up from the low part of the bottom we had during these last two years.

Olavo Arthuzo:

Okay. That's great. Thank you very much, guys.

Moderator:

Thank you. Our next question comes from Carlos Gomez from HSBC. Please go ahead.

Neha Agarwala :

Hi. Can you hear me?

Emiliano Muratore:

We can hear you.

Neha Agarwala:

Hi. Sorry. My line got disconnected when you called for me, so I'm asking a question on Carlos's line. Just a quick one. Could you – I'm sorry, I missed the initial comment. What would be the impact on the standardization of provisioning models for the consumer portfolio, and when did you see the impact in provisioning? And very quickly, on the loan growth. Could you give us some sense of how the different segments within the loan book are growing? Where should we see strongest growth this year? Thank you so much.

Emiliano Muratore:

Okay. So first on the standard provisioning framework for consumer book, I mean, we expect that the impact to be around like 100,000 million pesos by the end of the year. I mean, as of the first quarter, it was about like 85 billion pesos. But if we forecast or try to project what would be the situation by the end of the year, that it's when the regulation is taking place, it's going to be around 100 billion pesos. We are going to use the voluntary provisions to cover that, so we have today around 300 billion pesos of voluntary provisions. About a third of that will be used to cover that, so we'll still have 200 billion remaining in voluntary provisions. And considering that, no impact on cost of risk expected. I mean, neither impact on the coverage ratio, considering that basically we have already put aside those provisions, and basically that will move from voluntary to, say, mandatory or statutory provisions. And in terms of loan growth, I mean, we see the book in general growing around the general guidance for the total loan book. I mean, long-term investments and capex for corporates may take some time to rebound, maybe later in the year. So that, as a whole, the segment could be slightly below the average. Mortgage is growing in line with the U.S. variation. I mean, so far we have seen growth slightly above U.S. variation. Going forward, we expect to be in line with inflation. That may put it between 4 to 5 percent growth in nominal pesos, maybe slightly below the average. And consumer is the one that, with economic activity getting better, employment getting better, and also the kind of leverage in households coming from a very low level of leverage out of the pandemic and the pension funds withdrawals and the fiscal helps people got from the government during the pandemic, now we think that we can converge to, let's say, more normal historical levels of leverage, and that would imply the consumer book to grow maybe above the average of the total loan book.

Neha Agarwala:

Perfect. Thank you so much.

Moderator:

Thank you. The next question comes from Pablo from Banchile. Please go ahead.

Pablo Espinosa:

Hi. Good morning to everybody. I have a question regarding the guidance for NIM for a year of 3.2 percent. I would imagine that that means that for the second half of the year, the NIM should go to levels of around 3.5 percent. And what would be the driver for this increase in NIM? I understand, of course, that the FCIC is going out of the books for the second half of the year, but given that most of those are invested in papers with a similar rate of return, I would imagine the impact of that is not that high. So just give us some more details on that.

Emiliano Muratore:

Yes. Hello, Pablo. Thank you for your questions. Yes. I mean, we said like NIM for the year should be at least 3.2. Definitely, that has an upward trend. Already in April, we had a NIM for the month of around 3.5, and I would speak to be around that for the second quarter as a whole, considering the CPI number we got from April. So the main driver, as you said, I mean, the FCIC maturity as itself is not so much easier in terms of NIM. It is, arithmetically, basically because the denominator of the ratio is falling by 10 percent. Already fell 5 percent with the first maturity, and it will fall around another 5 percent in July. So basically, the NIM as a ratio will go up close to 10 percent just because the denominator is falling. But the main driver is like the rates going down and inflation staying for the year around 3.5, 3.7 as you have variation, and that will take, as you said, the NIM for the last part of the year, last quarter at 3.5 or higher in order to be for the full year at least at 3.2. But the main driver is normalization of the monetary policy. We are today at 6.5 as monetary policy rate. We expect 50 basis points for the May meeting, and then going forward, cuts between 25 to 50 basis points in the following meetings to close around for 75, 5 percent for the year. And that's basically the main driver for NIM going up, with inflation staying around the levels we are seeing for second quarter, maybe slightly below as a whole for the year, but closing at 3.7, 3.8 U.S. variation for the year.

Pablo Espinosa:

Perfect. Also, if I can, given that you have this exposure to interest rate, is that because your book has a higher gap in duration than other competitors in Chile? And for you guys to be able to reach the 17 to 19 percent long-term ROEs, would that require increase in the loan book of commercial and consumer loans for the NIM to reach around 3.8, 4 percent to get that ROE of 18 percent? Is that correct?

Emiliano Muratore:

So, yes. I mean, we don't know the details of other players, but it's our sense that our sensitivity to interest rates is higher to theirs, as we saw in the tightening cycle. And so, we would expect to be more benefited now in the relaxing or the easing cycle. Regarding long growth for the long-term ROE, yes. I mean, if we look at long-term GDP growth expectations in nominal terms for the economy, we think about around 5 percent. And with that, the historical multiplier, it's above one for long growth. So, in long-term, we expect, yes, to meet to high single-digit growth in the loan book in order to sustain the long-term ROE and having the NIM in the high threes. I mean, it's important to – when we think about long-term NIM and you try to look backwards to what we had in the past, it's also important to factor in that today the weight of the mortgage portfolio in the total loan book, it's much higher than it used to be. So, the 4.5s, higher NIMs we had in the past with this composition of the loan book will be definitely harder to get. And to be around 4 percent is something more reasonable to expect as a long-term expectation.

Perfect, thank you.

Moderator:

Thank you. The next question comes from Ernesto from Bank of America. Your line is open. Please go ahead. Thank you.

Ernesto Gabilondo:

Hi, good morning, Emiliano and Cristian. Thanks for the opportunity to ask questions. Most of my questions have been answered, so I just have a couple of them. The first one will be on your effective tax rate you were guiding. It should be normalizing to historical levels, but just wanted to double-check what would be those levels. And my second question is on fintechs competition. Just wondering how do you see as the most important fintechs in the country, or who are the technology competitors that you are seeing more aggressive? And also, how do you see Santander, Chile prepared for competition?

Cristian Vicuña:

Hi, Ernesto. This is Cristian. Thank you for the question. So, our effective tax rate is actually a couple of points below 25% when inflation is around 3%. So, this year, with a couple of basis points above 3%, we should be seeing one or two percentage points below that. So, in the ballpark of 21, 22. So, that's why we are expecting a standardization of the effective tax rate. Regarding fintechs, let me start and then Emiliano will complement. In Chile, actually, we are not seeing the presence of their large disruptive fintechs that are in place in other countries in the region, like the new banks of this world in Brazil and Mexico. So, we haven't seen the rise of this type of competitors locally. Actually, there are specific competitors in areas like factoring or international remittances of money. But actually, those are very specific. And what we are also seeing is some increased competition from fintechs within other traditional banks, like the CrediCorp, Initiative of Tenpo, and BCI, Match. So, actually, what we are seeing more is an environment where the incumbents are accelerating the transformation to address this competition. And this is where we've been leading the way with our Life Initiative and the Mas Lucas account. So, this is where we think we have been actually very, very successful in transforming ourselves to address potential new entrants. Having said that, I'm all there to say that the most relevant fintech competition, and if we can call them fintech, is Mercado Pago. These are the guys that we are actually seeing as very relevant new entrants.

Emiliano Muratore:

Just to complement on Cristian, yes. I mean, I would say that Mercado Pago is the only regional relevant player that has entered the market. And we feel really confident about our capabilities to compete with them and with any other potential entrants. When you see our digital footprint in individual SMEs together with our Getnet proposition in acquiring and in payments, and when you put that in the context of the overall universal banking we do, our whole ecosystem is quite unique. I mean, customer satisfaction is good for us. I mean, we lead the market in that sense. So, we don't discard further entrants. I mean, maybe because of the size of Chile, some of them haven't already entered, but they might enter in the future. But we think that we are really in a good position to compete, to sustain our competitive positions, our current competitive positions, and to grow further even with new entrants.

Ernesto Gabilondo:

Excellent. Thank you very much.

Moderator:

Thank you. And we have a question from Alonso Aramburo from BTG. Please go ahead. Yes.

Alonso Aramburo:

Hi. Good morning, and thank you for the call. Yeah, two questions on my end. The first one on expenses, I was wondering if you can comment if you potentially have other provisions, restructuring provisions like you had this quarter, the rest of the year. And my second question regarding your guidance on ROE of 15 to 17 for this year. You had 20 in April. For you to hit roughly the midpoint of that guidance, it seems like you need around 19 percent ROE for the rest of the year. Just wondering if that's in line with what you're thinking. Thank you.

Emiliano Muratore:

Yes. I mean, hello, Alonso. Thank you for your question. I mean, we don't expect any additional one-off provisions as we had in the first quarter for the rest of the year. And regarding ROE, yes, I mean, we still hold the range between 15 to 17. So far, the macroevolution, the falling rates and the inflation not falling so much as we were expecting before made us, yes, to be reasonable to be in the middle of that range. And as you said, we could be around 19 percent for the rest of the year. How higher or lower compared to that midpoint will depend basically on how rates evolve going forward. We have the monetary policy meeting by the end of May where an additional cut is expected. And I think it's reasonable to expect to be in the middle of that range. And with that, having that high double digits ROE for the remainder of the year.

Alonso Aramburo:

Perfect. Thank you.

Moderator:

Okay. Thank you. I'm not seeing any more questions. So perhaps I can hand back to Emiliano for closing remarks.

Emiliano Muratore:

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

Moderator:

That concludes the call for today. Thank you and have a nice day.