CONFERENCE CALL to discuss Banco Santander Chile Q4 2021 Results

Company: Banco Santander Chile

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Participants:

- Emiliano Muratore, Chief Financial Officer
- Robert Moreno, Managing Director of Investor Relations
- Carmen Gloria, Economist - Research Team

Michael:

Good afternoon, ladies and gentlemen. Welcome to Banco Santander de Chile, fourth quarter 2021 results conference call on the 3rd of February, 2022. At this time, all participant lines are listen only mode. The format of today's recorded call will be a presentation by Banco Santander de Chile management team, followed by a question and answer session. Today's host is Mr. Emiliano Muratore, Chief Financial Officer of the company. So without further ado, I would now like to pass the line to Mr. Emiliano, please go ahead sir, the floor is yours.

Emiliano Muratore:

Thank you, Michael. Good morning, everyone. Welcome to Banco Santander Chile's fourth quarter 2021 results webcast and conference call. This is Emiliano Muratore, CFO and I'm joined today by Robert Moreno, Managing Director of Investor Relations, and Carmen Gloria, Economist from our Research team. Thank you for attending today's conference call. We hope you all continue to stay safe and healthy. The bank rounded off 2021 with another solid quarter, with a strong ROE and solid financial performance. Thanks to our successful digital strategy, rising NPS levels, strong margins, sound asset quality and impressive efficiency levels. Before we get into the results, Carmen Gloria, an Economist in our Research department, will start with an update on the micro scenario beginning on slide four.

Carmen Gloria:

Thank you, Emiliano. Since our last call, the number of COVID contingent has increased substantially due to the faster spread of the Omicron variant. Despite the new infections, the number of deaths associated to the pandemic has decreased and the health system remains in good shape. This has occurred in a context with more than 86% of the population have received the full immunization program, including children and 63% have the booster. Some mild sanitary restrictions have been imposed while others have been lifted. For now, we expect this new wave will have a relatively muted impact on the economic outlook.

Carmen Gloria:

Moving on to the slide five, we will now give our outlook for the economy in 2022. During last year, the Chilean economy saw strong recovery, the increase in mobility thanks to the fast vaccination rollout and significant liquidity injections through pension funds withdrawals and public transfers for about 7% of GDP led to a GDP growth of about 12%.

Carmen Gloria:

With this growth, economic output not only recovered its pre pandemic level, but also expanded beyond its trend. Strong domestic demand, the depreciation of the currency and international pressures led to a sharp price in inflation, which ended the year at 7.2%. It's the highest level since the commodities boom in 2000 alongside a hefty deficit in the current account. The central bank has moved quickly raising the monetary policy rate by 500 based points since June up to 5.5% above its neutral value. It's likely that the board will raise the policy rate again in March, ending the hiking cycle with the rate between 6.5% and 7% by the end of the first quarter. With inflation and growth probably moderating in the second half of the year, we see some room for rate cuts by the year end.

Carmen Gloria:

For this reason, we forecast the monetary policy rate to reach 5.5% by year end. Meanwhile, public spending will decrease substantially in 2022, about 20%. This compounded with the monetary construction and the natural cycle called adjustments of some durable goods expended will slow down the economy. Households still have a relevant volume of liquid assets that could be spent in the short run. If that were the case, then activity could expand by more this year. On the other hand, investment which experienced a substantial recovery due to reposition of obsolete inventory will be affected by tighter financial conditions and domestic political uncertainty related to the constitutional process. While there is no clarity regarding basic future roles, it could be difficult for that to be fast progress in new large scale projects.

Carmen Gloria:

For our baseline scenario shown on slide six, we estimate that economy will run by around 2.5% this year. During the first half of the year, the GCP growth rate will remain high while the second half will see negative rates with which the activity can converge to its trend. A delay in the consumption adjustment process could rise the growth to values near 4%, but this will imply a more intense adjustment with the construction activity during 2023. In turn, a significant moderation investment caused by the domestic political situation or the worsening of the foreign scenario could substantially hamper productivity during this year resulting in 1% growth overly. To the latter are added pandemic related risks.

Carmen Gloria:

Inflation will remain high until the end of the year's final half, a period in which it could reach 8%. It could then start to decline gradually, ending in 2022, between 5% and 5.5%. Onwards, the convergence toward the 3% target will develop slow and occurring in 2024 due to the delay operating in the closure of gaps. Overall, and as we show in slide seven, another relevant aspect for growth in the medium term is the development of institutional events and specifically the drafting of the new constitution and the new Boric administration. While these processes could create noise and volatility in markets, we believe the balance of power in the Congress and the two third majority requirements in the constitutional convention should offer greater stability, which could be favorable for investment and development. Thank you.

Robert Moreno:

Thank you, Carmen Gloria. We will now move on, excuse me, to slide eight, to focus on the evolution of our various digital initiatives in 2021. On slide nine, we summarize our strategic initiatives, identifying those that we classify as run the bank that contribute to consumer satisfaction and productivity, such as Life, the work cafe, our Santander green initiatives and Prospera, an initiative launched in the last few weeks. The bank also has a strategy to change the bank, transforming the bank into a platform so that our clients can use us as a channel rather than just as a traditional banking service. This includes our initiatives such as Superdigital, Getnet, Klare and Autocompara. This strategy has led to important improvements in profitability, buying growth and satisfaction in 2021.

Robert Moreno:

On slide 10, we show key data for Santander Life, our most successful initiative. Santander Life achieved in 2021, a net promoter score of 76, making it one of the highest ranked product offerings in the bank. Client growth also remains strong with Santander Life reaching over 900,000 clients as of year end, an increase of 86% year over year. Of these clients, 66% are active, meaning that their life account is their main account. But only 17% are considered loyal or fully cross-sold clients, demonstrating the high cross-selling opportunities we have in this new segment. Santander Life is also rapidly monetizing. As of year end, Life clients had $1.2 billion of demand deposit, surpassing by many times the amount clients have deposited in similar competing platforms.

Robert Moreno:

On the loan side, Life clients had a total of 270 million in consumer loans, a 43% year over year increase. These clients are also beginning to purchase other products such as mutual funds and time deposits that have grown 148% and 130% perspectively year over year. Overall, Santander Life achieved an impressive gross income of 81 billion pesos in 2021, with the majority of this income coming from risk resources. On slide 11, we show the high growth Superdigital obtained last year. Superdigital is a prepaid digital product aimed at the unbanked who seek a low cost banking account. Superdigital clients have grown 119% year over year, reaching over 284,000 active clients. This growth has been helped by alliances with companies such as Cornershop and Uber as a way of attracting new clients.

Robert Moreno:

Furthermore, in January, the Todas Conectadas initiated by the UN with MasterCard and Microsoft, that looks to offer tools for women entrepreneurs, chose Superdigital as their financial platform for Chile. Getnet, our new acquiring business, had a phenomenal first year of existence as shown on slide 12. Getnet was officially launched in February, 2021 and sold over 68,000 POSs with over 21,000 in the fourth quarter alone. 92% of Getnet's clients are SMEs, our target clients. In just 11 months, Getnet already has a market share greater than 20% in POSs. Our NPS score for this product is also strong at 74 points. This product has been quick to monetize generating seven billion pesos in fees since it's launch. On slide 13, we introduced our latest digital initiative called Prospera, which we launched in January of this year.

Robert Moreno:

Prospera is a platform similar to Life, aimed at micro entrepreneurs. Just like Life, Prospera seeks to increase bank penetration levels by first focusing on transactional services by offering a checking account with a cheap monthly fee. There is no requirement of a prior relationship with a bank or minimum sales levels. Prospera also includes the option to acquire a mini POS for a one time charge, allowing new clients to rapidly be able to sell their products using our acquiring services. On slide 14, we see how the bank continues its process of transforming the branch network, focusing on the work cafe model and closing less productive branches. Overall, our branch strategy coupled with our other digital initiatives is driving an important rise in productivity with volumes per, sorry, with volumes per point of sale increasing 19% year over year and volumes for employee increasing almost 14% year over year.

Robert Moreno:

As can be seen on slide 15, these digital platforms and branch structure have been well received by our clients. The graph on this slide demonstrates how the bank has consolidated its leading position and NPS among our main competitors. On slide 16, we show how these efforts are translating into record client growth. With the introduction of our digital products, a more productive branch network, coupled with higher NPS scores, we surpassed the four million client mark in 2021. Since the beginning of the pandemic, total clients have increased 20%. In the same period, total digital clients have grown 62%. Moving forward to slide 17, we show how this growth in clients led to record checking account openings in 2021. In 2021, one out of every two accounts opened in the Chilean system was opened at Santander.

Robert Moreno:

As a result, our market share and checking accounts increased 410 basis points to almost 29%. In 2021, we push forward our ESG products offering through our Santander Verde products and retail banking and green financing through CIBS can be seen on slide 18. Santander Verde, our products and services to help our retail clients become greener. For companies, we have also provided funding and structuring for the main ESG bond and loan facilities in Chile. With these initiatives, we expect to have the most comprehensive ESG product offering to help our clients and help Chile reach the demanding emission target set by the government for 2030. In the fourth quarter, we also held our ESG talk with the market.

Robert Moreno:

During this event, our CEO outlined our 10 responsible banking commitments to be reached by 2025. The main commitments were first of all: (1)To be the best company to work for in Chile; (2) To increase the percentage of women in managerial oppositions to 30% by 2025; (3)Eliminate completely the gender pay gap by 2025; (4) Through our financial products such as Life, financially empower more than 20, sorry, two million people by 2025; (5) Finance projects for at least $1.5 billion through our ESG framework through 2025; (6) To ensure that 100% of the electrical energy we use comes from a renewable source. An important step taken last year to reach this goal, as we announced in our ESG talk in November, was that Santander Chile will be the first bank to produce its own renewable energy. An agreement was signed in which six solar plants of 300 kilowatts each will be built and fully operational this year; And finally, (7) to be carbon neutral by 2025 in our own operations. And by 2050, we should be 100% carbon neutral, including the impact on emissions of our loan portfolio.

Robert Moreno:

On slide 20, we can see how our efforts are being recognized by the various ESG industry. In the fourth quarter, Dow Jones Sustainability Index confirmed us as the only Chilean bank to qualify for the emerging markets index. Vigeo Eiris has classified us as advanced, ranking us number three among all the retail banks they evaluate. We have an A score from MSCI and we are included in the FTSE for good index for emerging Latin markets and emerging global, as well as the S&P IPSA ESG index. Moving forward to slide 21, we will now look at our financial results.

Robert Moreno:

Slide 22 shows the strong results obtained by the bank last year. In 2021, net income was up 49.8%, with the ROE increasing from 14.5 in 2020 to 22.7 in 2021. Buying activities played an important role in boosting results. The net contribution of our business segments, which includes among other things, the impacts of inflation on results grew 31.7% in 2021, with results from retail banking increasing 21.6%, middle market 18% and CIB doubled its results. On slide 23, we can see how the bank has significantly outperformed our peers in net interest margin efficiency, and ultimately ROE. Demonstrating that these impressive results are not just related to post COVID reactivation for the macro environment, but also due to the successful execution of our strategy, especially on the digital front. One of the most important drivers of our results was net interest income as can be visualized on slide 24.

Robert Moreno:

NII increased 14.7% Q and Q driven by volume growth and a higher inflation rate. In the fourth quarter, UF inflation rate reached 3% compared to 1.3% in the third quarter, driving NIMS to 4.5% in the quarter. At the same time, this high inflation rate has triggered the central bank to sharply increase the monetary policy rate. This should put some pressure on margins since in the short run higher rates drives up funding costs quicker than asset yields. This will be partially offset by higher loan growth, which should lead to a better yielding asset mix. For this reason, NIMS in 2022 should be in the range of 3.9% to 4% for the full year. Margins also continued to benefit from the improved funding mix as can be observed on slide 25. Total deposits grew 11.5% year over year, but decreased 6.1 Q and Q. We continue to see a strong increase in non-interest bearing demand deposits that increased 3.1% Q and Q and 22.9% year on year. While the time deposits decreased 18.9% Q and Q.

Robert Moreno:

On slide 26, we review the loan growth which accelerated in the fourth quarter. Total loans increased 2.5 Q and Q and 6.5 year over year. During the quarter, our CIB segment experienced strong growth of 12.6% Q and Q as economy reopened and large corporate sought funding in the form of corporate loans as the bond market remained illiquid. Our middle market segment also saw signs of reactivation with loans growing 2.2% Q over Q. The depreciation of the peso also resulted in the translation loss of dollar loans denominated in foreign currency. Loans to individuals increased 9.2% year over year and 3.5% Q over Q. Consumer loans increased 2.9% Q over Q. This was driven by 11.2% increase in Santander's Consumer, our subsidiary that sells auto loans, which represents 14.5% of total consumer loan.

Robert Moreno:

Despite contracting 4.3% year over year, other forms of consumer lending increased 1.7% Q on Q as economy continued to reopen and travel restrictions were lifted. Mortgage loans increased 11.8% year on year and 3.9% Q over Q. US inflation rate of 3% in the quarter also resulted in a positive translation impact on mortgage loans as most of these loans are denominated in US. Moving on to asset quality in slide 27. We can see how the evolution of asset quality remains solid. The MPL and impair loan ratio decreased 4.5% and 1.2% respectively by year end. The coverage ratio of NPLs also remained high at 270%. These positive trends were seen equally across different products. As we can see on slide 28, these positive asset quality indicators led to a cost of credit of 1.2 for 2021. Given the uncertainty around the COVID 19 crisis, the board felt it was prudent to take on additional provisions to ensure high coverage ratios during the pandemic.

Robert Moreno:

In total, the bank has set aside since the fourth quarter of 2019, 258 billion in additional provision, including 60 billion in the fourth quarter. If we exclude these additional provisions, our cost of risk for the year would have been 0.8% with a quarterly cost of risk of 0.7% in the fourth quarter. On slide 29, we take a quick look at non-interest income trends. NII income had an outstanding quarter increasing 10.7% Q on Q and 24.5% year over year, reflecting the fruits of our digital strategy and the strong growth in client during recent months. Fee growth was driven by strong opening of checking accounts, thanks to the popularity of Life and Superdigital product offering. Card fees increased 30% year over year due to greater card usage. While insurance brokerage also grew through our digital platforms like Klare and Autocompara.

Robert Moreno:

Furthermore, Get Net, our acquiring business that we launched in the first quarter of 2021, has already contributed seven billion pesos in fees since its launch. As shown on slide 30, the rebound in the quarter was also accompanied by good cost control. The bank is currently carrying out its $260 million investment plan for the years 2022, 2023 focused on digital initiatives, both at the front and back end of operations. Operating expenses increased 4.1% year over year, despite higher inflation in the year and the execution of our investment plan. The year over year growth of administrative expenses was mainly due to higher expenses related to spending in IT as the bank focuses efforts on improving the digital platforms for our clients, as well as greater marketing expenses, especially Get Net in the fourth quarter.

Robert Moreno:

The bank booked 4.7 billion in 4Q 21 in expenses for Get Net. Finally, various administrative expenses such as rent, or IT expenses are either denominated in foreign currencies or US. Therefore, the depreciation of the peso and the rise in inflation had a negative impact on administrative expenses in the quarter. This rise in administrative expenses was offset by lower personnel expenses as productivity increased. The bank's efficiency ratio reached an impressive 36.6% year to date with a ratio of 33.8% in the fourth quarter. Regarding capital ratios on slide 31, we have finally entered Basel 3. Our risk weighted assets as of December, 2021 are now reported under Basel 3, and have increased 4.1% quarter on quarter compared to September due to the incorporation of market and operational risk weighted assets into the bank's total risk weighted assets.

Robert Moreno:

On slide 32, we show how our capital ratios for year end and fully loaded under Basel 3. As of December, 2021, our core capital ratio was 9.6% with a total BIS ratio of 15.9. It is important to point out that various changes will be phased in for our core capital ratio, which should drive them upward. In January, these changes will already show an impact with our core capital ratio improving to 10.5%. Our fully loaded core capital ratio in January is estimated to reach 10.6%, well above the 9.4% minimum set by our regulators and board for the bank by 2025. This includes all of the buffers and a pillar two requirement of 0% recently set by the CMF for us. Therefore, we do not foresee any changes in our capital strategy or dividend policy due to the implementation of Basel 3. We estimate a payout of 50% to 60% of 2021 earnings be paid in April, 2022 if approved by the board and shareholders.

Robert Moreno:

This would imply a current dividend yield of between 5% and 6% of the bank shares. To conclude on the next slide, the strong 2020 results, these play positive outlook for 2022. The following guidance is set using a base scenario of GDP growth of around 2% with UF inflation of 5.5 and an average monetary policy rate of 6%. Under this scenario, loan growth should reach 6% to 8% in nominal terms driven by consumer and commercial loan. This points to a NIM for 2022 of between 3.9% and 4%. Cost of risk should be in the range of 0.95% to 1%. Buying growth should continue to drive non NII, which should grow in the mid to high single digit range. We expect cost to grow below inflation and an effective tax rate of around 20%. All in this should lead to an ROE of approximately 20% in 2022. With this, I finish my presentation. At this time, we gladly will answer any questions that you may have.

Michael:

Thank you very much for the presentation. We will now be moving to the question and answer part of the call. If you have any questions, please press star two on your keypad. That's star two and wait for your name to be called. If you're dialed in via the web, you may also ask a voice or a text question. We will now give a moment or so for the questions to come in. Thank you. Our first question comes from Mr. Ernesto Gabilondo from Bank of America. Please go ahead, sir, your line is open.

Ernesto Gabilondo:

Thank you. Hi, good morning, Emiliano, Robert, good morning, everyone. Congrats in your fourth quarter results. Three questions from my side. The first one is on the political landscape. We have seen some moderation of the new government. However, how do you see the potential risks? I would like to hear your thoughts on the tax reform, the change in the constitution and the pension reform. On the tax reform, I believe the effective tax rate of the Chilean banks remains low when compared to other sectors. For example, Andina, the effective tax rate is at 30%. So considering this tax reform and aggressive social spending policy of the new government, do you think they could be exploring to limit of the deductions on the tax rate of the Chilean banks?

Ernesto Gabilondo:

So that's the first question. My second question is on your expectations on asset quality. As you mentioned, you're expecting a cost risk of 0.91% of [inaudible 00:27:37] loans. But just wondering if this considering any potential release of provisions? And then my last question is on your ROE expectations. As you mentioned in your presentation, you're expecting approximately an ROE of 20%. If putting that into our numbers, would this imply earnings contraction in this year? Would that be reasonable in your expectations? Thank you.

Emiliano Muratore:

Hello, Ernesto, thank you for your questions. Going to the first one about the political landscape. I think that much of the uncertainty has already been cleared. Now we know the government, the cabinet and so far the reaction from the market has been positive. And going forward, the constitutional reform is the dependent thing to be known. But we still believe that the two thirds quorum that is required to approve any of the articles of the constitution is a good safety net to have a broad consensus regarding the constitution. And that we see it as positive thinking about the outcome. And regarding the potential tax reform that has been announced from the upcoming government. Actually, there are not any significant or any deductions, especially applied to banks.

Emiliano Muratore:

It depends on the general tax law and the effect of the inflation on the non monetary asset and liabilities. So far, there hasn't been any discussion regarding impact on banks regarding the tax reform. But we all know that a tax reform is coming. It's one of the priorities that has been set by the new government and actually by Maria Marcel, the upcoming minister of finance. In that regard also, part of the strategy going forward from the government, apart from the tax reform, I think that it could be a fiscal prudency in general terms in order to reach a more balanced fiscal situation what has been announced by the government so far. So going to your question, nothing specifically regarding banks has been put on the table and we don't foresee anything special for banks in that regard.

Emiliano Muratore:

Going to your second question about asset quality, no, it's not considering any reverse out of voluntary provision. It's the base case for the underlying, let's say cost of risk for this year. And yes, regarding the guidance, the bottom line is from around flat comparing to last year or slightly negative net income as absolute terms.

Ernesto Gabilondo:

Perfect, super helpful. Thank you very much. And just any comments on the potential pension reforms?

Emiliano Muratore:

No, actually that's something to be... Well, now, part of that reform has already now passed by the current government with this universal guarantee pension that it's I think an important pillar of the new or the future pension system. We'll know more about that coming forward. But the first priority stated by the upcoming government has been the tax reform and maybe after that, they will tackle the pension reform. But nothing special to comment on that.

Ernesto Gabilondo:

Perfect. Thank you very much.

Emiliano Muratore:

You're welcome.

Michael:

Thank you very much. Next question comes from Mr. Juan Recalde from Scotia Bank. Please go ahead, sir, your line is open.

Juan Recalde:

Hi, good morning. Congratulations on the result, and thank you for taking my question. The first one is related to dividends. What's the dividend payout assumption in the 2022 guidance? The second one is related to something Santander Life. Can you provide us with an estimate or some information to help us think about the unit economics. For example, the client acquisition cost, and also in terms of revenue expectations for Santander Life and the new products that are expected. I remember you had mentioned that the expected revenues for this year for 2021 were around 60 to 70 billion pesos and the revenues ended up being 81 billion, so better than expected. So I was wondering what's the expectation for 2022 and what would be a breakdown of revenues by fees and by interest income? Thank you.

Emiliano Muratore:

Thank you, Juan, for your questions. Bob, I'm taking the first one, you take the second. So regarding the assumption for dividend policy, we are not planning any change. We are assuming the range from 50% to 60% payout. The final proposal will come from the board and finally be decided at the board. But that range is the one implied in the items Robert mentioned. Bob, do you go with the second one? You're on mute.

Robert Moreno:

Hello, yes, I'm here. So Santander Life as you said, it's had a very good performance, it's generating good income level. So some economics. Santander Life fee structure is actually very simple. So we don't charge for transferring money or taking money out of an ATM. There's no hidden fees, it's a one flat fee just to have the account. It's in UF, but it's roughly 3000 pesos, a little less per month. So initially the main source of income is a client who signs up and gets a full blown checking account with no restrictions. It's not a debit card or a prepaid card, it's a full blown checking account that has no minimum income level requirements, et cetera. But you have this flat fee.

Robert Moreno:

Now that we have 800,000 clients, when you multiply that by the fee, that's the fixed risk free income that these clients would generate. So in 2022, the fact that the client base has been growing very, very strong, and we're starting the year with 800,000. And last year we started the year, I believe with something less than 300,000. You already have a big growth in the base fee income. At the same time, as we said, a lot of these new digital platforms, even Superdigital, have a lot of clients, but they don't have very much money in checking accounts. They're prepaid digital debit cards. Most of the platforms probably have $15, $20 million in demand deposits. But since Life is a full blown checking account, and it has a lot of active users, we already have $1 billion equivalent pesos in non-interest bearing checking account money.

Robert Moreno:

And that basically checking account that yields at least monetary policy rate. At the same time, something that Life already has around 240 million or so equivalent in pesos in consumer loans. So there, we believe there's a lot of room for growth, and obviously we're not going to go crazy. The idea is to give loans to those people who have an income. You can open a checking account without the income, but the loan you need to go to various other filters. But it is an attractive product and we expect to grow last year lending and Santander Life, even though it's way below the deposits, it's growing 30%. And on top of that, we are selling a very simple mutual funds investment product that also generates. So as you can see, the monetization, the income potential in Life, I think is very strong for 2022 and should grow at least what the client base is growing.

Robert Moreno:

At the same time, the acquisition cost is actually very low, it's around $1 on a marginal basis, just because the great majority of the clients have done it digitally. In fact, more than 70% of the Santander Life clients become a client through their smartphone. So that's a little bit some detail on Santander Life.

Juan Recalde:

Thank you, that's very helpful.

Michael:

Thank you very much. I think we'll be moving to the next question. Next question comes from Mr. Carlos Gomez Lopez from HSBC Securities. Please go ahead, sir, your line is open.

Carlos Gomez:

Hi, Robert. In terms of the structural changes that we see in the system, we know that there has been some support with the long term funding for mortgages. Now that there are no more trouble from the pension funds, but we may have the changes in system coming up. How do you envision your growth in long-term assets such as mortgages, and you expect to continue to be using UF paper indefinitely?

Emiliano Muratore:

Hello, Carlos, thank you for your question. Yes, as you said, part of the impacts of the pension withdrawals has been weakening of the local capital markets and our capabilities or capacity to raise long term funding in UF. I think now that has gotten better and on a new pension fund withdrawals are unlikely to happen in the short term, at least according to what has been stated recently by the upcoming government. So we see that as a positive going forward. We have seen some new activity in the local capital market, and we do foresee that our capacity to reach or to raise funding in UF in the domestic market will be there, not in the same amount or in the same depth that was before, but will be there.

Emiliano Muratore:

And also it's important to point out there all our efforts to globalize and to go into international market. We began that process more than 10 years ago. Now we have access to the Japanese, the Swiss, the US market, the rest of Asia also. And that has been our strategy even way before the pension funds has suffered the withdrawals, because we always thought that depending our long term funding in a few names, because at the end, you were talking about from five to 10 relevant local players was not a good position to be in. And that's why we did all this efforts to globalize our funding base and go going forward, we do expect to be able to fund the long term assets between local and international markets.

Emiliano Muratore:

But it also through the demand for long term assets, let's say for long term mortgages now is showing a slow down considering the new level of rates, because the funding will be there, but the level of rates is higher. And that is let's say making the demand or the appetite for mortgages to slow down. And so the combination of those two things, slower demand and the combination between domestic and international market leave us comfortable that we'll be able to keep that business in a healthy way going forward.

Carlos Gomez:

Thank you very much.

Michael:

Thank you very much. Our next question comes from Mr. Jorgen Hannovic from Philadelphia Financial. Please go ahead, sir, your line is open.

Jorgen Hannovic:

Thanks guys. Couple questions. First of all, what was the net interest margin in the month of December, not the average for the quarter?

Emiliano Muratore:

Bob, do you have that number in mind?

Robert Moreno:

If you want I'll look it up real quickly and we'll go to the next question and I'll jump in and say it. Okay?

Jorgen Hannovic:

Okay. Second, you gave guidance for a NIM for the year next year, but what do you think it'll be in the first quarter of this year?

Emiliano Muratore:

Bob.

Jorgen Hannovic:

Hello?

Robert Moreno:

Okay. Yes, hello. Okay. So for the first quarter of this year, we are expecting our UF inflation expectations is around 1.5%. Which should give us, and obviously a short term rates are also higher. So we're looking at a NIM close to around a 4% for the first quarter. That's more or less the expectations with the inflation which is still relatively high, but coming down from the 3%, but also a higher short term rate.

Jorgen Hannovic:

I'm sorry, was it 4.5% in the fourth quarter?

Robert Moreno:

Yeah, in the fourth quarter, the NIM for the fourth quarter was 4.5. And for this first quarter, it should be around 4% or so.

Jorgen Hannovic:

So you expect it to fall 50 basis points in the first quarter?

Robert Moreno:

Yes.

Emiliano Muratore:

And the NIM for December was 4%.

Jorgen Hannovic:

Okay. And finally, if inflation stays at the current 6.5% or 6.6%, what do you think the ROE will be in 2022? Would it still be around 27, 28?

Emiliano Muratore:

If you take only the inflation part, it will be positive for NIM and for ROE, but then that will imply the central bank hiking rates even higher than what is expected in the market. And that will counterbalance a significant part of the benefit coming from inflation. In 2021, we had a high inflation and rates not so high yet because the central bank started the hiking process by late in the year. So this year we are starting with higher rates and if that is the scenario of inflation that you're mentioning finally happens, the central bank should raise rates faster and harder. And so we don't see the combination of two things should imply those kind of ROE and should tend to the around 20% we are backing.

Jorgen Hannovic:

Okay, thank you.

Michael:

Thank you very much. Our next question comes from Mr. Alonso Garcia from Credit Suisse. Please go ahead, sir.

Alonso Garcia:

Hi, good morning, everyone. Thank you for taking my question. I have actually two questions. My first is regarding a follow up on cost of risk. You mentioned that you are not considering in the guidance, the reverse of any of the additional provisions that you have created for COVID. So my question is, is there a timing or something you are waiting to see to happen before feeling confident about reversing these provisions? Any color on that would be very helpful. Could that happen this year? Would that be something for next year? My second question is if you could give us an update on the regulation of interchange fees in Chile and how could that impact your business considering the new structure of your acquiring business, now that you have Get Net. And if there is any other regulation regarding the banking system being discussed that we haven't commented on this call. Thank you very much.

Emiliano Muratore:

Thank you, Alonso, a lot for your questions. Regarding the potential reversal of provisions. As I said, we are not expecting that for this year. And as of now we see those as basically a protection for a downturn in the credit cycle. So if the credit, the asset quality and the credit situation for us and for the system stays in the condition as the one we are expecting, we don't foresee us tapping those voluntary provisions because as I said, we see it more as a way to counter balance rainy days or worse scenario going forward rather than reversing it let's say to post even lower than the underlying cost of risk. We see it as healthy and relatively good.

Emiliano Muratore:

As of now, we see it in that way. During the year, we'll see how as quality evolves and the macro scenario evolves and that could make us, more than us, the board could make the board to reassess the situation. But as of now, that is the situation. And regarding the interchange piece, we are just days away from knowing the revelation it's supposed to be published during the first half of February, and to be in place by April. So we don't have any specific information about the final outcome and it's likely to have the fees reduced. I think no one is expecting the fees to go up. But it's important what you... The final outcome we'll know it soon. So for the next few weeks, and the next call, we'll have more info, more guidance to share in that regard.

Emiliano Muratore:

But I think it's important what you mentioned that in our case, the interchange fees going down will affect our issuer business. But then we have our acquired business, that is what we are doing in Get Net. And also remember that we still own 25% of Trans Bank. So at the end, the reduction in interchange fee, the potential reduction is going to be a positive for the acquiring business. We are going to capture part of that through our 100% ownership in Get Net, and also through the 25% we own of Trans Bank. So the net effect for us will be let's say lower than other banks that only have the issuer part. But as I said, we'll know more soon and we'll share more information regarding that in the next call.

Alonso Garcia:

Thank you, Emiliano. And is there anything else being discussed either in the convention or in the Congress regarding regulations for the banking system?

Emiliano Muratore:

No. I think that the interchange fees is the most relevant and it's very close to be known. And there is nothing relevant apart from that. There is a project in the Congress regarding interest rate cap that has been there for a while. It hasn't advanced and we haven't heard any news regarding that. On the positive side, this project to have the positive credit bureau integrating all the credit providers, not just the banks, including retailers and all loans providers and all that. That's already in Congress. There has been some discussion regarding the benefits of that, and it's not so evident how fast that will move forward. But that is something positive to happen in the future if that project finally moved forward and we have a positive credit bureau with all the information and not just the one from banks.

Alonso Garcia:

Very clear. Thank you very much.

Emiliano Muratore:

You're welcome.

Michael:

Thank you very much. We'll take the next two voice questions, and then we'll move to the text questions. The next voice question is from Mr. Yui Fernandez from JP Morgan. Please go ahead, sir.

Yui Fernandez:

Thank you everyone for the opportunity of asking questions. I have a follow up on margins. If you can refresh us the sensitivity, I recall from many calls something between 10 beeps for rates and 20 beeps for inflation. But if you can refresh if something has changed given your guidance of in compression 2022, that would be great. I have a second question regarding Get Net. Very good that you have this fee growth, the seven billion pesos year to date. And my question is if you have a guidance for Get Net growth in 2022. And what that fee is about, is that the net MDR, what is that fee so we can have more visibility on economics of Get Ne.

Yui Fernandez:

And last but not least on OCI, we know the better quarter for the month to month on your equity proportion. So if you can explain us what happened if this is related to the curves in Chile with interest rates in Chile or if this is relate to something else you may prove on your balance sheet so we can understand how OCI may evolve in 2022. Thank you very much.

Emiliano Muratore:

Bob, do you take the first two and then I take the third?

Robert Moreno:

Sure. Okay. So regarding net interest margins today as you correct we have sensitivity both to the inflation and to the short term interest rates. For every 100 percentage point increase in short term rates, on average short term interest rates, we have a negative sensitivity in the first 12 months of around the 10 basis points. And for inflation, for every 100 basis points rise or fall in the UF compared to the previous year, the sensitivity is between 15 and 20 points. Obviously why I say that range, because we do move around the gap and UF inflation you have more flexibility. It's not so easy on the right side, but we do have flexibility in terms of moving the gap with inflation today. I would say given that we're expecting, as our economist said, more inflation in the first half. We'll probably have a little more exposure to UF inflation, and it'll probably then lower the gap by year end.

Robert Moreno:

So those are the two, around 10 basis points for the short term rate and 15 to 20 on UF inflation. And then going forward, obviously in 2023, what we should expect, and also probably in this year is that long growth should continue to pick up, the asset yields should slowly start to incorporate the higher yields.

And that's why we think in 2023, there should be stability or maybe increase in margin. Inflation is obviously important in bank results, that would be ridiculous to say the contrary. But remember last year we had very good results, no doubt. And in the fourth quarter, we had ROEs of 28%, but obviously that high inflation isn't sustainable, just because of the price level. But it's also the ROE isn't sustainable because that leads to higher rates.

Robert Moreno:

So above normal ROEs in the fourth quarter, you go back to the mean, and now that rates are right. So that's why we think this ROE guidance of 20% considering a more normal level okay. Regarding Get Net. We finished seven billion in fees, obviously higher every quarter. We already have around probably more than 70,000 POSs now in January. And that fee is basically the MDR minus the interchange. But Get net has really good news in the sense that last year we must have had an average of 20, 30,000 POSs. This year, we're probably going to have an average of probably, I don't know, somewhere between 80 to 100,000 POSs. And on top of that, the MDRs should, sorry the net interchange fee should start to come down. And also with the changes in the fees, the interchange fees, there's obviously a one time hit as the bank is an issuer, but it should be able to permit acquirers to enter more markets.

Robert Moreno:

Today Get Net has been really focusing on small businesses. It's a good segment. We're providing very good service, but with the change and interchange fees, they should permit us to go after other clients. As we said in our investor day, two years ago, we think that Get Net can be generating income of $20, $30 million, which would be roughly around 20, 30 billion pesos in fees. I don't know if we'll reach that this year, but it's definitely going in that direction.

Emiliano Muratore:

And regarding OCI, as you said, fourth quarter we got an improvement there considering the evolution of rates and inflation break evens in the market. And for 2022, I could say that the worst there is behind because the level of rates during the last part of last year was really high with all the withdrawals, noise and the elections. And now since then, even in January, we have already seen a fall in rates from the levels of December and the same for break even inflation. So going forward for this year... And then you have the time decay, because at the end, a significant part of the impact in 2021 was the mark to market of those positions. And just with the time passing that value basically gets better because there is less time before maturity.

Emiliano Muratore:

And so for 2022, we don't expect, let's say a negative impact coming from OCI and should be from neutral to positive. How positive will depend on the evolution of rates and how the markets evolves. But we shouldn't have the same situation we had in 2021 considering the ending point of last year.

Yui Fernandez:

Well, amazing, super clear and congrats on the 28% ROE guys. Thank you.

Emiliano Muratore:

Thank you.

Michael:

Thank you very much. Our next question comes from Santiago Alba from Credit Core Capital. Please go ahead, your line it open.

Santiago Alba:

Hi, can you hear me?

Emiliano Muratore:

Yeah.

Michael:

Yes, please go ahead.

Santiago Alba:

Okay. I entered late to the call. I don't know if this answer was already answered. The question is why the bank prefers to maintain a conservative approach in terms of provision expenses and asset quality indicators remain under control. And if you are observing some difficulties in the payment of some clients that is still not reflected in the asset quality indicators, the later also considering our robust coverage ratio of 270%.

Emiliano Muratore:

Bob.

Robert Moreno:

Okay. Basically, in Chile, in Chilean gap, we've done additional provisions in basically every quarter through the fourth quarter. And as we said, in Chilean credit risk banks don't follow IFRS 9 and the additional provisions are pretty much a discretion of the board. And our board obviously supported with management views, is that there is still risks in the economy coming from the pandemic, basically. In fact, now we're in the Omnicom crisis. Hasn't been so bad even though contagion levels are going through the roof. So the fact is that the board, at least to the end of last year, felt it prudent to continue adding voluntary provisions for a rainy day. And our guidance for this year, we don't expect to add on any more voluntary provisions, but we're not expecting to reverse them.

Robert Moreno:

And with idea there that those are for exceptional events in terms of credit risk. We don't have any pending issues on the corporate side or any clients. In fact, the opposite, 2021 we saw quite a evolution of asset quality across the board. But it is also true that eventually these usage of pension fund monies or direct government transfers will be drying up. There's still a lot of liquidity in households today, but that will eventually dry up. And that is why in our cost of risk last year, excluding voluntary provisions was 0.8. And this year our cost of risk, the forecast we have in the guidance, is 0.9 to 1%. And that's a jump that reflects some deterioration in asset quality on the margin, just because it's impossible to keep these levels that we saw last year. Once again, excluding voluntary provision.

Robert Moreno:

So going forward, I think the coverage ratio will remain high. It could come down a bit and the cost of risk on a comparable basis without voluntary provision should go from the 0.8 last year, 0.9 to 1%, and that range will depend on how good the economy is. And if some unexpected tail event happened, as we've seen in the last 10 years. In the last 10 years, we've seen pandemics, we've seen riots, we've seen earthquakes. We have those provisions in the balance sheet to absorb those.

Santiago Alba:

Okay. Thank you very much for answering my question.

Michael:

Thank you very much. We have also detected a question from the line of Citibank analyst team from San Paolo. We'll just open the line in case there is a question there. Please go ahead with your question. Okay. We'll just come back to this line, it looks like it's muted. In the meantime, we'll go back to the text questions. We acknowledge [inaudible 01:01:27] question about interchange fees regulation. We believe that was already answered. If you have a follow up question, please raise your hand and we'll open your line. The next question is about main risks to inflation in 2022. Do you believe it could persist at the level above 2021 inflation? What is your impact on NIM and ROE for every 10 basis point increase in inflation?

Emiliano Muratore:

Okay. Thank you, Michael. I think that the sensitivities were already mentioned by Robert. And regarding the risk, I think that in general, these are all inflation pressures across the board. Worldwide, all the supply chain disruption and all that. It's unlikely our forecast, our expectations shows that we are expecting inflation to be above the target from the central bank, but not as high as was in 2021. So our best case scenario is to have that slight reduction in inflation trending to the central bank target. And the risks, I think they're coming more from abroad and from all these international inflation pressures and I don't see many internal risk of inflation going up. And definitely if any of those upwards risk appears, especially the ones coming from the domestic situations, the central bank, I think will be even more aggressive in hiking rates. And that could counterbalance the positive coming from inflation.

Michael:

Okay, thank you very much. Question about normalized ROE, what is normalized ROE and net income growth for the group?

Emiliano Muratore:

Bob.

Robert Moreno:

Yeah. We believe that if we return to a situation where we have GDP growing 2.5, 3% on a normalized basis with inflations going back to 3% and the central bank rates more or less at 3%, 3.5, a neutral rate. As we said before, our ROE guidance is around 17 to 19%. And therefore we think that the net income growth should be pretty much in line given that we'll probably paying a payout of 50 to 60% if we're able to keep those ROEs more or less in that range. Net income growth should be similar to loan growth, which for Chile, if Chile is growing 2% or 3% real GDP, nominal loan growth should be roughly around 6%, 7%. And that should give you the normalized net income growth. What could drive this upward?

Robert Moreno:

Basically what could be at the higher range of the ROE or driving this upward is obviously a continuous success in our digital strategy. I think that could pull up our forecast of normalized ROE and net income versus what I just stated. And what could pull it down really is the political economic environment and maybe some type of regulations that are always out there.

Michael:

Okay, thank you very much. The final text question, how do you think the pension withdrawals affected consumer loan demand and how does their absence affect your forecasts? Thank you.

Emiliano Muratore:

Definitely the withdrawals affected the consumer loan demands to the downside in a significant way. There was a lot of liquidity in people's accounts and buckets. And so that made them demand less credit. And the situation is still similar to that. There is still a lot of liquidity around, so that's why we are not expecting a rebound in consumer demand in the first half of the year, first quarter for second quarter. But in the long growth expectations that Robert was mentioning, between 6% to 8%, we are already factoring in that that situation begins to revert by the end of the year. And so people start to consume and to use the liquidity they have, and they start to demand more credit.

Emiliano Muratore:

And that's why we also think that the loan growth in terms of the mix could be positive to NIMs. Because from the starting point we are seeing, we see maybe consumer loans growing in the upper part of that 6% to 8% range and that will contribute to the mix and to support NIM. But definitely withdrawals were a significant pressure and won't be there going forward and that should support consumer loans demand and growth.

Michael:

Perfect. Thank you very much. I am seeing no further questions at this point. Perhaps I'll pass the line back to the management team for your concluding remarks.

Emiliano Muratore:

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

Michael:

Thank you very much. This concludes today's call. We'll now be closing all the nights. Have a great day.