Banco Santander Chile

CONFERENCE CALL ON BANCO SANTANDER CHILE RESULTS FOR THE 3Q OF 2023

Operator:
Ladies and gentlemen, thank you for standing by, and I would like to welcome you to Banco Santander Chile 3Q 2023 results conference call on the 3rd of November, 2023. At this time, all participant lines are on listen-only mode. The format of the call today will be a presentation by the management team, followed by a question and answer session. So without further ado, I would like to pass the line to Mr. Emiliano Muratore, the CFO of the company. Please go ahead, sir.

Emiliano Muratore:
Good morning, everyone. Welcome to Banco Santander Chile's 3Q 2023 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. First, I want to express my gratitude for your presence at this quarterly meeting. Today, our primary focus is to discuss our performance during the 3Q. We faced challenges such as lower inflation and elevated interest rates. Despite of all this, our steadfast commitment to digital strategies and customer-centric products has enabled us to deliver on customer experience and business growth. The Central Bank of Chile has continued a rate reduction strategy, as Carmen Gloria will elaborate on shortly. We anticipate this move will have a positive impact on our funding costs and margins in the quarters to come. We look forward to a more in-depth discussion of this development as we delve into the specifics of our quarterly results.

Carmen Gloria:
Thank you, Emiliano. On slide five, I present a summary of the macro overview of the country. The economic activity remains weak. The adjustment cycle initiated last year after a strong overheating in 2021 has continued this year. Private consumption has had a sharp decline due to the withdrawal of liquidity, and a weak labor market. While the labor force participation has been increasing since the pandemic, it's still below its historical pattern, and the employment rate remains at high levels, around 9%. Investment, on the other hand, has tended to remain flat. The progress of large projects in mining and energy sectors has compensated for the contraction in real estate investment. In the first half, the economy contracted by 1% annually, and expected to end 2023 with an annual variation of minus 0.5%. In 2024, economic activity will grow again, although at a moderate pace, reaching around 2%, driven by less stringent local financial conditions. The declining consumption has allowed the country's external accounts to improve. The current account deficit was 9% of GDP in 2022, and we predict it will be 3% of GDP at the end of this year. The inflation has decreased rapidly. After reaching a maximum of 14% in August 2022, it ended at 5.1% last September. This reduction has been due to three main factors. First, the fall in international commodity prices. Second, the appreciation of the exchange rate during the first half of the year. And third, the contraction of domestic demand because of restricted financial conditions. Going forward, inflation will continue to decrease, but at a slower pace. Due to more demanding comparison basis, the rebound exhibited by oil prices

in the Middle East tensions, and the sharp depreciation of the peso since the beginning of July, even beyond its fundamental. We estimate that inflation will close in 2023 with a variation close to 4.7% in U.S. terms. In 2024, the process of convergence to the central bank's 3% target will continue. So the CPI will be around that figure in the last quarter of next year. The central bank began the monetary normalization cycle with a 100 basis point decrease in July, followed by another cut in September and October, bringing the monetary policy rate to 9%. The board has decided to slow the pace of rate cuts, taking into account the deterioration of external financial conditions. It also suspended both the foreign exchange reserve accumulation plan and the unwinding of its forward short position. After this decision, the exchange rate has appreciated significantly. And in our basis scenario, it will continue to fall to close this year around 875 pesos. For the next meeting in December, the central bank will continue with the monetary normalization process. Although the pace in the rate cuts will be contingent to the evolution of external risks. If volatility decreases, the monetary policy rate will end at 8.25%. In 2024, cuts are expected to continue. However, if the best scenario of higher for longer prevails and there is no change in US monetary policy, it will be difficult for the central bank of Chile to lower the interest rate beyond 5.5% due to a limited interest rate differential. The country's fiscal accounts have deteriorated. This year, we will see an increase in public expenses of around 2.2% and a contraction in revenues. This will lead to a fiscal deficit close to 2.5% of GDP and the public debt will be around 40% of GDP, still well below other economies in the region. In more general terms, boosting medium-term economic growth is crucial. This requires transversal agreements that allow the implementation of a pro-growth agenda and reduce current political and economic uncertainty. The closure of the constitutional process, as well as the progress of structural reforms that promote savings and productivity are essential in this regard.

Emiliano Muratore:
Thank you, Carmen Gloria. Turning our attention to slide nine, let me begin by reiterating our commitment to our four key strategic pillars encapsulated under the umbrella of Chile First. First, we're doing a transformative journey towards becoming a digital bank. This evolution is not just about embracing cutting-edge technology, it's about maintaining a physical presence through a innovative work ethic. These spaces will serve as more than just customer touch points. They will be dynamic hubs fostering connectivity. Equipped with state-of-the-art technology and a dedication to exceptional service, our work ethics are designed to redefine the banking experience. Our second pillar is centered on providing specialized value-added services tailored to our corporate, middle market and private banking clients. Our commitment is to deliver premium transactional trade, foreign exchange and advisory products and services, ensuring our clients receive a top-notch experience. In our third pillar, we are committed to fostering innovation and propelling growth. We are not content with the status quo, we aim to lead the change in redefining the banking landscape. We actively seek out new business opportunity, pioneering the sustainable transformation of our clients. 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 are dedicated to building an agile, collaborative and high-performance school. 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. On slide 10, we have witnessed

remarkable success in our digital products, exemplified by our ability to consistently grow our digital client base. Key initiatives such as Santander Light and more recently, Mas Lucas, have been instrumental in achieving this. Our Santander Light account has now attracted over one million clients. It offers a simple current account while also providing the opportunity to access additional products through our digital platforms, including Time Deposit and Mutual Fund. As these clients meet our risk criteria, they can access credit lines and loans. Mas Lucas, introduced in March of this year, has exceeded our expectations. It currently accounts for over 30% of our new account openings per month. Notably, the onboarding process for Mas Lucas is entirely digital, featuring facial recognition technology and no password requirements. These accounts come with no fixed or variable costs and accept deposits of up to five million pesos. The success of our digital strategy has also allowed us to enhance our branch innovation. Many of you have experienced our WorkCafe branches, digital branches equipped with co-working spaces. Furthermore, we have fortified our branch network with WorkCafe Expresso branches, a format that focuses on consolidating cash operations into transaction caps while maintaining a WorkCafe ambience. This includes a state-of-the-art technology behind the scenes to ensure our customers enjoy an efficient and secure banking experience. We are pleased to announce that we have already opened four WorkCafe Expresso centers in Vina, Rancagua, Santiago Centro, and Las Condes, with three more Expresso branches planned for the end of the year. On slide 11, our ongoing commitment to digitalization and simplification is evident in the significant reduction of our branch footprint. As of September, our total branch network stands at 254 branches, representing a 17% reduction compared to September 2022. Notably, 31% of our branches no longer have human sellers. Instead, they serve as business centers that prioritize advisory services, new business opportunities, and a superior customer experience. Simultaneously, our productivity has seen impressive gains, with loans and deposit volumes per branch increasing by 23% year over year, and 6% rising the same metric per employee during the same period. Moving to slide 12, our commitment to SMEs remains robust, bolstered by our joint offerings with GetNet. Our digital life accounts for SMEs continues to drive a 17% year over year increase in total SME clients, with more than 370,000 SME clients in our pool. There has been 16% year over year increase in active SME clients. When considering current accounts for businesses, as reported by the CMS, we have seen a remarkable 33% increase capturing almost 35% of the market as of July 2023. GetNet, our acquiring business, has also made significant contribution in attracting more SME clients. GetNet continues to focus on companies of various sizes, enhancing customer experiences through integrated payment solutions. Currently, it operates more than 148,000 point of sales, terminals across the country, with substantial demand from SME clients. More recently, GetNet has expanded into larger clients requiring a house-to-house solution, thereby offering a more integrated payment system for sophisticated clientele. In the first nine months of the year, GetNet generated fees totaling 32 billion and a net income of almost 6 billion pesos. Slide 13 illustrates the results of our commitment to productivity through a dedicated and skilled workforce. Our strategy has resulted in a cost structure that is more efficient than our competitors, enabling us to serve our clients at a lower cost. In terms of records, our fees generated by customers now cover over 55% of our expenses, a notable increase compared to the industry average of 41%. Our cost represents only 1.1% of our assets compared to 1.6% in the industry. The operating cost to serve our loan is 2.3%. Our cost per branch is at 3,215 million pesos, significantly lower than the industry average of 4,296 million per branch. The cost per current account is of 0.4 million per account, less than half the industry average of 800,000 pesos per account. These key performance indicators underscore our organization's transformation towards agility, collaboration, and high performance. On slide 14, we are pleased to report the progress in our Net Promoter Score, NPS. In the last quarter, we achieved a score of 58 points, creating a three-point lead over our closest competitor. Our NPS score is based on feedback from more than 60,000 surveys, measuring over 30 NPS metrics across various service channels on a daily basis. This invaluable feedback allows us to proactively manage and improve our client service. Our digital and remote channels continue to receive very high levels of satisfaction from our clients, with our APP and our website achieving scores of about 70 points. Our contact center is also highly regarded as outperforming all peers. Slide 15 emphasizes our commitment to responsible banking objectives, highlighting progress made in areas such as diversity and inclusion. We offer a comprehensive range of sustainable products to address climate change through Santander Verde Initiatives. In 2022, we supported numerous customers with sustainable operations in our business and corporate banking divisions. So far in 2023, we have disbursed over $270 million for green finance. We believe this will be one of the fastest-growing areas in the coming years. On slide 16, we are delighted to announce the issuance of our first ESG bond under our ESG framework, with a particular focus on green mortgages. This issuance marks a milestone as it is the first children's issuance with green mortgages stated as the use of proceeds. The private placement amounted to 8,000 Japanese yen, approximately 53 million U.S. dollars, for a two-year term. Currently, we have a growing portfolio of approximately 86,000 million pesos in green housing that complies with the highest set housing energy certifications by the Ministry of Housing and Urban Planning in Chile. We offer preferential interest rates to clients choosing green housing, and we also contribute to conservation and preservation projects in Chile. This issuance reinforces our commitment to advancing our responsible banking goals and green finance, reflecting the growing demand for such instruments, both locally and internationally. This year, the prestigious magazine, Euromoney, has named us Best Bank in Chile for 2023, and we have extended their recognition to Best Bank SME Bank, Best Bank for Corporate and Social Responsibility and Diversity and Inclusion in Chile. Furthermore, our advancements in sustainability have been recognized by prominent sustainable indexes, with solid ratings from Sustainalytics and NSCI. We are also the sole Chilean bank included in Dow Jones Sustainability Index for global American markets. Now, let's talk about the trends in our results and balance sheet. On slide 18, we show our results this year so far. Our operating segments that exclude the corporate centers and ALM continue to perform well, with a 33% year-over-year increase in their net contribution, with an important expansion in NAI and fees, with costs and risk under control, demonstrating the results of our strategy across segments. The accumulated net income as of September 2023 totaled 319 billion pesos, decreasing 55% year-over-year. On the other hand, the book value of our equity increased 8.5% year-over-year, with teen apps per share and dividend per share growing 15%. With those two effects of net income and equity, the accumulated return over average equity would be reaching 10.4% in the first nine months of 2023. The results of Corporate Investment Banking, or CAB, have continued to be impressive, increasing 68.5% year-over-year. Net contribution from the middle market of corporates increased 27% year-over-year. Both of these commercial segments experienced an important rise in deposit spreads, as well as high growth of fees and treasury income. The focus of these segments continues to be non-lending activities driving profitability. On slide 20, we can see that retail banking results increased 21.6% year-over-year, driven by the greater client base and more activity by our clients. Our active individual clients increased 2.9% year-over-year, and legal clients increased 2.5%, while our active SME clients have grown 15.7% compared to September last year. The margin increased 20.8% year-over-year due to a better mix of funding and loan growth. Fees in this segment increased strongly by 21.1% year-over-year driven by card fees due to greater usage and the increase in the client base, as well as the fees generated by GetNet. Provisions increased 60% year-over-year due to normalization of the liquidity of our clients in recent periods. Operating costs increased in a controlled manner by 3.7%, as the bank continues its digital transformation, generating grading operating efficiencies. In terms of loan growth, in the third quarter, we started to observe subtle changes in loans. Retail banking loans grew 5.4% year-over-year and 1.6% on the quarter. Mortgage loans grew 9% year-over-year and 1.5% quarter-on-quarter, higher than the effect of the U.S. variation in the quarter and demonstrating a slight pickup in origination of new mortgage. Consumer lending grew 7.8% year-over-year, mainly due to credit card growth after quarters of contraction. Between the end of 19 and 21, these loans decreased 7% as clients reduced large purchases, such as travel and hotels, which fueled credit card loans. At the same time, many clients pay off credit card debt with the liquidity obtained from government transfers and pension fund withdrawals. At the end of 2022, as household liquidity levels returned to normal and holiday travel resumed, credit card loans began to grow again, increasing total balance compared to pre-pandemic levels. In the recent months, credit card loan growth has started to decrease while installment loans have grown, reflecting a better indebtedness mix of our clients. SME lending showed signs of a recovery, growing 3% quarter-on-quarter after several quarters of contraction. The COVID-forgotten loans are now finishing and therefore we're seeing a reactivation in demand for loans, as well as impact from the expansion of the SME client base through our digital accounts and GetNet. Our middle market segment decreased 4.9% year over year and grew almost 3% on the quarter. This quarterly increase is mainly due to the effect of translation gains on the loans in denomination in dollars, mainly for our import and export clients. Around 20% of our commercial loans are in US dollars and Chilean peso depreciated 11.1% in the quarter. This also explains in part the 7.6% increase in the CIV in the quarter. Overall, loans have grown 3.1% year over year and next year we expect the reactivation of the economy to help loan growth reach mid-single digits. Liquidity levels remain strong in the quarter. The bank total deposits increased 1.4% in the quarter and 0.9% year over year. The increase was driven by time deposit that increased 5.1% quarter on quarter and 13.6% year over year, mainly due to an increase in large corporate deposits as the high interest rates remain attractive to clients. While our demand deposits have decreased 11% on the year, our market share in demand deposits has increased from 18.9% to 19.7%. Bonds issued increased 11% year over year and 3.5% on the quarter. During the year, the bank has issued bond in US, Chilean pesos, US dollars and Japanese yen, taking advantage of attractive opportunities in the various fixed income markets locally and abroad. The bank's liquidity coverage ratio, LCR, which measures the percentage of liquid assets over net cash outflows as of September 30, 2023, was 192%, well above the minimum. At the same date, the bank's net stable funding ratio, which measures the percentage of illiquid assets financed through stable funding sources, reaches 104.4%, also well above the current regulatory minimum set for this ratio. On slide 23, we have a simplified balance sheet to help explain the different sensitivities on our structural balance. On the asset side, we have around $45 billion in loans, of which nearly 60% is linked to inflation. On the liability side, the bank does have some deposits and bonds in US, however, we also use derivatives to control our exposure to inflation. At the beginning of the pandemic, the bank received a fixed rate credit line from the Central Bank as part of the FCIC program, which we swapped to viral rate in 2020. The FCIC is to be paid in two installments during 2024, on April 1st and July 1st. And so the Central Bank has announced a liquidity deposit program that offers Central Bank instruments at floating monetary policy rate with maturities on the FCIC payment dates. These instruments, which we have recently started purchasing in October, will be classified as held to collect. This measure will help the Chilean banks to better manage their liquidity in the lead up to the FCIC payments. For us, the payment of the FCIC will not have a significant impact on our NII, as we will be replacing a viral rate liability with funding of the current market rates. In terms of our net interest margin ratio, we should see an improvement at the denominator. Our interest earning assets decreases as we use our liquid assets for the payment. Lastly, it is important to mention that our time deposits, some $17 billion, have a maturity of 30 to 60 days in general. This means that with the rate decreases, the cost of funding decreases quickly. And now that the rate cuts have started, we expect the pass-through of our cost of funding to happen quickly. In terms of margins, the bank's NIM in the quarter reached 1.6% and 2% year-to-date. As shown on this slide, this is mainly a phenomenon that affects our non-client NIM or the net interest margin from our ALM activities, including the US GAAP and our liquidity. The client NIM, which is defined as the NII from our business segments over interest earning assets, has increased as deposits and loans spreads have risen. The bank is well-positioned for a fall in real rates. The sensitivities to inflation and interest rates remain stable to the previous quarters, with 100 basis points drop in inflation will pressure down our NIMs by 15 basis points, and 100 basis drop in the average interest rates will increase our NIM by 30 basis points over a 12-month period. The variation of the US in the third quarter was very low, up 2.3% compared to 1.4% in the second quarter of 23, or 3.4% in the same quarter last year. This pass-through of the lower variation in the US to our margin is immediate and pushed our margins downwards. Meanwhile, the Central Bank of Chile started to reduce the monetary policy rate. First, at the end of July by 100 basis points to 10.25%, and then in September to 9.55%. This led to an immediate improvement on our interest income. However, this was not enough to mitigate the negative impact from the low inflation. The Central Bank cut the rate a further 50 basis points last week to 9%, and as our time deposit base reprices and with higher expected US variation in the fourth quarter, our NIMs will show a sign of recovery in the fourth queue and into next year. For 2024, we expect our NIMs to rebound to over 3% to 3.5%, depending on the evolution of rate gaps in Chile. Moving on to asset quality on slide 25. The NPL ratio rose to 2.3%, slightly above pre-pandemic levels as household liquidity levels returned to normal, and the economy feels the squeeze from the high interest rates. The coverage of NPLs as of September, 2023, reached 158%, and there has been no reversal of the voluntary provisions. Our impaired loan ratio, which includes the NPLs and restructured loans, reached 5.5%, still below pre-pandemic levels, but showing the same upward strength. On slide 26, we show the asset quality by loan product over the last four years. As displayed, we now have higher coverage for all our products. While the NPL ratio has been rising, the impaired ratio remains under control for consumer and mortgage loans. Our commercial loan book is showing more signs of deterioration with NPLs reaching 3% and the impaired ratio 7.7%. As we can see on the graph on the right, most of the effect is concentrated on the small and medium companies. As a reminder, these SME loans account for around 9% of our total loan book. As we can see on slide 27, overall, our cost of credit has stayed in line with guidance at 1.2% year-to-date. In the graph on the bottom left, we can see how the cost of risk per segment is now similar to where we were before the pandemic back in 2019. On slide 28, we move on to non-interest income revenue sources, which continue showing exceptional growth trends. Income from fees and treasury rose 20.4% compared to a third quarter in 2022 and decreased 8.2% quarter on quarter after a particularly strong second quarter for fees from financial advisory in the other lines, which was not repeated to the same extent. In general, our fee income is benefiting from higher usage of products in all segments. We expect these trends to continue in 2023. The gradual implementation of the new interchange fee regulation started in October and will reduce fee growth in the fourth quarter. We estimate a negative impact in fees in 2024 of about 25 billion pesos and 47 billion pesos in 2025. Considering this impact for 2024, we expect this line items to grow around 10% with strong growth from clients and products mitigating the interchange fee impact. As shown on slide 29, we also can see a bank efforts to continue increasing productivity and to control costs. Operating expenses decreased 7.7% year over year and increased 4.1% quarter on quarter. A quarterly decrease in personal expenses is due to the slower rate that we have been closing branches, which has reduced the severance costs in the quarter. Meanwhile, our administrative expenses grew 8.4% mainly due to increased expenses related to technological developments in the quarter. As a reminder, the bank continues ahead with its $260 million technology investment plans for the years 23 to 25. And because of these investments, we are expecting costs to fall in absolute terms in 2023. Moving on to slide 30, we observe a positive evolution of our capital ratios. At the end of the third quarter of 23, the bank reported a core equity ratio of 10.7 and a base ratio of 17.1%. After the distribution of final dividend that amounted to 60% of the 22 earnings. In May, the regulator announced that from the next year, the Chilean banks will need to include a counter cyclical buffer of 0.5%. This together with the conservation buffer of 2.5% and the systemic buffer 1.5% means that our minimum fully loaded CEP1 will be 9.0% in December, 2025. Below on the right, we summarize the requirement levels by our regulator, including the potential buffer requirements and additional capital. On slide 32, we conclude with some guidance. Our strategy as a diesel bank with WorkerFest will continue to provide us with a greater diesel client base with solid fee growth and impressive operating efficiencies. For the fourth quarter of this year, we expect a higher inflation compared to a third Q reaching around 1.6% compared to 0.3%. And we expect an average monetary policy rate of 9.1% compared to the 10.4% in the third quarter. With this, our margins will start to show signs of recovery along with robust client names. After several quarters of impressive growth, our non-NII will finish the year slightly dampened in the due to the initial impacts of the lower interchange fees on car businesses. Our cost of risk should remain around 1.2% with our MPLs continue to trend upward slightly. The cost will remain under control. With all of this, we should reach an ROE of high teens in the fourth quarter. For 2024, our macro expectations are more positive with an estimated GDP of 2% with inflation around three and a monetary policy rate ending the year 24 at 5.5%. With this, we expect long growth to reach mid single digits as the economy reactivates. As rates continue to fall, our margins will continue to recover, reaching a range of three to 3.5% in 2024, depending on the evolution of rate cuts. Non-NII should be growing around 10% with good customer product trends, but impacted by lower interchange fees. Cost of risk should be stabilizing during the year around 1.2% with asset quality following the economic cycle. Cost should be growing in line with inflation while maintaining best in class levels and effective tax rates will be normalizing. With all of this, our ROE for 2024 will be recovering toward normalized levels and our guidance for long-term ROE remains between 17 and 19%. With this, I finished my presentation and now we will gladly answer any questions you may have.

Operator:
Thank you very much for the presentation. We will now be moving to the Q&A part of the call. If you have any questions, please press star two on your keypad, star two on your keypad for any voice questions. You may also ask a voice or a text question if you are dialed in via the web. We'll now give a moment or so for any questions to come in.

Thank you. Our first question comes from Mr. Yuri Fernandez from JP Morgan. Please go ahead, sir, your line is open.

Yuri Fernandez:
Hello, I have a question regarding fees. You have been doing a very good job on fees and we all know that fees can be very good for ROEs in the long run. Like you don't allocate a lot of capital for most of those businesses, right? So what is there to look for fees here? For sure, not the 30% base. At least this is not what we believe. You have the interchange. You discussed this in the presentation, but for 2024, 2025, do you think fees should continue to grow well above loans? Any soft guidance you can provide for that line? And then I can ask a second question.

Cristiano Vicuna:
Thank you. Hi Yuri, this is Cristiano. So thank you for the question. So yes, we are convinced that we can continue delivering fee growth higher than our loan growth. Higher than our loan growth. And this is mostly because our strategy is structured towards increasing our customer base and focused on transactional products such as FX transactions and fees. So GEDMA is also pushing our fees lines toward that goal. So the amount of SMEs that we are growing and increasing the customer base is also explaining why our fees revenues are growing consistently.

Emiliano Muratore:
And also I would add, hello Yuri, that our focus on customer satisfaction and NPS, it's a lever that, as you said, in the long run can sustain the fee growth. Because at the end, you need to be able to provide a service or a product that the client is willing to pay. And as you saw in our performance, we have been doing great also too in that front of customer satisfaction.

Yuri Fernandez:
Perfect. So something like teams growth is reasonable for this line going ahead, like mid-team, something like that. You think it's a good guess for the fee line growth?

Cristiano Vicuna:
Mid-teams, considering the interchange piece, pressure looks like challenging, but we will try to be in the double digits area and as high as possible.

Yuri Fernandez:
No, super, super clear. And like on, still on this operating efficiency metrics, on the cost side, again, you did a very good job. I know margins, it's harder for you to control, but on expenses, you have been delivering a lot. What is the outlook here? Can you continue to grow? I think below inflation is officially your speech. If you can provide more color on cost side, what are the big plans for 2024? I would appreciate it. Thank you.

Cristiano Vicuna:
Yeah, as you said, I mean, usually our cost strategy is to have them growing below inflation. I mean, this year they're actually like falling, I mean, significantly below inflation. So in a certain sense that provides some kind of a headwind going forward. I mean, we still target to be below inflation. We talked in the guidance of cost around inflation, but our intention is to keep growing in the low single digits and hopefully below inflation.

Yuri Fernandez:
Okay, Chris. And final one, capital. Are you comfortable with this 10.7? Like any change on the dividend payout policy or no? It's a matter of ROE moving up and helping you to recompound capital.

Cristiano Vicuna:
Yeah, no, we don't see any change in the payout policy. I mean, that 10.7, it's kind of low in the sense that it was pressured by the effects that it was at its peak, close to its peak by the end of September. And also some short-term risk-weighted asset inflation, but in the quarter, so by the end of the year, we expect to be again above 11%. And so we are comfortable in that area. And we think that we can sustain the payout policy we have been having this last few years.

Yuri Fernandez:
Perfect, thank you guys.

Cristiano Vicuna:
Thank you.

Operator:
Okay, thank you very much. Our next question comes from Mr. Daniel Mora Ardea from Credit Core Capital. Please go ahead, sir.

Daniel Mora Ardea:
Hi, good morning and thank you for the presentation. I have just a couple of questions. The first one is, can you mention what will be the steps considering the expiration of the FSA, the

liquidity line provided by the central bank and the different effects on the accounts on the balance sheet and the financial results? This should resolve the negative performance of derivatives that is impacting the AII in 2023. Or can we expect further impacts after the expiration of the FSA? Thank you so much. That will be my first question.

Emiliano Muratore:
Okay, so, Daniel, thank you for your question. So regarding the effects of the maturity of the FCAC in our balance sheet and results, roughly speaking, we have around like six trillion pesos in that facility. And also roughly speaking, half of that is maturing by the end of March and the other half by the end of June. So you can expect that at least like three quarters of the total amounts will imply a reduction in the balance. I mean, basically we already have more than half of that money in liquidity, like waiting to pay the maturity of that liability. And we expect to increase that amount of liquidity at least to three quarter of the total amount by the time that it's maturing. So you'll have assets and liability falling in roughly speaking around 10% of the current balance sheet. So in terms of ratios, that would imply a reduction in the denominator for NIM. So that's in the math will take down our NIM. In terms of NII, considering that most of that is already floated at a market rate and that's the same market rates that the liquidity and the assets are yielding. So in terms of NII for us, it will be non-material the maturity of the FCIC. So you can't expect a jump in NII because of the maturity. You do can expect an improvement and jumping in NII because of rates going down, because at the end, the lower the rate is the better for us because of that liability and the positioning of the balance sheet. So that is like roughly speaking in our case, the impact of that maturity. I mean, a non-relevant impact in NII, neither positive or negative, and a reduction of the balance sheet as a whole and impacting the different ratios where total assets or total liabilities are used.

Daniel Mora Ardea:
Perfect, thank you so much. But just to clarify the current negative position that you have on derivatives that is impacting the net interest margin should decrease with the expiration of the FCIC, right? Because you have the swap to variable rates.

Emiliano Muratore::
Actually, it will decrease and it's decreasing as interest rates go down. So that's the main factor for that negative to phase out or to disappear. I mean, like interest rates going down rather than the maturity itself.

Daniel Mora Ardea:
Perfect, thank you so much. And my second question is regarding the NPLs of the commercial segment. Even though you explained that SMEs that just represent 9% of the total portfolio is pushing these indicator up. Do you feel comfortable with the current performance? This is the normal levels of the SMEs considering the structural performance of the portfolio or should we expect an improvement in these figures given the improvement of the economy in the next year? What will be the normal level of the NPLs for the commercial segment?

Cristian Vicuna:

So, hi Daniel, this is Cristian again. So regarding your question, we are seeing the impact in our commercial portfolio mostly in the upper part of the SME market and the lower part of the middle market, right? So like a smaller part of the large corporates and the upper part of the SMEs. Specifically, we're seeing impacts in roughly three sectors. So agro, especially in the central part of Chile due to the heavy rains associated with the Nino effect between July and September. Some impact in hotels, restaurants and casinos that's also suffered for the last four years. And we are also seeing pain points in the construction and the real estate developer market. So those are the three segments that are the main point of concerns. The rest of the segments of the rest of the industries are looking quite normal, I'll say, considering the current state of the economy and the cycle. So we expect some recovery in the, particularly in the second half of 2024, especially probably associated with the agro portfolio. But it's all subject to further news and we have monitored very closely the situation in those specific industries.

Daniel Mora Ardea:
Perfect, thank you so much for the answer, very clear.

Operator:
Okay, thank you very much. We'll now be moving to Ms. Neha Agarwala from HSBC Global Research. Please go ahead, ma'am, your line is open.

Neha Agarwala:
Hi, thank you for taking my question. Just a quick one on your loan growth. We expect loan growth will still be mid-single-digit for the next year. But where do you think the loan growth is going to come from? If you can give us some color regarding the segmental growth, that'd be very helpful. And my second question is on policy rate. What is the risk in your view regarding rates actually not reaching five and a half for next year, being higher than that? Is that a risk? And what would be the impact of that on your bottom line, in your view? Thank you so much.

Emiliano Muratore;
Hello, Neha, thank you for your question. Regarding loan growth, I mean, just to try to give some color on the breakdown of that mid-single-digit loan growth. We think that mortgages, considering that inflation will be going down, I mean, to the 3% area. And also here in Chile, as in the rest of the world, the long-term rates have gone up significantly this last few months, weeks. So we expect, at this level of rates, demand for mortgages to go down a bit. So I would say that mortgages should be, let's say, kind of below the average of loan growth. And then on the consumer side, kind of the opposite. I mean, because we still have the liquidity from the pandemic going away, so people have higher borrowing needs, if you want. And also rates are going down. So in terms of consumer lending, it's much more linked to short-term rates rather than long-term rates. And we think that also should create a negative, let's say, excuse me, a positive elasticity of people like demanding more loans. And so consumer to be on the upper part. And also in SMEs, I mean, after the phase out of the Fogate program, that it's a kind of a negative drag on that portfolio, that it's going down after the pandemic, you're gonna have the SME portfolio going above the average. Then when you go into more middle to large corporates, that will depend a lot on how investment is progressing in the economy as a whole. I

mean, we don't expect investment to grow too much. And so you might be more on the average of that mid-single-digit growth for next year. I'm sorry, can you hear me?

Neha Agarwala:
Yes, that was super clear. Thank you so much.

Emiliano Muratore:
Okay, and so we're going to your second question regarding the risk or the path for monetary policy rates. And so, yeah, definitely having a terminal and an average rate for our base case scenario give us an average rate of around 6.5 for 2024. So the higher that average, the worse for us and the opposite, if it is lower, that's why this guidance of NIMS for 2024 is such a large. I mean, we've talked about three to 3.5 and basically with our base case scenario, we should be like in the middle of that range for the NIMS for the year. And then you have that sensitivity, we should point it at 100 basis points higher should impact like 30 basis points that NIMS. I mean, so just in rough numbers, an average monetary policy rates of seven should take us closer to three for the year and an average closer to six should take us closer to the 3.5 NIMS for the year.

Neha Agarwala:
Okay, that's super clear. And the ROE range is 17 to 19 for next year.

Emiliano Muratore:
Actually, that's the long-term target. Next year we'll be moving towards that range. To be in that range or not will depend again on the path of the monetary policy rate.

Neha Agarwala:
Okay, great. Thank you so much Emiliano, very helpful.

Operator:
Thank you very much. Our next 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 and Cristian. Thanks for taking my call. My question is just to follow up on the ROE expectations. So, can you hear me? No?

Emiliano Muratore:
Yes, now you can, now we can, we've lost you. Okay, sorry, yes, I can hear you.

Ernesto Gabilondo:
Okay. So I was saying that my question is a follow-up on the ROE. You were saying that you're expecting this medium ROE guidance of 17, 19% in the medium term, but would it be reasonable to start getting to the low end of these medium term guidance range in 2024? So for example, even if what you were mentioning in NIMS, now, if you go to a level of 7% in the

interest rates and NIMS at 3%, at that level, would it be reasonable to start getting into the 17% ROE, or you will need to get more into the interest rate of 6% and a NIMS of 3.5% to start getting into the ROE of 17% next year?

Cristian Vicuna:
So, hi Ernesto, this is hristian. So we're expecting somehow lower first half of the year, especially the first quarter should not be as positive as the second half of the year. So in order to get to the levels of ROE that you're mentioning, we are probably going to be requiring to be in the 3.5-ish NIMS, and that probably could happen in some of the final quarters of the year, but not for the complete year.

Ernesto Gabilondo:
Perfect, and then just a second question. Can you remind us if you have still an excess in provision charges, and where do you see your reserve coverage ratio for the next years?

Cristian Vicuna:
Yes, so Ernesto, regarding the voluntary provisions, yes, we still have like 295 billion pesos on voluntary provisions, that's the total balance. Remember that part of that will be used to cover the new regulation regarding provisioning for consumer loans. I mean, the new standard model that the regulator is proposing. I mean, there were news regarding that. I mean, they published like the second proposal or the second draft for consultation, which is, let's say, softer than the first one. I mean, they were basically receiving the comment from the industry and the market. And so at the first draft, we were expecting an impact between like 100 or 150 billion pesos in provisioning. Now we see that like much lower. I mean, like around like 90 billion will be the impact. So yes, I mean, we still have this almost 300 billion of voluntary provisions. A third of that will be used by 2025 to cover this new provisioning model for the consumer portfolio. And the rest is there basically to cope with let's say potential part of the duration of our cost of risk or our MPLs.

Emiliano Muratore:
One point of clarification is that our coverage will not be impacted by this new consumption measure. So no consumption provisioning measure because it's a general provision that we allocated to a consumer loan portfolio. So no deterioration in the coverage ratio for this.

Ernesto Gabilondo:
Okay, so you expect to keep the same coverage ratio for the next years?

Emiliano Muratore:
Yeah, yeah, yeah, we are prepared to keep it.

Ernesto Gabilondo:
Perfect, thank you very much.

Operator:

Thank you very much. Our final question today comes from Nicholas Riva from Bank of America. Please go ahead, sir.

Nicholas Riva:
Thanks very much Emiliano and Cristian for taking my questions. I have a question regarding your expected bond issuance international market for 2024. So you have a senior bond maturity in January 2025 for about $750 million. So I wanna confirm if the idea would be to refinance that in the international market. And also if you were to come to international market in 2024, if it would be specifically in the senior format given that you have already placed 81 capital with your parent company, and especially also if you expect maybe additional dollar funding needs in 2024, given the expected pickup in economic and long worth in Chile next year, thanks.

Emiliano Muratore:
Hello, Nicolas, thank you for your question. I mean, yeah, regarding the format definitely it would be like senior. I mean, we don't plan any hybrid because we have already our 81 outstanding and initially it's like the group's policy to place hybrids, especially 81s with the parents. So it would be definitely the senior format. And regarding the potential of going to the public market in the US, yeah, that's something we follow closely on a regular basis. I mean, even though the credit markets and in general the spreads in the US are not bad, let's say are not too high, but then when you do the math considering the basis swap to local currency which is at the end, our ending currency, you can see that the polling markets abroad have been around the hundred basis points more expensive than domestic market. Domestic market has lost some, let's say liquidity and depth in the last few years, but it's still available. We have been able to issue good amounts in the last few quarters. So I think it's a possibility. I don't see it as a given because even when you look at the other markets, maybe the Swiss market and some markets in Asia, they are more favorable than the US, definitely the US has the size benefits where you can get a, let's say a higher size without much difficulty. But I think it's something that might happen during the next year, but I wouldn't put it as a given. I mean, it will depend on the market prices and how our liquidity position and loan growth progresses. Thanks very much for that Emiliano, very clear. One, just a follow up. So you said right now you see a differential of about a hundred basis points in favor of issuing locally rather than issuing offshore and then swapping back to Chilean pesos, right? Yeah, factoring in all the cost expenses with holding and everything. When you're looking on an only basis, it fluctuates like every day because the basis swap has been quite a volatile by that. But recently yesterday and in the last few days we have seen the basis swaps going down and that let's say create a pressure upwards on the synthetic cost of funding abroad.

Nicholas Riva:
Thanks very much Emiliano. Okay, thank you.

Operator:
Okay, thank you very much. We see no further questions at this point. I'll pass the line back to the management team for concluding remarks.

Emiliano Muratore:
So thank you all very much for taking the time to participate in today's call. We look forward to speaking with you again soon. Thank you very much. This concludes today's conference call without closing the line. Thank you and goodbye.