

Chilean Banks

3Q23 pre-results: BSAC in the spotlight
(earnings well below expectations)

Industry Overview

3Q23 earnings contraction and ROAE deceleration

3Q23 preliminary results for Chilean banks imply YoY earnings contraction and ROAE deceleration. Overall, we noticed feeble NII performance on lower inflation levels in the quarter and softer-than-expected fee income generation. BSAC was in the spotlight after earnings significantly declined, despite our expectation that lower rates should have benefited more September's NIMs in the quarter. On a positive note, results showed provision charges roughly in line with our estimates and opex under control. We maintain our Underperform ratings on Chilean banks, as they already boast the richest valuations in the region.

BCH: earnings contraction modestly below BofAe/consensus

According to preliminary figures, NI of ChP\$260bn in 2Q23 (-22% QoQ / -23% YoY) came 4% below our estimates and 3% below Bloomberg consensus. Results showed mixed operating trends, reflecting (1) weaker-than-expected NII growth (6% below BofAe), on lower inflation levels (UOF variation of 0.30% in September vs. 1.44% in June); (2) weak fee income generation (13% below BofAe); although (3) opex growth roughly in line with BofAe; and (4) significantly lower provisions charges (well below BofAe). It will be important to monitor the level of the reserve coverage ratio in the final results. We estimate an ROAE of 22.3% in 3Q23, declining from 27.3% 2Q23, and from 29.8% in 3Q22.

Final results with mgmt.'s analysis and comments are expected on October 30 after market with a conference call on November 3.

BSAC: a quarter to forget; well below expectations

According to preliminary figures, Santander Chile posted net earnings of only ChP\$57bn in 3Q23 (-55% QoQ and -69% YoY), which came well below our estimate and the Bloomberg consensus. If considering accumulated earnings of ChP\$320bn, we estimate Santander Chile will need to deliver ChP\$331bn in 4Q23 to achieve management's guidance of an ROAE of 15% in 2023. Results showed weak NII (contracting -17% QoQ / -42% YoY), which came 35% below our estimate, which we attribute to softer-than-expected lending dynamics and lower inflation levels (UOF variation of 0.30% in September vs. 1.44% in June). Additionally, results showed opex and provision charges roughly in line with our estimates. We estimate an ROAE of 5.4% in 3Q23, declining from 12.6% 2Q22, and well below 19.9% in 3Q22.

Final results with mgmt.'s analysis and comments are expected on October 31 before market opens with a conference call on November 3.

13 October 2023

Equity
Latin America
Banks

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Abbreviations:

A/Q: Asset Quality

NI – Net Income
NIM – Net Interest margin

BSAC – Banco Santander Chile

BCH – Banco de Chile

BCI – Banco de Credito e Inversiones

ROAE- Average Return on Equity

UOF: Adjusted Inflation Unit

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Refer to important disclosures on page 6 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 4.

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Timestamp: 13 October 2023 06:00AM EDT

Exhibit 2: Banco de Chile – 3Q23 preliminary results

Earnings came short of expectations due to softer core revenue generation, despite lower provision charges

Ch\$ bn	3Q/22	2Q/23	3Q/23e	Preliminary 3Q/23A	YoY	QoQ	vs. BofAe
Net interest income	583	468	434	407	-30%	-13%	-6%
Fee income	138	136	153	132	-4%	-3%	-13%
Net trading and brokerage	46	120	110	128	180%	7%	16%
Other non-interest income	8	20	14	15	75%	-28%	4%
Non-interest expense	259	265	273	270	4%	2%	-1%
Provision for loan losses	106	67	96	60	-43%	-10%	-37%
Net income - reported	340	332	272	260	-23%	-22%	-4%
EPS - reported	3.36	3.29	2.69	2.57	-23%	-22%	-4%
EPADR (US\$) - reported	0.69	0.82	0.67	0.59	-15%	-28%	-11%
Net loans	33,538	39,365	37,352	39,151	17%	-1%	5%
Total assets	54,813	54,275	55,663	55,153	1%	2%	-1%
Deposits	27,291	27,902	28,536	n.a.	n.a.	n.a.	n.a.
Equity	4,686	4,872	5,144	5,026	7%	3%	-2%
ROAE - reported	29.8%	27.3%	21.7%	22.3%	-760 bps	-510 bps	50 bps
NIM	5.4%	4.0%	3.7%				
Efficiency ratio	33%	36%	38%	40%	620 bps	400 bps	110 bps
Effective tax rate	18%	20%	22%	26%	810 bps	570 bps	460 bps
Provisions/ Avg gross loans	1.2%	0.7%	1.0%				
NPLs/ Gross loans	1.1%	1.3%	1.3%				
LLR/ NPL	195%	161%	207%				

Source: Company data and BofA Global Research estimates

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Exhibit 3: Santander Chile – 3Q23 preliminary results

Earnings were crashed by lower inflation levels, while we failed to see lower rates supporting NIMs

Ch\$ bn	3Q/22	2Q/23	3Q/23E	Preliminary 3Q/23A	YoY	QoQ	vs BofAe
Net interest income	364	254	323	211	-42%	-17%	-35%
Fee income	107	136	134	122	14%	-11%	-9%
Net trading and brokerage	61	85	81	81	32%	-4%	0%
Other non-interest income	-22	0	0	2	-108%	1077%	1077%
Non-interest expense	221	221	221	220	0%	0%	0%
Provision for loan losses (gross)	91	117	119	121	33%	3%	1%
Net income - reported	186	127	161	57	-69%	-55%	-65%
EPS - reported	0.98	0.67	0.85	0.30	-69%	-55%	-65%
EPADR (US\$) - reported	0.61	0.25	0.36	0.14	-77%	-46%	-62%
Net loans	35,676	37,835	39,795	38,909	9%	3%	-2%
Total assets	75,038	68,682	69,992	72,491	-3%	6%	4%
Deposits	28,289	28,164	28,512	28,555	1%	1%	0%
Equity	3,862	4,169	4,329	4,193	9%	1%	-3%
ROAE - reported	19.9%	12.6%	15.1%	5.4%	-1450 bps	-720 bps	-970 bps
NIM	3.2%	2.2%	2.7%				
Efficiency ratio	43%	47%	41%	53%	990 bps	670 bps	1220 bps
Effective tax rate	5%	5%	18%	18%	1240 bps	1280 bps	20 bps
Provisions/ Avg gross loans	0.9%	1.2%	1.2%				
NPLs/ Gross loans	1.7%	2.1%	2.1%				
LLR/ NPLs	155%	130%	130%				

Source: Company data and BofA Global Research estimates

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- We rate **Banco de Chile Underperform**, in light of (1) a challenged macroeconomic/political outlook (discussions on pension and tax reform, while an economic recession); (2) earnings contraction in '23 due to NIM pressure on lower inflation levels; and (3) limited upside potential.
- **Santander Chile's** earnings should be affected in 2023 in light of NIM pressure from lower inflation levels and softer lending dynamics, while our estimates already assume earnings recovery in 2H23 and 2024. **Underperform**

Price objective basis & risk

Banco Chile-ADR (BCH, US\$19.43, B-3-7)

Our price objective for Banco de Chile of CLP98 per share (US\$24/ADR) is based on a Gordon Growth model, assuming a sustainable ROE of 19%, a cost of equity of 12.6% in nominal CLP, and a perpetual growth rate of 4% in nominal CLP. Our cost of equity is derived using a capital asset pricing model with a Chile sovereign spread of 140 bp and a beta of 1.0x

Downside risks are macro deceleration, constitutional changes and a tough regulation against the banks, impacting loan growth and asset quality, difficulties improving cost efficiencies and increased tax rates. Upside risks to our PO are faster-than-anticipated inflation benefiting NIMs and a more benign macro scenario, which would increase loan growth expectations.

Banco de Chile (XHND, CL90.6, A-3-7)

Our price objective for Banco de Chile of CLP98 per share (US\$24/ADR) is based on a Gordon Growth model, assuming a sustainable ROE of 19%, a cost of equity of 12.6% in nominal CLP, and a perpetual growth rate of 4% in nominal CLP. Our cost of equity is derived using a capital asset pricing model with a Chile sovereign spread of 140 bp and a beta of 1.0x

Downside risks are macro deceleration, constitutional changes and a tough regulation against the banks, impacting loan growth and asset quality, difficulties improving cost efficiencies and increased tax rates. Upside risks to our PO are faster-than-anticipated inflation benefiting NIMs and a more benign macro scenario, which would increase loan growth expectations.

Banco Santander Chile (BSAC, USD17.61, B-3-7)

Our price objective for Santander Chile of USD22 per ADR / CLP\$46 per share is based on a Gordon Growth model, assuming a sustainable ROE of 19%, cost of equity of 12.6% in nominal CLP and a perpetual growth rate of 4% in nominal CLP. Our cost of equity is derived using a capital asset pricing model with a Chile sovereign spread of 140 bp and a beta of 1.0x

Upside risks to our PO are higher inflation levels, greater cost-controls and better than expected macro impacting loan growth and asset quality.

Downside risks to our PO are NIM margin pressure from lower inflation levels and an upward trend in the effective tax rate.

Banco Santander Chile (XLDTF, CL41.17, A-3-7)

Our price objective for Santander Chile of USD22 per ADR / CLP\$46 per share is based on a Gordon Growth model, assuming a sustainable ROE of 19%, cost of equity of 12.6% in nominal CLP and a perpetual growth rate of 4% in nominal CLP. Our cost of equity is derived using a capital asset pricing model with a Chile sovereign spread of 140 bp and a beta of 1.0x

Upside risks to our PO are higher inflation levels, greater cost-controls and better than expected macro impacting loan growth and asset quality.

Downside risks to our PO are NIM margin pressure from lower inflation levels and an upward trend in the effective tax rate.

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Analyst Certification

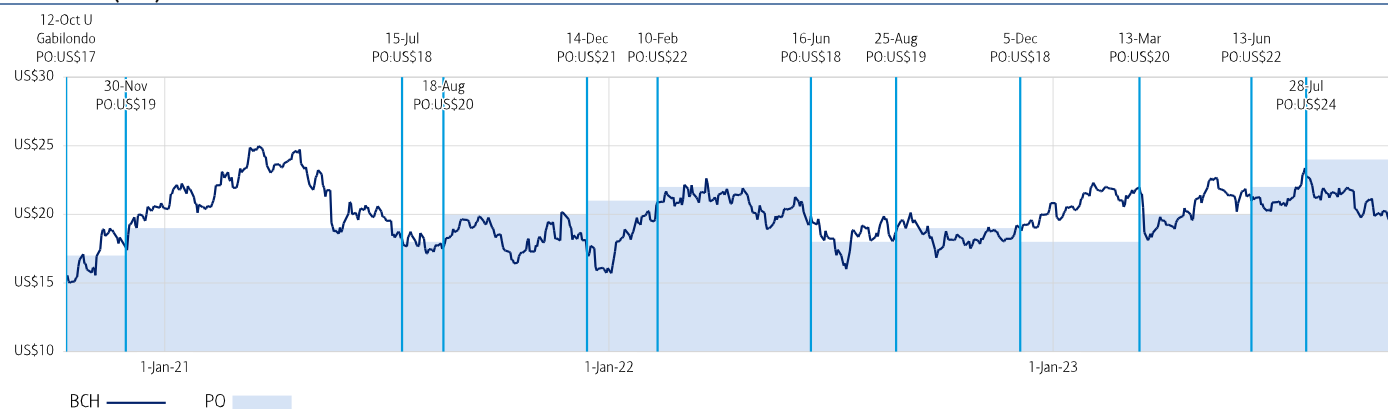
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	B3	XIMAF	B3SA3 BZ	Mario Pierry
	B3	BOLSY	BOLSY US	Mario Pierry
	Bajio	BBAJF	BBAJ100 MM	Ernesto Gabilondo
	Banco do Brasil	XBBAF	BBAS3 BZ	Mario Pierry
	Banco do Brasil	BDORY	BDORY US	Mario Pierry
	Banco Pan	XQSFF	BPAN4 BZ	Flavio Yoshida
	Banorte	GBOOF	GFNORTEO MM	Mario Pierry
	Banorte	GBOOY	GBOOY US	Mario Pierry
	BTG Pactual	XNXCF	BPAC11 BZ	Flavio Yoshida
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	ClearSale	XZUOF	CLSA3 BZ	Flavio Yoshida
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	Grupo BMV	BOMXF	BOLSAA MM	Ernesto Gabilondo
	IFS	IFS	IFS US	Ernesto Gabilondo
	Inter	XBZIF	INBR32 BZ	Mario Pierry
	Inter	INTR	INTR US	Mario Pierry
	PagSeguro Digital Ltd	PAGS	PAGS US	Mario Pierry
	Porto Seguro	PSGUF	PSSA3 BZ	Mario Pierry
	Regional	RGNLF	RA MM	Ernesto Gabilondo
	XP Inc.	XP	XP US	Mario Pierry
NEUTRAL	Banrisul	XGRBF	BRSR6 BZ	Flavio Yoshida
	BB Seguridade	XBDPF	BBSE3 BZ	Mario Pierry
	BB Seguridade	BBSEY	BBSEY US	Mario Pierry
	Bradesco	BRDPF	BBDC4 BZ	Mario Pierry
	Bradesco -A	BBD	BBD US	Mario Pierry
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	Cielo	CIOXY	CIOXY US	Mario Pierry
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	Itau Unibanco	ITUB	ITUB US	Mario Pierry
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	Banco de Chile	XHNDF	CHILE CI	Ernesto Gabilondo
	Banco Macro	BMA	BMA US	Ernesto Gabilondo
	Banco Macro	BCVMF	BMA AR	Ernesto Gabilondo
	Banco Santander Chile	BSAC	BSAC US	Ernesto Gabilondo
	Banco Santander Chile	XLDTF	BSAN CI	Ernesto Gabilondo
	GFinbur	GPFOF	GFINBURO MM	Ernesto Gabilondo
	Grupo Financiero Galicia	GGAL	GGAL US	Ernesto Gabilondo
	Grupo Financiero Galicia	GGABF	GGAL AR	Ernesto Gabilondo
	Santander Brasil	XCBDF	SANB11 BZ	Mario Pierry
	Santander Brasil	BSBR	BSBR US	Mario Pierry
	Supervielle	SUPV	SUPV US	Ernesto Gabilondo
	Supervielle	XAZFF	SUPV AR	Ernesto Gabilondo
RSTR	Bancolombia	CIB	CIB US	Ernesto Gabilondo
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	Bci	BZCIF	BCI CI	Ernesto Gabilondo

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Important Disclosures

Banco Chile-ADR (BCH) Price Chart

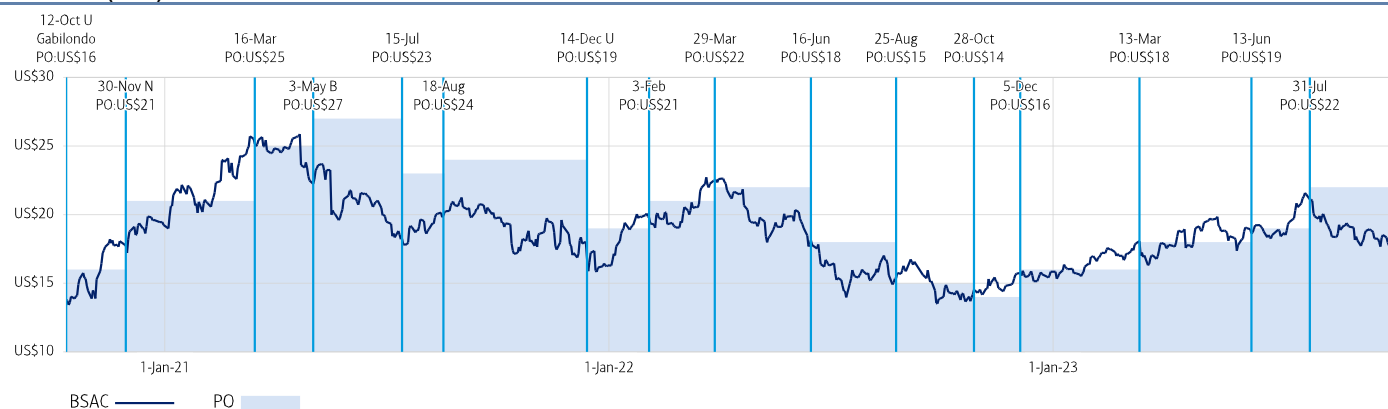
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Banco de Chile (XHNDF) Price Chart

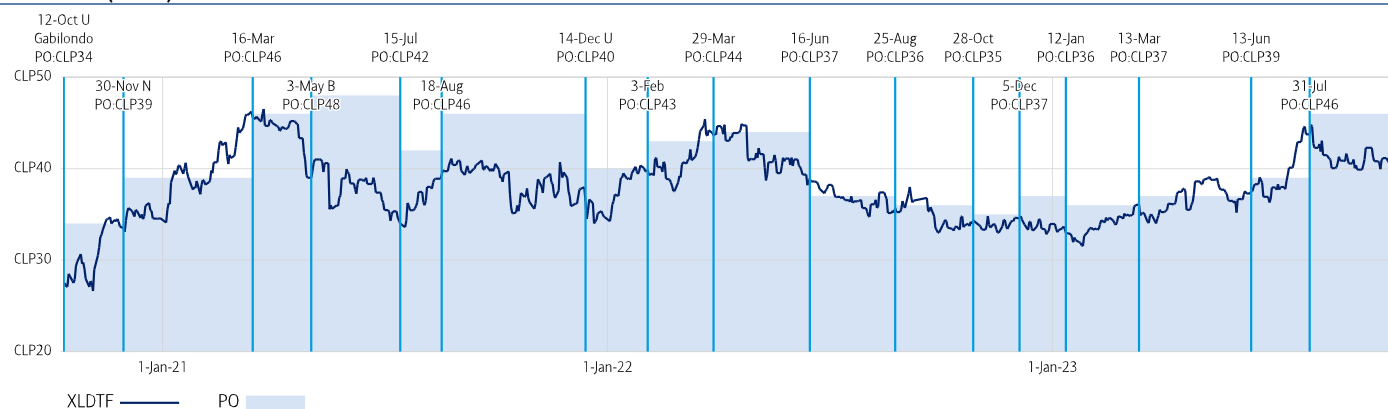
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Santander Chile (BSAC) Price Chart

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Santander Chile (XLDTF) Price Chart

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Equity Investment Rating Distribution: Banks Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	98	50.78%	Buy	81	82.65%
Hold	47	24.35%	Hold	35	74.47%
Sell	48	24.87%	Sell	36	75.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Underperform	N/A	≥ 20%

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