

Banco de Chile 4Q20 Earnings Results Conference Call

Operator

Good afternoon everyone, and welcome to Banco de Chile's fourth Quarter 2020 results conference call. If you need a copy of the press release issued yesterday, it is available on the company's website.

Today with us we have Mr. Rodrigo Aravena, Chief Economist and Senior VP of Institutional Relations, Mr. Pablo Mejia, Head of Investor Relations and Daniel Galarce, Head of Financial Control.

Before we begin, I would like to remind you that this call is being recorded, and that information discussed today may include forward-looking statements regarding the company's financial and operating performance. All projections are subject to risks and uncertainties, and actual results may differ materially. Please refer to the detailed note in the Company's press release regarding forward-looking statements. I will now turn the call over to Mr. Rodrigo Aravena. Please go ahead.

Rodrigo Aravena

Good afternoon. Thank you for joining this conference call today, where we will present the financial earnings posted by Banco de Chile during the last quarter. We have divided this presentation into three parts: first, a discussion relative to the main economic trends and our forecasts for this year. Then, we summarize the main achievements and key advances in our strategic pillars. The final section includes a review of our financial results reached in the fourth quarter and, consequently, during the whole year.

Let me start with a brief discussion of the Chilean economy. Please move to slide number 3.

As the IMF recently said, 2020 was a year like no other. The entire world was strongly affected by a pandemic that can be comparable only with the Spanish flu of 1918. In order to reduce the spread of the virus, several authorities implemented strong sanitary measures and mobility restrictions, leading to the worst recession at least in the last century. All in all, the global economy probably contracted more than 3.0% in the last year.

Chile had a similar trend, as the economy was also affected by the global recession and the negative impact of the pandemic. GDP fell 6.0% in the year, led by a substantial contraction in the second quarter. Nevertheless, the resilience of the Chilean economy positively compared with most Latin-American countries as reflected by a robust recovery and better expectations for the future. On the whole, this recovery has been led by the joint contribution of three main factors: easing mobility restrictions, expansionary fiscal and monetary policies, and, to a lesser extent, the temporary impact of pension funds withdrawals on consumption. I'll go over these factors later in this presentation.

As can be seen in the chart on the top left, GDP posted a significant recovery during the second half of the year. In fact, the GDP posted annualized rates of 23% and 28% QoQ in the 3Q20 and 4Q20, respectively, after plummeting by 44% on a sequential base in the 2Q20. Due to this, the GDP has reduced its annual decline rate, and it will probably retake positive rates over the next few months.

The overall inflation slightly increased by the end of the year, in line with the greater dynamism, as the chart on the upper right shows. Specifically, the CPI went up by 1.2% in the 4Q20 (from 0.3% in the previous quarter), lifting the year-on-year figure to 3.0%. Since the CPI ended the year within the policy target, in an economy with an important output gap, the Central Bank seems to be comfortable with maintaining the overnight interest rate at 0.5%. In fact, the board has mentioned the intention of keeping the policy rate for a long period of time, as well as most of the liquidity measures announced since the beginning of the pandemic.

The recovery has also been reflected in the labor market, although at a slower pace. The unemployment rate has fallen from the peak of 13% observed in July, to 10% in December, as the bottom left chart shows. This improvement has been driven by the steady rise in total employment, as seen in the bottom right chart. The job creation has been concentrated in sectors that benefit from the greater mobility, such as construction and retail. On the other hand, services sectors remain subdued, since they have been much more affected during this pandemic.

Based on these trends, there has been an improvement in the Chilean economy expectations. In fact, according to different sources, including the consensus released by Bloomberg and Latin Focus, as well as the IMF baseline scenario, Chile should have the highest average growth between 2020 and this year. I'd like now to focus on the main reasons that support this positive view.

Please move to slide number 4.

Chile has been recognized for implementing several, active and effective measures during this pandemic. In this slide, I'd like to highlight some of these policies. The country has also been successful in terms of reducing the spread of the virus. After implementing strong lockdowns in mid 2020, the number of new and active cases of covid-19 has remained under control, leaving room to ease some mobility constraints relative to those we had in the first wave of the pandemic. Consequently, as the chart on the upper left shows, the share of positive tests has remained well below not only the threshold of 10%, but also from levels seen in other countries. Additionally, the government began a vaccination process with an increasing number of people being immunized, as the chart of the upper right shows. According to government estimates, nearly 80% of the population will receive the vaccine this semester.

Chile has also made a difference in the economic area. On the monetary side, the Central Bank adopted several measures beyond the low interest rate. As the chart on the bottom left shows, the money supply has sharply risen, as a result of bonds purchasing, FX interventions, and the FCIC line, among others. The government has also played a key role, since the fiscal package is equivalent to nearly 10% of the GDP, being the only country able to maintain an expansionary fiscal policy in the region, according to the IMF. This position, shown in the chart on the bottom right, is possible thanks to the strong fiscal position held before the pandemic. Therefore, we are confident that the recent "green shoots" will gradually translate into better dynamism in the next couple of years.

Please move to the next slide, where I'll share with you our forecasts as well as the main reasons supporting this better view.

We expect the economy to grow nearly 5.3% this year, after falling 6% in 2020. These figures position Chile as one of the strongest and most resilient countries in the region, as the chart on the right shows. The existence of better perspectives for Chile is based on the following factors:

First, the persistence of expansionary policies. The government announced that the fiscal spending will be maintained this year, with a special emphasis on infrastructure and public investment. This type of policy is particularly favorable for employment and consumption.

A second factor is an improvement in the external scenario. The pick-up in the copper price, which represents more than half of our exports, is undoubtedly positive for the country. This trend is even better when we also consider the acceleration in China, a country that explains nearly one-third of total exports.

Finally, as I mentioned before, Chile has begun a vaccination process, which will allow greater mobility levels in the future.

The table summarizes our main forecasts. We see a recovery in all the components of the GDP, mainly in private consumption, which should be the main driver of growth. Additionally, we see an inflation rate stable at 3.0% over the next couple of years, leaving room to the Central Bank to maintain the interest rate at 0.5% for a longer period of time.

Despite our expectations, we are aware of several risks for the future. Some of them include the global GDP growth, especially considering the high dependence of Chile to the international trade. The evolution of the pandemic is also a critical factor to monitor in the future. Also, the last but not the least important will be the political discussion in Chile. 2021 will be a key year for the future since, in only 9 months (between April and November), there will be elections for a new president, for most of the congress, and members of the body in charge to prepare the proposal for the new constitution.

Now, I'd like to revise the main trends in the banking industry. Please move to slide number 6.

Over the last 12 months, loans in the Chilean banking system have consistently slowed down, in line with the weak economic growth, by increasing only 2.4% year-on-year. As you can see on the chart on the top left, only mortgage loans remained relatively stable rising 8.1% year-on-year. As for the rest, commercial loan growth dropped to only 3.6% year-on-year as Fogape guaranteed loan demand cooled off by the end of 2020. The most intense drop was seen in consumer loans, which fell by almost 14% over last year, in line with the findings presented in the Central Bank survey that, with the exception of the 4Q20, has shown a weaker supply and demand for loans, as you can see on the chart on the bottom left. Nevertheless, loan demand for mortgage and consumer loans has risen sharply in the 4Q20 while SMEs and Corporations have normalized due to lower demand for covid loans and a reduction in excess liquidity levels. We expect to see an improvement in loan growth during 2021, in line with the better evolution of the economy.

In terms of results, the Chilean banking industry posted net income of \$607 billion in the fourth quarter, excluding Itau figures, which is the highest level recorded during the year due to higher inflation and lower cost of risk as shown, on the charts to the right.

2021 will probably be a transitional year for the industry. It's not yet totally clear how the pandemic will continue affecting the economy, but we think it is reasonable to expect that loans should grow in line with GDP growth of 8% nominal and cost of risk should return to the levels seen precovid in the medium term.

Before passing the call to Pablo to discuss our strategic advances and financial results, we want to highlight some achievements that we obtained during 2020.

Please move to slide number 8.

Once again, we ended the year as the leader of the industry in many aspects regarding our financial figures and social initiatives. First, despite the crisis, we were able to increase our loan book by 3% in a scenario where the global economy decreased. In addition, during this uncertain time, our bank remained as a flight-to-quality institution, leading the industry in demand deposits and assets under management through Banchile Inversiones.

This trust was achieved by our corporate reputation and our focus on growing responsibly, which is confirmed by the lowest NPL ratio of only 0.97% and the highest coverage ratio of 356%, both far superior from our peers. In the same line, this soundness was further reinforced by obtaining the strongest capital adequacy of the largest banks in Chile, as measured by the Basel Index, reaching a 16%.

We also know that more than ever, 2020 was a year when financial institutions must participate in the solution and provide assistance to citizens to overcome this crisis. In this context, we granted US\$2.6 billion dollars in Fogape COVID-19 Loans and we rescheduled thousands of loans for SMEs and personal banking customers.

Please move to slide 9

These excellent results in 2020 were also recognized, as you can see on this slide. First, we received the National Customer Satisfaction award for providing the best service in the Chilean banking industry. This is a result of our efforts to offer the best experience to our customers through initiatives in innovation and other fields of our operations. In this line, we achieved significant advances in digital banking. By far the most important was the launching of our digital onboarding bank account that has attracted 170 thousand customers. As a result of our improvements in digital transformation, we were recognized as “Innovative Digital Bank of the Year” by The European magazine.

As we mention in the last slide, we created a National Plan to support our customers in this difficult moment. The efforts we have made in this sense were acknowledge by Global Finance that honored us with the Outstanding Crisis Leadership recognition and by a survey that resulted in our bank being the best financial institution in dealing with this health crisis.

Since 2016, Banco de Chile has had a plan to promote inclusion within the organization, based on a Policy and a Declaration of Principles, which is materialized in various initiatives to support employees, clients and the community. Our actions are bearing fruit and The European recognized us as the “Best Bank for Financial Inclusion” in Chile.

As a result of our continuing goal of developing our employees, we were considered the best company in the country to attract and retain talent and the best bank to work for in Chile according to University students. Finally, our sustainable business model was recognized once again and The European, The Banker, and Global Finance considered us “The Bank of The Year”.

Now I will pass the call to Pablo Mejia, to discuss our advances in our Strategic Initiatives and financial results posted in the fourth quarter.

PABLO MEJIA

Thanks Rodrigo, Please move to slide 10.

Throughout our history, we have been very successful in providing attractive returns to our shareholders through a proven track record of consistent and robust results. We aspire to continue doing so and we truly believe that the only way to maintain our lead position is to continue being the most sustainable Bank. To do so, we are continually reinforcing three key areas of our long-term strategy: digital transformation, efficiency and productivity, as well as ESG. Strengthening these key areas will allow us to support our success in the long-term and overcome future challenges.

Please move to slide 11

The pandemic has accelerated the use of technology and the banking industry has been part of this change. During the past year, we confirmed our leadership in digital banking by successfully managing a very important increase in the usage levels of our digital channels by processing over 400 thousand loans online to support our customers' liquidity needs. Additionally, we innovated in several fields, updating all of our main online platforms, bringing more functionality, agility, inclusion and security to our channels and integrating analytics tools, which provides us with valuable information to better understand customer preferences.

Among the valuable advances in digital banking, in the second half of 2020 we released our new digital bank account called “Cuenta FAN”. This account was created through a new methodology that allows us to design and add new complements easily with marginal costs. Cuenta FAN offers many benefits to customers in all segments of the population because it focuses on bringing new clients to Banco de Chile with all the advantages that our current customers already enjoy. For this reason, we have seen important demand to open this account from low income to high income individuals and this makes us very confident that this product will be profitable quickly. We believe that banks that only focus on providing a digital payment mean are neither an ideal way to compete nor a suitable platform to generate profitability. Some of the most valuable benefits for our Cuenta FAN customers are that there is no entrance or maintenance fees, and these customers have access to the same loyalty program as a traditional Banco de Chile customer. All of our customers use the same loyalty program with the same banking apps. There is a potential customer base of 5 million that could become a FAN customer and 2 million of these individuals already are prequalified for other products.

In terms of numbers, Cuenta Fan has been a total success. Since its launch in September, we already have around 170 thousand new customers. This is a huge figure when one takes into consideration that our total current account customer base is approximately 1 million. It’s also important to mention that part of our strategy is to expand our brand, get closer to the younger segment and grow our client base. This is also bearing fruit as 92% of the customers are new to our bank and almost 90% are younger than 50 years old.

Please turn to the next slide, number 12

The successful implementation of a complete digital package for our customers has played a critical role in providing the best experience and standing out from our peers. Even though this period has been very challenging, we continue to maintain our high and leading indicators. As you can see, we posted once again the highest brand recognition in the Chilean industry with a Top of Mind indicator of 23%, with a wide gap with our closest competitors. Also, when banking customers were asked if they were to switch to another bank, which bank they would choose, we remained as the top pick with a large difference to all of our peers, as you can see on the chart to the right. This position in these surveys is especially relevant in the context of new regulations, where it will be much easier for customers to switch from one bank to another.

Along with our superior brand recognition, we are also the leader in best service quality as shown on the chart on the bottom left. The success of our satisfaction levels has been precisely due to the quality of our services and products that we provide, and which help to generate strong long-lasting relationships. These figures are reinforced with the evolution of client complaints, which despite all the challenges that the industry incurred in 2020, we managed to improve from the prior years, as shown on the chart on the bottom right.

Please turn to slide 13.

We continued advancing in optimizing our resources in 2020. To reduce our operational costs, we set clear targets based on three main areas. During the year, we moved forward and continued automating processes by leveraging technologies and simplifying procedures. Through greater use of IT in all areas of the bank, we are assisting that the bank will remain competitive in this highly challenging industry that is continually being disrupted by new financial technology firms. The advances in technology have permitted us to reach more efficient process in many different areas of our bank. As a result of this, during January of 2021 we adjust our organizational structure, laying off approximately 4% of our staff to maintain a high level of competitiveness and ensure our long-term sustainability. The indemnities associated to this decision were reflected in our P&L of December 2020.

The second identified area of optimization is our branch network. In 2019, we started a process of adjusting our structure that led to a reduction of 14% of our branches in two years. Our strategy includes a new service model that involves integration of Credichile network, merger of nearby offices as well as automation of customer service and cashier areas. It has had a positive impact on operational productivity and efficiency.

Another measure that contributes to reducing costs is the implementation of a specialized area that evaluates all purchases in the bank and has had excellent results in reducing administrative expenses. We have especially seen advances in expenses related to maintenance, rentals, travel, marketing and external advisory services

Additionally, we have created a new division, called Productivity and Efficiency, which will be responsible for accelerating the implementation of savings initiatives that were already identified and discovering new opportunities for improvements in productivity across the entire organization.

The improvement in efficiency and productivity can be seen on the charts of this slide. For instance, loans per employee has improved by 36% since 2016 and total expenses to assets has dropped 59 basis points. We expect that we should be able to continue improving our efficiency ratio and reach a level closer to 42% in the medium term.

Please move to slide 14

Another key strategic pillar of Banco de Chile is our strong commitment to sustainability that has accompanied us during our 127 years of history. Since we are living an unprecedented health crisis, our sustainability strategy during 2020 was concentrated in responding to the emergency and bringing support to the most affected by the Covid-19 pandemic. In this context, we implemented a National Support Plan that included diverse initiatives to directly assist the most vulnerable families, customers, SMEs and the community in general.

Some initiatives we would like to highlight today is our alliance with Desafío Levantemos Chile, a non-profit organization, that allowed us to support the health emergency, raising resources to benefit almost 440 thousand people. In addition, one segment that has been particularly affected by the pandemic is the SMEs. In order to promote the entrepreneurship and support this segment, we launched the Fifth National Entrepreneur Challenge, which attracted over 56 thousand participants.

Our National Plan also considered supporting our customers, and as we mentioned in the previous calls, we were the first bank to implement a national plan for our retail banking and commercial customers. It included a series of special measures to support our clients so they could cover their most urgent financial needs.

All the initiatives we have been taking to support the society maintain our bank as the financial institution with the best performance in terms of the actions taken during this health crisis, according to Ipsos, a leading survey company. This recognition demonstrates that we are advancing on the right direction as a sustainable institution that contributes to the development of Chile and its people.

Finally, as a result of our actions towards sustainability, Banco de Chile is listed on the Dow Jones Sustainability Index (DJSI). In addition, through our mutual fund subsidiary, Banchile, we incorporate ESG factors into investment decisions where we adopt the United Nations Principles for Responsible Investment (PRI).

Now, please move to slide 16, where we will go into more details about our financial results.

As Rodrigo highlighted in his presentation, 2020 was a very challenging year. The subdued GDP growth and higher unemployment observed in 2019, was further amplified with the arrival of Covid, GDP tanked, and unemployment skyrocketed. This was accompanied by a major drop in business and consumer confidence, adversely affecting the banking industry's perspectives. Thankfully, it looks like we are beginning to see the light at the end of this Covid tunnel. In the fourth quarter, the economy gradually opened, loan originations increased and activity in transactional products begin to return towards more normal levels. This more dynamic environment, together with our effective and consistent business strategy, permitted us to post a good bottom line this quarter of \$126 billion pesos, showing a slight change in trend when compared to the prior two quarters. On a full year basis, we recorded \$463 billion pesos with an ROE of 13%, a level that is more than an acceptable considering the magnitude to the crisis.

Nevertheless, if we exclude the one-time effect associated to the recalibration of our group-based provisioning model that was implemented in the 3Q20, as we reported in note 2 of our financial statements, our full year bottom line would have reached \$520 billion. This action confirms our more conservative and prudent risk approach during this crisis. This is especially noteworthy when we compare our outperforming results to those of our peers as you can see on the bottom left part of this slide. We also beat all of these banks in profitability as measured by return on assets and recorded by far the highest tier one ratio, both of which are shown on the chart on the bottom right.

We've managed this leading result not by chance but is a consequence of our consistent strategy that puts risk first. We steadily record more predictable results throughout the economic cycles, clearly setting us apart from our peers and generating greater value for our shareholders.

Please turn to slide 17.

Operating revenues in 2020 decreased by 3.7% year-on-year in line with the weak economy but rose 8.4% on a sequential basis. As expected, the pandemic affected almost all of our lines of business. As you can see on the chart in the middle of this slide, for the first time in many years, customer income for the full year fell from \$1.6 trillion pesos in 2020 to \$1.5 trillion in 2019 or 5%. This was mainly due to the factors shown on the top right chart of this slide.

Specifically, income from loans went down by \$35 billion pesos due to the sharp contraction in consumer loan balances as a consequence of both a more prudent bank offering and at the same time the lower demand from customers as a result of the pandemic. Additionally, the low overnight rate negatively affected the contribution of our DDAs, which was only partially offset by the 34% yearly rise in deposits during this same period. Despite that our fee-based business was very resilient because most of our revenues are generated by our large and well-diversified retail customer base, it also dropped but only marginally, by 2.5% year-on-year thanks to the joint venture we embarked with an international insurance company. On the other hand, Sales and Distribution revenues grew \$6.2 billion pesos during the year, as a result of more activity from derivative transactions related to our corporate and wholesale banking units.

The overall negative growth in customer income was partially offset by non-customer income which grew by 3% year-on-year. Our treasury business had a strong year and is explained by their good results in the management of our Trading and AFS portfolios in a scenario of decreasing interest rates, as well as lower CVA/DVA charges as a result of improved probabilities of default and higher revenues from asset liability management.

Despite that 2020 was very challenging, we have finally begun to see some signs of recovery. Loan demand started to strengthen and our view on the economy is improving. This should translate into better loan growth figures in the near future, which will help grow interest income. We have also begun to see that the normalization in the economic activity which is being reflected in higher transactionality and in turn fee income. The second and third quarters were the worst in this respect. Excluding the income that we recognize from the joint venture in fee income and a one-time greater expense in commissions paid related to credit cards, we grew fees by 2% on a quarterly sequential basis or 8% annualized. This is due to that most products are recovering to more normal levels of fee income generation such as credit cards, collections and payments, as well as mutual fund management and some products are actually posting higher revenues with respect to the same quarter last year.

These products include current account administration, guarantees and letters of credit, as well as trading and securities management. We expect that this more dynamic activity should continue in the coming quarters and that we should post positive growth figures in 2021, as long as there are no more major lockdowns in Chile similar to the ones we saw in the 2Q20.

It's important to highlight that the focus at Banco de Chile has always been to promote responsible growth in every segment we serve. We firmly believe that this is the main pillar of our proven and successful track record. As you can see on the charts to the right, this focus has allowed us to once again post the highest fee margin and operating margin, net of risk, in the industry. Through this approach of growing selectively in positive economic times and taking the proper safeguards during downturns, we have been able to provide adequate returns for our shareholders. On the following slides, we take a closer look on how our portfolio has changed throughout the course of the year and the evolution of our asset quality.

Please turn to slide 18.

Total loans grew by 3% year-on-year, ending the quarter with a portfolio of almost \$31 trillion pesos. The general trend in 2020 was an environment of lower demand from customers and stricter credit risk requirements from banks. As you can see on the chart on the top right, loan volumes were sustained by the Covid Fogape program. In our case, the program was mainly focused on customers in our SME segment, which are businesses with annual sales below \$3 million dollars per year. As you can see on the chart on the bottom of this slide, loans in this business segment grew by 21% when compared to 2019.

On a sequential basis, we saw a little more dynamism this quarter in personal banking, posting a rise of 1.3% or 5.2% annualized. Once again, Residential mortgage loans were the main growth driver, up 1.8% from the 3Q20. The demand from this product has been more dynamic and resilient than initially expected. Investors seem to be seeking more profitable low risk investments in real assets, as interest rates world-wide have reached historically low levels. In terms of origination, mortgage loans grew by 29% on a sequential basis but only represents approximately 60% of the level we recorded the same period last year. Meanwhile, it's worth mentioning that consumer loans, for the first time since 2019, rose this quarter, growing 0.3% over the 3Q20. It's also notable to highlight that Consumer loans have consistently increased monthly originations, accumulating a rise of over 50% when compared 3Q20. Despite this impressive rise, it still falls short to even the level recorded in the 4Q19, representing only 73% of the level posted during that period.

With regards to wholesale lending, this area slowed and grew only 2% year-on-year and on a sequential basis decreased 5% mainly due to a reduction of liquidity buffers maintained by a large number of multinational companies during the year in order to face the uncertainties associated with the pandemic. To a lesser extent, the sharp decrease in exchange rate or Chilean peso appreciation negatively impacted balances of foreign currency denominated loans.

Looking forward, we expect that in 2021, in line with the latest credit survey from the Chilean Central bank and the better perspectives for the overall economy, demand should rise and the risk appetite from banks will likely also increase. Thus, we expect lending to gradually resume dynamism, particularly consumer and commercial loans, which were the products most affected in 2020. We estimate that total loans should pickup some market share and grow around 8% in 2021.

Please turn to slide 19

Without a doubt, we are the financial institution with the best funding structure in Chile. This is one of our strongest competitive advantages, which has been possible through our ability to provide the best service experience that our customers value and through both our solid brand and capital soundness. 2020 had significant changes in our funding structure. First, demand deposits grew significantly, rising 34% over last year and today, represents 33% of total assets as shown on the chart on the top left. This is significantly higher than all of our peers as you can see on the chart to the right. The low interest rates combined with an uncertain economic scenario and multiple financial aid packages to individuals and SMEs drove this increase in deposits. Second, we also took advantage of the liquidity facilities provided by the Central Bank, which we obtained mid-term funding denominated in pesos and bearing the monetary policy interest rate. These two important changes that are shown on the chart on the bottom left, which mainly replaced time deposits held by financial counterparties, particularly in local currency. This combined with our world-class credit risk rating that allow us to place bonds at low spreads, has permitted us to continue to be a leading bank in cost of funding.

Finally, we finished the year with the strongest level of Tier 1 in our recent history of 12.2%. This is especially important as we will begin to implement Basel III at the end of 2021. In this regard, based on our current information and estimates, we expect to implement Basel III without any material issues, taking into consideration the phase-in period adopted by the Chilean regulator. Moreover, as you can see on the chart to the right, we have the highest level of tier 1 capital versus our peers.

We are confident that we can take advantage of the opportunities that will be presented during this period to grow our assets and to strengthen our relationships with our current customers, as well as continue increasing our share of wallet, especially through our digital contact channels. Our new digital initiatives should permit us to keep on expanding our customer base while improving our market-leading position in core demand deposits.

Please turn to the slide 20.

Cost of risk in 2020 reached \$463 billion pesos, up by 33% from last year. Nevertheless, if we exclude additional provisions and the one-time adjustment of our risk model in the 3Q20, cost of risk would have dropped 20% year-on-year. Clearly this is not in line with the economic scenario but shows the impact of the diverse financial temporary aid packages, and justifies the proactive measures taken by the bank regarding additional provisions and adjustment in risk models. The financial industry and us first gave various payment holidays to its customers and this was later accompanied by government guaranteed loans for SMEs and two pension plan withdrawals that amounted to approximately US\$35 billion dollars, amongst other initiatives mainly to the lower income segment of the population. The sum of all the cash disbursements of these assistance programs rose to a record level disposable income in Chile. These factors drove a reduction in NPLs and improved significantly customer payment behavior.

Nevertheless, we can't rule out that once this liquidity is used, our low core cost of risk and NPLs will return to more normal levels. For this reason, we have accumulated the highest level of coverage in the industry of 3.6 times, clearly differentiating us from our main peers, as you can see on the chart on the top right. Our delinquency ratio is more than 50% lower than our peers and the level of additional provisions, despite that we have the best portfolio.

In terms of the quality of the retail book that had payment holidays, this portfolio has evolved well. The personal banking area has shown excellent payment behavior with low levels of NPLs that are below the levels reported prior to the crisis. With regards to SMEs, we provided six-month grace periods to almost 40 thousand small and medium sized businesses and one third of these customers have begun to pay their first instalment in December. Of this client base, we have also seen a very positive payment behavior, as reflected in our good cost of risk indicators. All these results are the consequence of the important resources that we deploy to credit risk at Banco de Chile. We are confident that our commitment to manage risk prudently, growing responsibly with a consistent strategy will permit us to continue posting a track record of outranking our competition, not only in credit risk but also in profitability.

Please turn to slide 21 on operating expenses.

Our determination to improve our operating costs continues to bear fruit. Year-on-year, total operating expenses decreased 3.1% for the full year when compared to last year and 2% this quarter when compared to the 4Q19. As you can see on the chart to the right, personnel expenses decreased \$18 billion driven by lower variable compensation and a drop in severance indemnities that was partially offset by a rise in salaries but that was below the level of inflation mainly as a result of the strict rehiring processes that we have implemented and has produced a reduction in our headcount throughout the prior years.

Administrative expenses also had an important drop explained by lower outsourced and external advisory services due to the internalization of core developments aiming to improve efficiency and due to the lower business activity affected by the pandemic. There was also a reduction maintenance of fixed-assets and lower marketing expenses thanks to an improvement in cost effective campaigns implemented throughout 2020. These effects were partially offset by a rise in IT expenses explained by various IT projects related to digital transformation and regulatory projects as well as temporary expenses due to sanitization measures that we had to undertake to keep our customers and staff safe during this pandemic.

Through our effective cost control measures, we have been able to maintain our efficiency ratio flat this year at 45.5% and actually reduced our cost to assets from 2.2 to 1.9, as you can see on the chart on the bottom left. Also, I think it's also very important to highlight how we compare to our peers in terms of cost control. Please take a look at the charts to the right. Since 2018, we have been able to improve our cost base in both salary expenses as well as administrative and other expenses while our main peers have been performing comparatively worse.

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2020 was clearly one of the most challenging years in the last century. The good results in the banking sector has been attained due to solid risk management practices amongst in banking industry as well as the coordinated effort that took place between the financial industry and government to reduce as much as possible the negative effects of the crisis and to avoid that this temporary cycle affects the economy on a permanent basis. We are positive for 2021 especially as Chile has already begun the vaccination process and this should allow us to go back to normal life faster than other Latin American countries. As you can see on the chart, Banco de Chile has been the best performing bank not only in Chile but also between our main peers.

This shows how much confidence the market has on our superior business approach as well as its view on the outcome of this crisis. We are confident that we will continue to be the leading banking in Chile thanks to our superior risk management that supports our business model and permits us to have more stable and reliable returns for our shareholders.

Finally, before moving on to questions, I would like to mention some key takeaways.

- In terms of GDP growth, we expect activity to grow around 5% in 2020. Unlike other years, we don't expect that the banking industry will grow two times real GDP in loan growth. For this reason, it is important to understand the current state of the cycle. In 2020, total loans for the industry grew around 2% year-on-year, despite the 6% decline of the overall activity, showing a countercyclical role that we hadn't seen in any other crisis. This growth was driven by commercial loans due to the Fogape program and mortgage loans, partially offset by a reduction of over 14% in consumer loans. In this environment, given the very high comparison base effect, we anticipate that in 2021 loan growth for the banking sector will only partially recover the expansion rates that we saw before the pandemic, even though we have better perspectives for GDP. Specifically, we think it's reasonable to expect loan growth of around 8% in nominal terms for the system.

In terms of Banco de Chile, we expect to grow slightly above the industry's average level of around 8%, focused on high margin products. We continue to focus on growing in consumer to middle- and upper-income customer segments and commercial loans for SMEs. We are expecting that we should pick up market share in consumer loans in 2021.

- In this environment, we expect NIM for us and the industry to be below the level obtained in 2020 because of the negative effect of the low overnight rate on loan spreads, flat inflation and as a result the contribution of DDAs to net interest income. We think it's reasonable and realistic to expect a slightly lower NIM for us and the industry with respect to the average level obtained in 2020.

In terms of risk, we expect 2021 as a transitional year. More than likely, the worst is behind us and that we should begin to see cost of risk above average long-term levels, especially in banks that have not made adjustments to their provisioning models. Despite that our NPLs are very low at 1%, it's important to highlight this was positively affected by various temporary factors, such as assistance programs to our customers and withdrawals from the pension funds. Since these factors will tend to dissipate during the year, it is reasonable to expect a more normal level of NPLs and cost of risk this year, probably around 1.2% and 1.3%, respectively. Nevertheless, it is even more important to note that we have a solid loan portfolio with a retail customer base that is more concentrated in lower risk segments and a strong SME book with a historical of low levels of delinquencies. Actually, we have been recognized for having the strongest customer base in the industry, with a proven track record. This has been the result of our solid risk culture, which always focuses on growing responsibly. This strategy should allow us to slowly transition back to more normal levels of cost of risk.

- We expect that top line growth should slow but given our emphasis on cost control, this should permit us to maintain our ratio relatively flat in 2021

- Finally, in terms of profitability, we are still facing several sources of uncertainty mainly in terms of the degree of recovery after the pandemic. We don't know the impact of this crisis in critical areas as employment and potential growth, which affect the evolution of asset quality indicators. So, the future trend of risk indicators will be critical on the ROE for us and the industry as a whole. In this environment, we expect a gradual increase in the ROE this year, relative to the average level posted in 2020. The implementation of our strategic projects will allow us to offset some negative forces such as lower interest rates and still weak employment. In the medium term, we think that we should see an improvement in our ROE, towards levels closer to our history, as long as the economy improves its capacity of growth and interest rates converge towards higher levels. It's important to reinforce the idea that it will strongly depend on the evolution of the economy once the pandemic was left behind us.

Thank you and if you have any questions, we would be happy to answer them.