Banco de Chile 1Q21 Financial Results Conference Call

Operator

Good afternoon everyone, and welcome to Banco de Chile's first Quarter 2021 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 and Capital.

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, everyone. Thank you for joining this conference call today, where we will present an analysis of the financial earnings posted by our bank during the quarter. We have divided this presentation into three main sections. First, an analysis of the business environment and our macroeconomic forecasts. Then, we will present our advances in strategic projects, with a particular focus on digital transformation. In the final section, we will share our financial analysis of the results achieved during the quarter.

Let me start with an overview of the economy. Please move to slide number 3.

Overall, there has been a strong recovery in Chile, as the chart on the top left shows. After the strong drop in the economic growth observed in 2020, mainly in the second quarter, the activity has had a steady rise since the end of 2020. Specifically, on a sequential basis, the economy posted an annualized rate of 16% in the first quarter, after increasing by 31% and 23% in the previous periods.

As a result of this trend, the activity reached its pre-pandemic level in February 2021, as the chart on the top right clearly shows. Consequently, Chile has been the first Latin American country able to recover all the lost production as a consequence of the Covid19.

The greater dynamism is highly attributable to the joint contribution of three main factors.

- First, the positive impact of the strong fiscal and monetary policy responses implemented since last year. On the fiscal side, the government has announced different measures equivalent to nearly 15% of GDP, which is well above the average posted by most countries in the world. The reduction in the interest rate applied by the Central Bank, as well as the quantitative easing policies, has also driven the activity this year.
- Second, the global economy is also supporting a better growth for Chile, which is extremely relevant due to the high integration that Chile has into the global economy. The increase in copper prices, which have reached historical values, is driving total exports and fiscal revenues. In the same line, the growth in China is also positive for Chile.
- Finally, the pension funds withdrawals have injected, although temporarily, more dynamism to the private consumption.

Despite this recovery, the labor market remains subdued. In March, the unemployment rate was 10.4%, in line with December’s figure (10.3%). Nevertheless, it remains well above the pre-pandemic rate, which was near 7.0%, as can be seen in the chart on the bottom left. This is attributable to the sluggish growth in total employment, which is 9% below the level observed one year ago, which has been a consequence of the lagged activity in social intensive sectors, like services. Additionally, the labor force is also lower relative to the last year due to the mobility restrictions that have reduced the possibility of finding a job. All in all, the total participation rate in Chile fell to 57%, from 62% one year ago, confirming the weakening in this side of the economy. Probably, the recovery in the labor market will take a longer period.

In this environment, total inflation has remained stable, hovering around the target set by the Central Bank. In fact, as can be seen in the chart on the bottom right, the annual inflation rate was 2.9% in March, in line with the 3.0% posted at the end of the last year. The core index, which is the measure that excludes energy and food prices, has also remained stable, although slightly below the headline inflation. On a sequential basis, the CPI went up by 1.1% in the first quarter, while the core CPI increased by 0.9%. Broadly speaking, stable inflation has resulted from two opposite forces: a positive contribution from non-tradable goods due to the pension funds withdrawals, which partially offset the lower tradable inflation resulting from the stability of the Chilean peso against the dollar.

Looking forward, we expect this positive trend to continue in the future. Please move to slide number 4 to analyze our reasons behind this scenario.

We continue having a positive view of the economy, especially compared with other countries in the region. Let me talk about the three main factors supporting this view.

The most likely reason behind the increasing optimism for Chile is the impressive advance in the vaccination process. More than 35% of the population has received the two doses of the vaccine, almost the half of the amount needed to reach herd immunity. The process in Chile positively compares with other countries in the region, as the left upper chart shows. This comparison is also positive relative to most countries in the world, as Chile leads in terms of the share of people vaccinated, only behind Israel and the U.K. This successful process allows us to expect greater mobility soon, probably in the second half of the year.

Another factor is the capacity of Chilean companies to adapt their activities according to the new sanitary restrictions. The bottom left chart shows an interesting comparison released by the Central Bank in the last monetary policy report. Specifically, it compares the evolution of the activity (in level, right axis) relative to the stage announced by the government in the plan called “paso a paso” or step by step in English, where each phase reflects the degree of sanitary restriction, where 5 means no restrictions (before the pandemic) and the stage 1 means a total lockdown. You can see how the GDP has improved, reaching a pre pandemic level, despite having similar confinement to the last year. Undoubtedly, this confirms a strong pick-up in the overall productivity.

Finally, it is also worth mentioning that a larger proportion of the pension funds withdrawals have been maintained in current accounts, saving, and investment. Actually, according to Central Bank estimates, only 15% of these resources have been spent on consumption, as the box on the right shows, suggesting the existence of room for further growth in consumption this year.

As a consequence of all these factors, as well as the positive trend that I described in the previous slide, we continue expecting favorable macro conditions. Please move to slide 5.

We have raised our GDP forecasts for this and the next year. These changes were in line with the adjustment made by the Central Bank in the latest Monetary Policy Report as well as by the IMF in its April’s macroeconomic update. Specifically, we now expect the economy to grow by 6.2% in 2021 and an expansion of nearly 3.5% for 2022. As the breakdown of the tables shows, we foresee the GDP will be fostered by private consumption, with a lagged investment. In this environment, Chile will probably be the only country in Latin America with a positive average growth between 2020 and 2021.

We expect the CPI to remain within the policy range in the future. Specifically, we forecast the inflation will post 3.4% and 3.0% YoY rates at the end of this and the following year, respectively. Since the economy has a significant output gap, we see room for leaving the overnight rate unchanged until the next year.

Before moving to the banking sector, I'd like to emphasize the risks, which is an important factor, especially this year. Particularly, we think it is essential to pay attention to the trend of two of them. One is the evolution of the pandemic. Even though the significant advances in the vaccination process in the world, especially in Chile, several doubts relative to the efficiency of these vaccines remain, mainly in terms of the response against new variants. On the local side, there will be several key events this year, such as the election for members of the constituent assembly, presidential and congressional elections, and the discussion for a new constitution. Non-expected developments in these factors could generate impacts in the business environment.

Now, I´d like to review the main trends of the banking industry. Please flip to slide 6.

As we have mentioned several times, the banking industry is a reflection of the economy. Therefore, the improvement in the business environment that I described in previous slides has translated into a gradual recovery, continued low levels of delinquency rates and higher profitability.

Particularly, total loans went up by 1.3% QoQ, or 5.1% at an annualized rate, although it decreased by 0.4% YoY. This recovery was driven by the robust activity in mortgage loans that increased by 3% QoQ, while commercial loans expanded by 0.8% QoQ, led by the positive impact of FOGAPE loans. On the other hand, consumer loans remained subdued, decreasing by 1.1% QoQ, which is attributable to several factors, including the still high unemployment rate, and the 10% pension fund withdrawal.

Asset quality continues posting healthy figures. NPLs, for instance remained flat, maintaining the good levels of 4Q20, while the loan loss provisions decreased by 52%, equivalent to a cost of risk of only 0.7%. Although these levels are extraordinarily low, and to some extent decoupled from the economic backdrop, especially considering the weak activity and sluggish employment, we are aware of some temporary factors affecting these figures, such as the monetary transfers made by the government and pension funds withdrawals, which have enabled customers to settle overdue loans while retaking good payment behavior. Consequently, we can't rule out the gradual normalization of these indicators in the following quarters to average mid-term levels.

The stronger dynamism, lower provisions, and the positive impact from the higher inflation during the quarter led to a pick-up in profitability in the period. In fact, the average ROE of the industry improved to 16.6% in the 1Q21, above the low levels posted in the three previous quarters.

Despite these good quarterly results, we face a very challenging environment, marked by a still ongoing recovery, new sources of uncertainty related to the evolution of a second wave of COVID19, and increasing competition from banking and non-banking players, as well as a wide array of regulations ruling from capital management to how managing the banking business, among other factors. Given this scenario, Banco de Chile has been implementing several strategic projects to address these challenges. We will refer to these topics in the rest of this presentation.

Please move to slide number 8, to share our main advances in strategic projects.
A key differentiating factor of Banco de Chile has been our consistent and long-term strategy, which has allowed us to post a sound profitability to our shareholders. Since we aspire to continue being the leader bank in Chile, we have reinforced three key areas in our strategy: digital transformation, efficiency and productivity, and sustainability.

Pablo Mejia, our Head of Investor Relations will now share with you our main recent accomplishments in these fields.

PABLO MEJIA

Please go to slide number 9, where we will highlight some of our initiatives and advances in Digital Banking.

The past twelve months have been challenging in many aspects for the banking business. Thankfully, through the use and fast adoption of technology, the hardship of Covid-19 has been more bearable than it would have been in the past. At Banco de Chile, we were in the process of widening and improving our digital value offering by enhancing our operations with a front-to-back perspective. This has permitted us to continue growing during the pandemic by being the first to market for many services that our customers needed to better face this pandemic. During the last year, we have further enhanced our digital solutions, through a team of over 440 employees that are completely dedicated to finding innovative solutions to heighten the customer journey, outperforming the experience that customers receive from our competitors.

Based on these advances, this quarter, as you can see on the left, we were the first bank to offer our business customers the new Fogape Reactivate program with a solution that is mostly offered and executed online. This program is the continuation of the government loan guarantee initiative that was launched last year but with a new focus on reactivating commercial and investment activity of Companies. We are proud that we are the leader in the industry in Fogape loan volumes with more than 75% of originations being done through our online channels.

It is also important to mention that we successfully launched this quarter our new mobile banking app for businesses that provides important features such as quickly making online transfers using our digital token, examine account movements and balances, among others. We also made other improvements for companies such as tracking international swift payments and new functionalities for multicompany accounts so they can review subsidiary balances and movements all within the parent account.

We also enhanced our self-service machines in branches with more functions for personal banking that give customers a better overall experience for their everyday banking transactions. We also launched a new feature with smart watches and phones so customers can pay at POS terminals without needing to use their debit or credit card, and we have rolled out an important enhancement to our mobile payment app that will permit QR payments in over 6000 establishments in Chile. With these enhancements, our customers will no longer need to use their credit cards to make purchases.

As per our new digital account, Cuenta Fan, we have steadily grown strongly. Today we have more than 300,000 new accounts with an important usage level and account balance that already makes this product profitable. Based on internal studies, our accounts have substantially higher balances than our peers and greater usage levels. We are also currently working on creating a new customer journey to cross-sell these clients with other Banco de Chile products and services. We firmly believe that cross-selling these customers is the only approach to make this product highly profitable. We expect to have more news regarding this development later on in the year.

Before moving to the next slide, I'd like to say that we are exceptionally pleased with all of the advances we have made for our business and personal banking customers. We confidently expect that these changes will reinforce our strong relationships with clients and promote our customers to continue choosing our bank to be their primary account.

Please turn to slide 10

Our customer-centric strategy is the key pillar of our success. During this challenging period, as mentioned in the prior slide, we have further innovated and improved our customer experience. These enhancements can clearly be seen in diverse indicators as shown on this slide. For instance, we continued to lead the industry in top of mind, with a wide gap to 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. More importantly, we ranked once again as the bank with the highest net promoter score and for the first time out paced the leading bank in having the best loyalty program.

All of these indicators support customer growth and is extremely important in a context where customer loyalty is harder to gain and easier to lose, especially with new regulations that make it simpler to switch from one bank to another.

Please turn to slide 11

We have been persistent in our advancements in optimizing our resources during the quarter to improve our operational productivity. We have continued to automating processes by leveraging technologies and we have further simplified diverse procedures. By digitalizing both the front and back office, we will be able to be a highly competitive bank in this challenging industry that is being disrupted by new fintech companies.

We are also completing the implementation of the new service model that involves merging the former Credichile network into Banco de Chile offices, as well as introducing more automation in branches and adjusting processes made by our tellers and account managers. It is worth mentioning that we have conducted this process without affecting the customer experience, as I showed in the previous slide. This allowed us to further optimize our distribution network, by reducing branches to 312 or 9% YoY.

Another two measures that have contributed to reducing costs is the implementation of a specialized area that evaluates all purchases in the bank and the creation late last year of the Productivity and Efficiency Division, which is accelerating and deepening the savings initiatives across the entire organization.

These changes have resulted in an improvement in efficiency and productivity as shown on the bottom of this slide. As you can see, total expenses to assets, loans per branches and Demand Deposits per employee have all had important improvements. We expect that these enhancements on how we run our bank should lead an efficiency ratio closer to 42% in the medium term.

Please move to slide 12.

As we mentioned in the previous calls, we are deeply focused in supporting our customers, society and employees especially during this pandemic. In the first quarter we continued providing financial solutions to our business customers, which have had to adjust their strategies to operate and grow in this difficult environment. In this sense, we are proud to be the leader in the new government program called Fogape Reactiva, or reactivate in English, granting almost US$1 billion in loans since its launch in February. This program is not only focused on assisting businesses that have struggled during the pandemic but also to companies that need funding to grow. Additionally, we have 2,000 pre-approved loans for the tourism sector, one of the sectors most affected by the pandemic and we have offered free virtual showcases to give SMEs more visibility to sell their products.

We also focused our efforts in supporting the community and employees, as you can see on the list on the right. We have been providing activities to promote inclusion, financial education and through our corporate volunteer program, over 330 thousand people were benefited last year. With regards to our employees, we are proud of our commitment to provide an attractive place to work, training and our focus to raise the quality of life of our team during our history and this pandemic. All these actions along with our permanent commitment with a sustainable business built on a solid corporate reputation that has been recognized by many prestigious independent local and global surveys and institutions, as can be seen in the slide.

Please turn to slide 14 to begin our discussion on our financial results.

Despite the challenging environment that the pandemic has produced, the first quarter of 2021 has been positive for our bottom-line, thanks to our firm focus on generating revenues based on a customer-centric strategy, together with an attractive level of inflation, a prudent approach to credit and market risks, as well a strong cost control discipline. As you can see on the chart on the left, we recorded $162 billion pesos in net income with an ROE of 18.2%. Apart from having a high-quality revenue generation, primarily concentrated in recurrent customer income, we also continued to have the best relationship between profitability and capitalization as you can see on the chart to the right. This strong capital position, undoubtedly the best among our peers, is particularly relevant in light of the new regulations related to Basel III, which has started its implementation phase.

Please turn to slide 15.

In periods such as the current one, many of the elements that are part of the value creation of companies may be impacted by movements in different financial market factors, which is why we believe it is necessary to take a more complete view of the performance of financial institutions. For this reason, it's important reinforce that the traditional analysis of net income must be supplemented with results recorded in comprehensive income, which includes unrealized gains and losses from the fair value of the available for sale portfolio and derivatives for accounting hedges, that are accounted directly against equity.

As you can see, our superior performance is clear. In fact, our comprehensive income grows by 1% while many our peers decrease substantially. We believe that taking this approach into consideration is a critical factor when considering total profitability for shareholders, particularly amid highly volatile and uncertain periods when an increase in market risk appetite may produce an adverse impact on shareholders' equity, which could be potentially higher than earnings you can book temporarily accrued in net interest income.

As mentioned in many conference calls in the past, our focus at Banco de Chile is based on commercial banking services that support our customers financial needs. This motivation generates long-term relationships that translates into stable, predictable and recurrent revenues, from both the accounting and the economic point of view while being consistent when prudently managing our financial positions. Therefore, we are focused on bottom-line growth governed by manageable market factors and risks. Consequently, all these factors confirm that Banco de Chile has the strongest and most stable revenue generation for our shareholders.

Please turn to slide 16.

Operating revenues showed a slight recovery from prior periods, with a sequential growth rate of 1% over the 4Q20. This was driven by customer income, principally solid fee income thanks to the better activity that boosted transactional revenues from the stock brokerage, mutual funds and retail segments. In addition, non-customer income remained flat QoQ as a consequence of the impact of steadily increasing interest rates on the management of the investment and trading portfolios and higher net charges of CVA from derivatives, coupled with lower gains from inflation income during the period that went from 1.3% during the 4Q20 to 1.1% in the 1Q21.

Additionally, I should highlight that we always promote responsible growth in every business segment. This strict focus has assisted in achieving a successful track record. As you can see on the charts to the right, we posted once again the highest fee margin and operating margin, net of risk, in the industry. By growing selectively in positive economic times and taking the proper precautions during negative cycles, we have been able to generate sustainable and dependable returns for our shareholders. The evolution of our business results is completely in line with the fundamentals of the economic cycle and the evolution of our NIM makes sense with that. Any large changes in NIM can be attributable to a change in inflation or higher exposure to market risk.

Before moving to the next slide, I want to highlight that we are optimistic that the gradual reopening of the Chilean economy and our swift vaccination process should permit stronger revenue growth, particularly in terms of customer income, given the expected rebound in the demand for loans, steady growth of fee income and slightly higher contribution of our demand deposits as along as interest rates continue to increase. On the following slides, we will discuss how our portfolio has changed during the quarter and go over the evolution of our asset quality.

Please turn to slide number 17.

Total loans reached almost $32 trillion pesos this quarter, increasing by 2.7% when compared to the prior quarter, equal to 10.8% on an annualized basis.

As you can see on the chart on the right, we saw a recovery of growth across the board. In terms of commercial loans, we grew actively in the new government guarantee program that is directed to SMEs as well as middle market companies. This program primarily focuses on providing financing for capital investments as well as working capital. As opposed to the program that was launched in 2020, this program is more attractive for us as the maximum annual interest rate we can charge is 7.7% versus 3.5% and customers can have a tenor of up to 7 years, leaving room to grow even more in this segment with proper levels of risk. As you can see on the charts on the bottom left, we increased our wholesale portfolio by 2.7% quarter-on-quarter and the SME portfolio grew an impressive 4.7% during the same period. This acceleration is attributable to the Fogape program, which we are proud to say that we have already placed in loans almost 1 billion dollars and we have the highest market share of 27%.

In turn, personal banking loans increased 2% quarter on quarter. Mortgage loans grew strongly, which continues to reflect a decoupling from the economic outlook while benefiting from still low interest rates, although it was partially offset by the sluggish expansion in consumer loans, which has been affected by stricter requirements in an environment of high unemployment and higher temporary liquidity associated with the withdrawal of pension funds. Nevertheless, it is important to point out that it seems the worst performance of these loans is behind us and we should probably begin to see a gradual growth in consumer loans in the second or third quarter of this year to the extent the economy retakes its pace of growth.

Please turn to slide 18.

By providing high quality customer experience through innovative products and services, we have generated robust relationships with our customers. As a result, DDAs represent 35% of our funding structure, which is substantially higher than all of our peers, and as you can see on the chart on the right we continue to have the most important market share in local currency demand deposits. Over the past 12 months, our solid brand and soundness have also provided us with a strong increase in demand deposits, which rose 32% year-on-year. As you can see on the chart on the bottom right, we continue to be the preferred bank for personal banking customers, with a substantial gap to our peers in local balances in personal banking accounts. I want to emphasize that it's easy to issue many current accounts, the hard part is to actually get customers to use them, which our leadership and evolution in this more than speaks by itself. .

As we mentioned in the prior call, this rise in current account deposits has significantly changed our funding structure. Today we are much less dependent on institutional funding. As you can see on the chart on the top left, demand deposits now represent our most important source of funding. It is also important to mention that over the past years, we have also made an effort to diversify our source of funds from shorter term time deposits to long-term bonds which are more stable while matching our long-term assets, particularly residential mortgage loans. This strategy reduces our interest rate risk, particularly in times of hiking rates, as expected once the economy begins to retake dynamism. Today long-term bonds represent 20% of our funding and about 20% have been placed abroad.

Also, in terms of capital, we have the strongest Tier 1 capital base of 12.3%. This together with our excellent credit risk ratings, further assists us in to continuing to diversify our funding base.

Before moving to the next slide, I'd like to mention that we are well prepared to face Basel III, which is in line with our historical guidance. In this regard, we can mention that our risk weighted assets under Basel III, based on the methodologies provided by the CMF, are slightly lower than our risk weighted assets under Basel I, but including credit, market and operational risks. Thus, our assets density remains mainly unchanged when adopting the Basel III guidelines, which has only slight adjustments to common equity tier 1 capital, as shown on the chart on the bottom of this slide. This is undoubtedly good news for us. More importantly, we believe that we can further strengthen our capital adequacy as long as we develop and apply for the use of internal models for credits risk weighted assets as permitted by the regulation today. Although some of the regulatory thresholds are not yet in effect, we are confident that our capital base and the optimization of our risk weighted assets should enable us to successfully overcome this new framework. In the last months, we have noticed that we are one of the six systemically important banks in Chile. In our view and given the methodology defined by the regulator, we would be subject to a systemic buffer ranging from 1.2% to 1.5% since December 2021, which is also in line with our prior expectations. As for Pillar 2 and countercyclical buffers, these are obviously the big question marks. However, in order to address the former, we have anticipated the adoption of Basel III, notwithstanding the waiver provided by the regulator for the first year. All in all, we feel comfortable with our current capital levels while confident that we are well prepared for the transition with no special actions to be taken ahead.

Our excellent profitability has been sustained through our sound and risk policies that focus on responsible and sustainable growth. Please turn to slide 19.

As you can see on the chart on the left, cost of risk this quarter reached $54 billion pesos, down from $126 billion pesos in the same period of the last year and the $85 billion posted during the previous quarter. As shown on the chart on the bottom left, this was completely in line with the evolution of our NPLs, which continued surprising and reached only 0.96% this quarter, well below the average running rate prior to the pandemic and in turn resulted in a lower cost of risk.

It is important to note, that we established $40 billion pesos of additional provisions to mitigate the transitory impact of the better behavior of overdue loans on provisioning models when taking into account the still weak economic environment. It's also noteworthy that we began the year with important levels of uncertainty in terms of the economic effects of the second wave of the pandemic that resulted in new lockdowns across the entire country. Nevertheless, the successful vaccination process deployed by the government, as well as improved economic expectations for the year as a consequence of the impressive rise in the number of individuals that have been vaccinated, together with higher copper prices, permits us to be more optimistic regarding the outlook. For this reason, we can't rule out the release of additional allowances in the coming quarters if the evolution of the economy is positive and there is a reduction of uncertainties.

It's also very relevant that we were pleased to see sustained positive payment behavior from all of our customer segments and this assisted in maintaining our NPLs low. In particular, we are glad to say that the payment behavior of our SME customers as well as the retail banking portfolio that was refinanced have evolved positively during the pandemic and this has also contributed to this low NPL ratio.

Finally, through our prudent risk policies that have established $360 billion in additional provisions with a coverage ratio of 3.5 times, have clearly positioned Banco de Chile as the most prepared bank to face challenging cycles. We are confident that this should assist us to take advantage more than our peers the economic improvements as we end this negative cycle.

Please turn to slide 20

Total expenses this quarter rose by 2% year-on-year and dropped 3.1% quarter on quarter as you can see on the chart on the top left. The main reason for the quarterly sequential reduction in operating expenses was a result of lower personnel expenses, related to lower severance indemnities from organizational restructuring that took place at the beginning of 2021 as well as lower variable compensation. As for Administrative expenses, the higher sequential figure is due to a one-time release of administrative provisions that occurred in the 4Q20. Excluding this provision for $11 billion pesos in the 4Q20, administrative expenses grew slightly mainly due to higher IT and marketing expenses as a result of our digital initiatives and greater business activity this quarter.

Thanks to our strict cost control efforts, we improved our efficiency ratio to 46.5% this quarter from 48.4% in the 4Q, outperforming the average level recorded by the industry. It's also very relevant to highlight how we compare to our peers in terms of cost control, as shown on the chart to the bottom right. Since 2019, we have been able to significantly improve our total expenses when compare with the performance of our main peers. As mentioned, we expect that all of the controls and enhancements we have made lead to an important improvement in our efficiency ratio and reach a level closer to 42% in the medium term.

Please turn to slide 21

Before taking questions, I want go over some key takeaways from this call. First and most importantly, I want to emphasize that we are extremely proud that we have once again managed the cycle well and despite of all the challenges we faced, we have delivered a great bottom line for our shareholders. While it is difficult to predict how this pandemic will end, we believe that we are beginning to see the light at the end of the Covid tunnel. The local vaccination program has gone exceptionally well and we already have more than 35% of the population has received two doses. As mentioned, we should have around 80% of the population vaccinated mid-year, allowing a herd immunity. This should permit the economy to gradually normalize, allowing a further recovery in employment and GDP.

This positive scenario could lead to a better growth of 6.2% for 2021 and consequently greater loan demand from all customer segments. Our expectation for loan growth in the industry is around 8% and we anticipate that we should pick up market share in our base case scenario. We have also begun to see a normalization in our transactional products and continue to see good payment behavior from customers.

Finally, I want to emphasize that Banco de Chile has had a prudent and conservative risk policy over the time. As a difference to most banks in Chile, mainly to our main competitor, we recalibrated our internal risks models last year, anticipating the new normal due to the pandemic. That's why we are not anticipating a further adjustment in cost of risk in the short term, as these adjustments were seen last year and explained in previous conference calls. Its even more important to highlight that we took this decision in 2020 despite having, by far, the highest coverage ratio in the Chilean banking industry. We expect in terms of risk expenses of around 1.1% for us in the medium term. We feel if the evolution of the economy evolves positively with normalized asset quality indicators, we can't rule out the release of a portion of additional allowances in the near future. Saying that, we are optimistic that this, combined with our strong competitive advantages should allow us to continue being the best long-term investment for our shareholders.

Thanks for listening and if you have any questions, we would be happy to answer them.