Banco de Chile 2Q20 Financial Results Conference Call

Operator

Good afternoon everyone, and welcome to Banco de Chile's second 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 everyone. Thank you very much for joining us on this conference call.

Today, we´d like to present our analysis of three main areas. First, the evolution of the macro environment, with a special emphasis on the role of economic policies and strong fundamentals as key factors in the potential recovery in the future. Then, we will present the main advances in critical strategic areas of our Bank. Finally, before moving to the Q&A section, we will go over our financial results for the second quarter of 2020.

I'd like to start with an overview of recent developments on the macro side. Please move to slide number 3.

Chile has been experiencing an ongoing contraction since March, in line with the trend observed in most countries. This downturn has mostly been explained by the strict social distancing measures, which aim to reduce the spread of Covid-19. This has led to a sharp drop of 14.4% in the GDP during the second quarter, as seen in the chart on the left. The breakdown shows a significant deterioration in sectors more intensive in social activities, such as hotels, restaurants, and transportation. On the other hand, the positive growth posted by mining production has offset the sharp decline in the rest of the economy.

The overall CPI has also been falling. As seen on the upper right chart, CPI went down to 2.6% in June, from 3.9% in February (before the pandemic). This trend has been driven by the sluggish growth (reflected in the lower non-tradable inflation) and the stability in the Chilean peso, which has reduced tradable prices.

The labor market has also been affected by subdued growth. The bottom left chart shows the increase in the unemployment rate, to 12.2% in June, led by the annual decline of 20% in total employment and the 15% drop in the labor force.

I'm aware that this scenario described so far is not entirely encouraging. However, we are optimistic about the future, especially relative to other countries in the region. In fact, the lower depreciation of the Chilean currency, as shown in the chart on the bottom right, confirms the better outlook for Chile. Therefore, the natural question is: What is behind this positive view?

Let me try to answer this question on the next side.

Several factors support a positive view of Chile in the future. One of them is the existence of sound fundamentals, which make Chile the strongest economy in Latin America. Apart from having the highest per capita GDP and the most stable economy, we also have a unique combination: the lowest vulnerability and the most significant room to implement countercyclical policies.

As the table shows, Chile has the best country risk, reflected in the lowest sovereign CDS among peers. Thanks to this, the government has issued bonds in foreign markets with very favorable conditions.

Additionally, Chile has important buffers that make possible the implementation of further fiscal and monetary measures. Resources available from the Central Bank (international reserves and the credit line with the IMF) are nearly 20% of the GDP, while the net fiscal debt was only 14% at the end of 2019, due to USD22 billion held in sovereign wealth Funds. Chile is also less vulnerable to external shocks. According to statistics released by the IMF, foreign investors represent only 10% of the local equity market, due to the strong base of domestic institutional investors. Consequently, Chile would experience lower impact if there were capital outflows from emerging countries. That’s why, typically, the Chilean financial markets have been more resilient in negative cycles.

These fundamentals are even more relevant when they are supplemented by strong countercyclical policies, as we have seen in Chile. The magnitude of the fiscal policy can be seen in the significant rise in fiscal deficit, as the left chart shows. Chile can implement these policies because the solid position had before the pandemic, as shown in the chart on the right, due to the low public debt relative to most countries in the world.

The improvement in GDP growth will likely take place in the short term. Let me explain why in the slide 5.

Chile is easing the social distancing measures adopted in this pandemic as a result of the improvement in the number of active cases of covid-19. The upper chart shows the continuous downturn of them, while the number of recovered people has risen significantly. Based on these positive trends, the government announced the implementation of phase 4, which reduces zones in quarantine, making possible the beginning of gradual normalization. This change follows a period marked by very strict social distancing measures where, as the chart on the bottom shows, more than half of the population was under quarantine. In fact, the Stringency Index, which is released by Oxford University, confirms that Chile applied strict measures due to the temporary suspension in schools, commerce, and constraints to the mobility.

These changes should be fueled by the economic measures adopted in this crisis. As we mentioned in the previous call, Chile has been recognized by having a coordinated, timely, and robust response from different economic authorities, as the table on the right shows. The government has announced measures equivalent to nearly 11% of the GDP, including the fund of US$12 billion to finance transfers to vulnerable people and public investment for the next year. These resources supplemented the measures announced before, such as the capitalization of both FOGAPE and the unemployment fund. The Central Bank has eased even more the monetary policy. In addition to the interest rate cut to 0.5%, the board implemented a forward guidance mode, anticipating the interest rate will likely remain at 0.5% for the next couple of years and also announced an extension of the FCIC program by further US$16 billion and asset purchasing in the open market by US$8 billion.

Finally, Congress approved a bill that allows withdrawal of up to 10% of personal savings held in Pensions Funds. Despite the long term impact, this measure will contribute to an increase in private consumption this year. Additionally, they will discuss a change in the constitution that will allow the Central Bank to buy and sell Treasury Bonds in the open market, providing an additional tool to stabilize liquidity in stressful scenarios.

All in all, we expect a recovery for the next year, which I'd like to discuss in the next slide. Please go to slide 6.

This table summarizes our macroeconomic forecasts. We expect the GDP to decline by 6.0% this year. Since the GDP plummeted by 14% in the second quarter, this estimate is consistent with better growth ahead, which is more likely after the recent easing in social distancing measures announced by the government. In this environment, we estimate a 4.0% growth in 2021, as a result of the expansionary policies, the better outlook for the global economy and favorable copper prices. Nevertheless, we are aware of the unusual uncertainty, mainly that related to the future evolution of the pandemic, as well as internal factors.We expect the CPI to be at 2.0% this year and 2.2% next year, due to the subdued growth and the stable currency.

These changes in the macro conditions have had a direct impact on the banking sector. Please move to slide number 7 to analyze them.

Undoubtedly, sluggish growth, weaker employment and lower inflation have affected the results of the banking industry. Total net income adjusted by Itau figures posted $437 billion pesos in the second quarter, which is 7% lower than the previous quarter and almost 50% down relative to the same period last year. In a broad sense, this decrease is mainly explained by the pick-up in provisions, lower dynamism in loans, and, to a lesser extent, the lower NIM due to the reduced CPI.

As shown in the chart on the right, there was a lower nominal growth in total loans, mainly in those related to more profitable products, as reflected by consumer loans declining 6.8%. In the case of mortgage loans quarter-on-quarter growth slowed to 1.4% during the quarter. The changes are explained mainly by lower disposable income and lower consumer confidence. On the other hand, commercial loans maintained a dynamic pace of growth, increasing 3.7% quarter-on-quarter as a result of the implementation of Covid loans program.

Total provisions soared, doubling the level observed the same period last year. This increase is mostly attributable to the considerable deterioration in commercial sectors affected by the pandemic and the weak employment perspectives, resulting in banks recording an important level of additional provisions during the quarter. Due to this, the cost of risk for the industry increased to 2.0%, from 1.15% last year. It is essential to keep in mind that these figures have not reflected the total impact of the weaker economy in asset quality yet, particularly for loans evaluated on a group basis, due to the deferral of housing and consumer loan installments that have been implemented during this crisis. Therefore, a further deterioration over the next months is likely for these types of loans. Instead, cost of risk for individually-evaluated loans should already been portraying part the outlook for the economic sector in which those companies participate.

I’d like to finalize this part by highlighting the important role that the banking industry is playing in the current crisis. We know about the positive correlation between GDP and total loans, which tend to be higher in the case of commercial loans. This means that, in positive cycles, loans to companies grow even faster than the overall economy, while in negative cycles, we used to see a contraction, as was the case in 2009. The chart on the bottom shows the strong relationship between them. However, today the story is different: despite the fell of 14% in the GDP during the second quarter, commercial loans increased by 3.7%. This decoupling has been attributable to the pick-up in loans with state guarantee mainly to SMEs, which are known as “covid loans.” This confirms the strong countercyclical role that our authorities and the banking sector are playing in this crisis, which, undoubtedly, will contribute to a faster and healthier recovery after the pandemic. It is important to highlight this has been possible thanks to the solid position of Chile as well as the robust position of Chilean banks, especially in terms of capital.

Now, we would like to move to our advances in our key strategic pillars and the financial results posted in the last quarter. Please flip to slide 9.

Banco de Chile has been recognized by its ability to post consistent and robust results over time. Since we aspire to continue being the most sustainable and profitable Bank, we have reinforced three main aspects of our long-term strategy: digital transformation, efficiency and productivity, and the increasing commitment to ESG standards.

We firmly believe that strengthening these areas will be critical in transforming Banco de Chile according to the challenges that arise in the new business and social environment.

Now, Pablo Mejia, our Head of investor Relations, will share with you the advances accomplished in these areas. Pablo, please go ahead.

Thanks Rodrigo. Please move to slide 10 where we highlight some of our initiatives in Digital Banking.

The pandemic we are facing is changing the way we live, especially in terms of using technology to fulfill our needs. In this sense, the digital initiatives we have implemented in the last years allowed us to understand our customers' behavior further and build a solid basis to provide 100% online solutions for most of their requirements during the current sanitary crisis. Even though we already had robust platforms, we recognize that the pandemic challenged us to accelerate our digital transformation as we provided an essential service and our role is critical to support our clients' financial activities.

As you can see in the timeline, we have innovated our digital experience for customers in several fields, focusing on delivering the best customer experience through the incorporation of business intelligence, data mining, analytics, digitalization of our process and branches. In order to continue to provide the best experience to our customers, we are working on launching a new digital onboarding platform that will give us a significant improvement with the possibility of opening a new account 100% online at a very low cost. This will allow us to gain a greater number of customers, particularly within the younger segments, as well as to promote financial inclusion. Another recent advancement in our front-office digital platforms is our new webpage that offers improved customer experience and incorporates analytic tools. It is more modern, secure, and intuitive and also has inclusive features for visually impaired. We also included a heat map that will provide us with valuable information to understand even better our customer preferences.

Those efforts contributed to establish the best digital bank in Chile as well as having the best online platforms, according to Global Finance.

All the investments we have made in the previous years allowed us to undertake the high digital demands of financial services in the current crisis. During the pandemic, we processed over six times the number of loans pre-covid using robotics, and through agile developments we were the first bank in the market to provide a facility to postpone installments for personal banking customers 100% online and to offer COVID loans to SMEs through our digital channels.

On the other hand, we also notice that usage rates in our digital channels have been intensifying significantly. As we can see at the bottom of the slide, online consumer loans originations increased from 37% during the first half of 2019 to 46% of total operations in the first half of this year. On the right side, the activities done through our online platforms continue growing and now represent 88% of total monetary transactions, with an important rise in mobile transactions, representing an increase of 16% YoY. Although we acknowledge that the lockdown mostly explains the higher digital channels preference, we believe that this trend will continue after the pandemic has finished.

Please turn to slide number 11.

The successful implementation of our digital transformation has played a critical role in providing the best experience to our customers. Despite this challenging period, we have continued to show excellent indicators. As you can see, we posted once again the highest brand recognition in the Chilean industry and top of mind for the High Income Segment, with a very wide gap with our closest competitors. Along with our superior brand recognition, we are also the leader in customer satisfaction, as measured by the net promoter score. It is important to note that we have historically been recognized as the bank with the best customer experience levels according to many different sources. We attribute this success to the quality of our services and products, which have helped to generate stronger long-lasting relationships. These figures are reinforced with the recognition of receiving a distinguished national award for customer satisfaction in 2019.

Another relevant point I want to mention is the strength of our brand. In one survey, customers are asked if they were to switch to another bank, which bank they would choose. As you can see in the chart in the middle, we are the most preferred bank in Chile. Another key aspect that we highlight is related to Security and Solvency, where we lead the perception with a large gap when compared to the next main competitor. 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. This customer satisfaction is most clearly demonstrated by our low attrition rate, as you can see on the chart on the bottom left, which we believe to be one of if not the best in the Chilean banking industry.

Please turn to the next slide, number 12.

Another aspect of our long-term strategy is efficiency and productivity. Our combined focus of digitalizing the bank, by implementing technologies that increase productivity and streamlining processes, together with identifying savings areas and implementing better cost controls, has begun to bear fruit. In addition to these improvements, in 2019 we started a process of optimizing our branch network, which includes a new service model that has resulted in a decrease in branches. We have reduced our network to 336, almost 50 less when compared to a year earlier. The new office model should permit not only further improvements in efficiency but also increase client experience, which is even more important in this context. We have implemented, for instance, new intelligent self-service machines to provide more services that traditionally had to be executed by the service desk area. Another measure that contributes to reducing costs is our purchasing desk, which has shown excellent results due to the reduction in expenses in areas such as acquisitions and services hired. Through all of these initiatives, we have been able to show consistent and significant improvements in our productivity, as measured by loans per employee and total assets to expenses, as seen on the charts.

We expect that through these projects, we continue improving our productivity and delivering a better customer experience. We strongly believe that through the greater use of technology across our business, we should continue to see improvements in efficiency in the long term.

Please turn to the next slide, number 13.

The final aspect that I would like to share, before moving on our 2Q20 results, is the advances we have made in our commitment to sustainability. Today, we are witnessing an unprecedented health crisis, and it is still almost impossible to quantify the effects that it will have in the long-term. We are aware of our role in supporting the recovery of economic and social development, especially in challenging times, and now is not the exception. During the pandemic, we strengthened our commitment to society and implemented a National Support Plan.

We took several measures to support our customers. Apart from being the first bank to offer the option of reprogramming loans 100% online, we were also the first to offer our SME customers Covid loans. For this segment, we went beyond providing liquidity and hosted for the fourth time our National Entrepreneur Challenge, where we achieved a record of 56 thousand applications we promoted a virtual fare for 60 entrepreneurs where they were able to exhibit their products.

Furthermore, we have also implemented many actions that aim to reduce the consequences of the pandemic for vulnerable groups in Chile. We delivered packages with essential groceries for people with disabilities and their families; offering food, medicines, and telemedicine services to senior adults.

All these efforts, among others, rewarded our bank by being recognized as the financial institution that did the best job in taking actions during this health crisis, as seen in the chart on the right.

Please turn to slide 15 to begin our discussion on our results for this quarter.

During this quarter we recorded a bottom line of $112 billion pesos with an ROAE of 12.5%, a level we consider reasonable given the magnitude of the crisis we are facing globally and the low level of inflation for the period.

We also outperformed our peers. Apart from having the highest profitability indicators and coverage ratio, we maintained the best capitalization level, as shown on the chart on the right. We are confident that our prudent risk management approach, strong capitalization and our consistent strategy, will allow us to continue delivering sustainable and superior profitability for our shareholders.

Please turn to slide 16.

Operating revenues dropped 6% year-on-year due to the fall in inflation, from 1.2% to only 0.3%, impacting non-customer income and, to a lesser extent, a slight decline in customer income, which even though remained strong when taking the weaker environment into consideration. In this context, NIM fell from 4.5% last year to 3.5% this year, as you can see on the table on the bottom left. About 50% of this decrease was caused by the lower CPI we had this quarter and the effect of lower contribution of demand deposits to our cost of funds given sliding interest rates. To a lesser extent, these factors coupled with the negative impacts of mortgage loan rates renegotiations at lower rates in the second half of 2019 and the new regulation regarding automatic payments of overdraft lines, which became effective in January 2020, both of which partly offset by higher income from loans. The rest of decrease in NIM is mainly explained by higher exposure to low margin and low risk assets, such as Central Bank short-term bonds used to comply with reserve requirements linked to the boost in demand deposit balances and other effects.

As the chart on the upper right shows, customer income remained relatively stable as a result of opposite forces. The lower overnight interest rates sharply reduced the contribution from deposits, even though the impressive growth in balances seen during the last months. On the other hand, as mentioned, there were positive contributions from the increase in commercial loans, higher sales in the distribution desk from the treasury division, and higher fee income.

Most of the rise in fees was associated to a $9.3 billion increase in insurance brokerage linked to the partnership with an international insurance company. Unfortunately, this was partly offset by a substantial decrease in economic activity amid strict lockdowns that lowered transactional fee income from other sources such as cards. The market volatility also affected in revenues from our mutual fund and stock brokerage business due to customers moving AUM to fixed income funds that generate lower fees as well as lower transactions in stock trading.

I think it’s also important to note that our fee business is chiefly related to our retail segments. Although we had some drawbacks this quarter as a result of weak activity that affected aggregate demand from customers and, therefore, transactionality, we believe that this is temporary. Despite this impact, we continue leading the industry in net operating income and fee margin. As you can see on the charts on the right, our margins as a percentage of average interest earning assets reached 3.8% and 1.2%, well above the average level of our peers.

Please turn to slide number 17.

Total loans reached almost $31 trillion pesos this quarter, increasing 7% year-on-year and remained basically flat quarter-on-quarter.

Demand, except for Covid loans, was weak across all segments this quarter. In the wholesale segment we posted a year-on-year growth of 5% but quarter-on-quarter dropped by 3%. There was a similar trend in personal banking loans, increasing 5% year-on-year and falling by almost 2% quarter-on-quarter. The annual rise was mainly due to residential mortgage loans that grew 8% while, in contrast, consumer loans during the same 12-month period decreased 6%. On a quarterly basis, mortgage remained flat, and consumer loans actually dropped 6%. These weak results are attributable to the strict lockdowns and the weaker economy, as we discussed in the beginning of this call. This resulted in reduced household spending as well as lower demand for home sales. In fact, the expectation of the National Chamber of Construction is that new home sales will actually drop by 40% in 2020, and the sector will only return to normal business levels by mid - 2021. We expect that the dynamism of personal banking loans should continue weak throughout the remainder of the year.

These results were almost offset during the quarter by the strong growth we experienced in Covid loans book in the SME segment, which grew 19% year-on-year and an impressive 14% in the quarter. Please turn to slide 18.

As mentioned, the strong results in this segment was attributable to the government's stimulus package for companies that provided guarantees of up to 85% for working capital loans. We are proud that we have been able to assist our customers and the country by taking part in this program. We placed during the quarter over $1 trillion pesos, equivalent to 3.7% of total loans as of June 30th. Most of these loans were directed to provide liquidity to small and medium sized enterprises and as of July 2 we granted of almost 25 thousand loans with a market share in the 18%, which is similar to our market share in this sector and aligned with our risk apetite. In terms of total loans reprogrammed and taking into consideration the total value of the loan, we are the bank with the lowest proportion to total loans amongst our peers, as shown on the chart on the bottom right. Finally if we look only at the installments that have been reprogrammed and a loan granted, this reaches only $495 billion or 1.6% of loans, as the charts on the top right side of this slide demonstrate.

I think it is very important to highlight that the banking industry has made an important effort to assist those customers. We believe that our efforts combined with all the programs that the government has provided Chilean should make a difference during the recovery of our economy post Covid.

Please turn to slide 19.

We continue to have the best funding structure in Chile. This has been possible thanks to our customers using us as their primary bank account. This is clearly demonstrated by the strong increase we had in demand deposits, which rose 37% year-on-year and 11% on a quarterly sequential basis. Also, important to note, is the significant change that the rise in DDAs has for our funding structure. Today our demand deposits represent 28.5% of total funding, up from last year 25.7% and significantly higher than our peers, as shown on the bottom right chart. More importantly, approximately 75% of our DDAs come from non-financial counterparties, which represent a stable source of financing. Aligned with this, we have been able to replace time deposits from financial counterparties with DDAs.

We also have a well-diversified funding base, which is very relevant today, as can be seen in chart on the left. Undoubtedly, this makes another positive difference of Banco de Chile.

All in all, our strong brand, coupled with our leading risk ratings and strong tier 1 capital base of 10.9%, allow us to place debt at favorable conditions, have permitted us to maintain a leading level of cost of funding of only 2.0% in local currency. We are confident that this crisis will open new opportunities to strengthen our already solid relationships with our customers and continue increasing our share of wallet.

Our long history of prudent risk policies and very responsible growth has been fundamental to our sustainability over time and are intertwined to our long-term strategy. Please turn to slide 20.

Managing risk globally across all levels of our corporation is key component to our consistent and attractive results. Our board of directors plays a vital role, actively participating in establishing policies and guidelines for accepted risk levels, for developing and validating provision models, as well as to define additional provisions. Management is responsible for controlling and complying with the mandates of the board, especially in terms of the control of different types of risks.

As you can see on the chart on the right, cost of risk this quarter jumped to $139 billion pesos, up from only $68 billion pesos last year and $126 billion from 1Q20. However, our NPL ratio dropped from 1.4% in the 1Q20 to 1.3%. This combination of a higher cost of risk but lower NPLs was due principally to two factors.

Please take a look at the chart on the bottom right. First, $70 billion of the $139 billion pesos posted in 2Q20 were due to additional provisions. These provisions were recorded to protect the bank against unforeseeable economic fluctuations. In line with this, this pandemic has brought forth many uncertainties, such as city-wide lockdowns, deterioration in employment and financial stress in companies. These uncertainties have made it extremely difficult for traditional risk models to properly gauge credit risk and as a result, our board approved the establishment of these general provisions. It's important to note that these allowances are not for a certain segment, sector or customer, they are for our entire portfolio and implement during different circumstances such as the one we are facing today. Second, the remainder of the quarterly provisions were chiefly due to the impact of Covid-19 on the financial position of certain large customers, which have suffered a deterioration in their business environment and income-generating capacity. As a reminder large companies are evaluated on an individual basis for provisioning purposes using a forward-looking approach.

In terms of the retail book composed by consumer, mortgage and commercial loans evaluated in group basis, delinquency levels had remained relatively stable. Nevertheless, this was mainly due to the support measures we provided this segment, which included grace periods, loans at preferential rates and government backed Covid commercial loans for SMEs. In addition, as a way to promote lending and assistance to banking customers, the local regulator gave special treatment to rescheduled loans in terms of provisioning, which has a positive effect on cost of risk when compared to a normal period, even though we expect deterioration in our portfolio over the next few months.

In this regard, we are confident that our prudent risk policies have made Banco de Chile the most prepared bank to face this negative cycle as shown on the next slide, number 21.

As you can see, our coverage ratio reached 235% as of June 2020, significantly higher than our peers and we recorded the lowest delinquency ratio of just 1.3%. Our prudent risk culture has also contributed to creating the highest level of additional provisions in the industry, reaching $283 billion pesos, as you can see on the chart on the bottom right.

All of these figures demonstrate the soundness of the quality of our portfolio and our prudent management when it comes to risk. Our consistent and successful strategy has been centered to grow our portfolio responsibly and this has allowed us to portray a solid track record of dependable results.

As shown on the following slide 22, a well-diversified portfolio, with lower overall exposure to the riskiest segments, also contributes to these results.

Our portfolio is highly diversified and concentrated in lower risk sectors. Despite this, we are the most profitable bank in Chile because our customers choose us to be their primary account and this provides many additional benefits that I'm sure you all know well.

As you can see on the chart on the top left, the retail segment represents 63% of our portfolio and this is divided in three main areas. First, consumer loans for middle and upper income individuals as well as mortgages are focused mainly to low risk individuals. We have the highest market share of high-income individuals, which are low risk in nature. Second, our exposure to consumer finance through our Credichile brand is only 2% today, significantly lower than the level we had in 2009 during the subprime crisis, which represented nearly 7%. Lastly, our SME book is a very high-quality portfolio that has historically had low levels of cost of risk and is closely related to our upper income individuals. We may not have the largest market share in this segment but we are certain that we have the best portfolio in the industry.

The remaining portion of our portfolio is the wholesale book that represents 37% of the total loans. We work with the largest companies and multinational corporations in Chile and by nature this segment is lower risk. For this, we are proud that we have historically had a solid performance when it comes to wholesale risk. The pie chart on the bottom of this slide shows our exposure to different sectors in Chile. As you can see, our penetration in the highest risk sectors is lower than our peer group. In the retail, hotels and restaurants, we have an exposure of 9% versus our peers of 11%. In construction, our exposure is 7% versus the competition's 10% level and lastly, we compare similarly to our peers in transportation but it's important to note that we do not have important loans to the airline industry.

We are confident that our prudent approach to risk management should set us apart in the coming months when banks will have more information regarding the quality of their portfolios and how this will translate to cost of risk.

Please turn to slide 23

More important than ever is our focus on managing costs. As you can see on the chart on the left, we managed to maintain total operating expenses basically flat quarter on quarter and decreased 4.4% year-on-year.

The drop in yearly expenses was driven by lower salaries and other expenses as shown on the chart to the right. Specifically, we were able to increase our business activity without increase significatively our salaries and also had a reduction in severance payments and loan loss provisions on cross border loans due to a higher appreciation of the Chilean pesos this quarter as compared to the 2Q19. In addition to this, we lowered our outsourced salesforce services by absorbing these functions internally during the second half of last year and we lowered marketing expenses by reducing media expenses, market research and adjusting our loyalty programs.

These reductions were partially offset by higher IT expenses related to software licensing to adjust the bank quickly in this new environment. Also, we incurred higher expenses linked to fixed-asset maintenance related to sanitation and new safety measures related to the pandemic as well as costs associated to updating our branches to the new service model, among others.

On a year-to-date basis, we recorded an improvement in efficiency as shown on the chart on the bottom right, reaching 43.6%.

Please turn to slide 24

Before moving on to questions, I would like to highlight the favorable comparison of our stock versus our main peers in Latin America. As you can clearly see, we are the stock price that has been the most resilient in this crisis. We have recovered part of the drop from precovid levels. This is clearly a result of the market understanding that we not only one of the most profitable banks in Latin America, as shown on the chart on the bottom left, but that this is accomplished in a dependable manner throughout all of the cycles. It's also important to mention that we may have recovered to post Covid levels, we are still under the multiples we recorded in the past.

Despite the current environment, we are confident that better perspectives for the economy, coupled with our strong fundamentals and the strengthening of key aspects of our long-term strategy, will allow us to continue being the best long-term alternative for our investors.

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