

# Banco Santander Chile 12M & 4Q 2017 results

January 2018



# Important information

Banco Santander Chile cautions that this presentation contains forward looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. These forward looking statements are found in various places throughout this presentation and include, without limitation, statements concerning our future business development and economic performance. While these forward looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to: (1) general market, macro-economic, governmental and regulatory trends; (2) movements in local and international securities markets, currency exchange rates, and interest rates; (3) competitive pressures; (4) technological developments; and (5) changes in the financial position or credit worthiness of our customers, obligors and counterparties. The risk factors and other key factors that we have indicated in our past and future filings and reports, including those with the Securities and Exchange Commission of the United States of America, could adversely affect our business and financial performance.

Note: the information contained in this presentation is not audited and is presented in Chilean Bank GAAP which is similar to IFRS, but there are some differences. Please refer to our 2016 20-F filed with the SEC for an explanation of the differences between Chilean Bank GAAP and IFRS. Nevertheless, the consolidated accounts are prepared on the basis of generally accepted accounting principles. All figures presented are in nominal terms. Historical figures are not adjusted by inflation. Please note that this information is provided for comparative purposes only and that this restatement may undergo further changes during the year and, therefore, historical figures, including financial ratios, presented in this report may not be entirely comparable to future figures presented by the Bank.

# Agenda

- **Macro-economic environment**

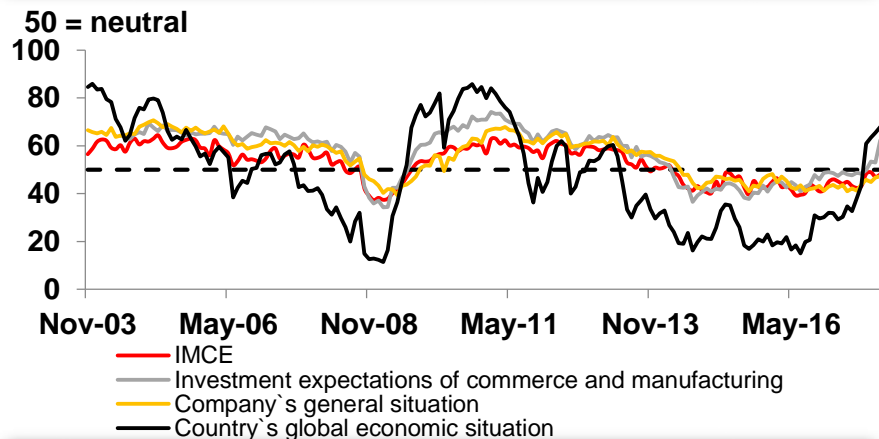
- **Strategy and results**

- **Outlook**

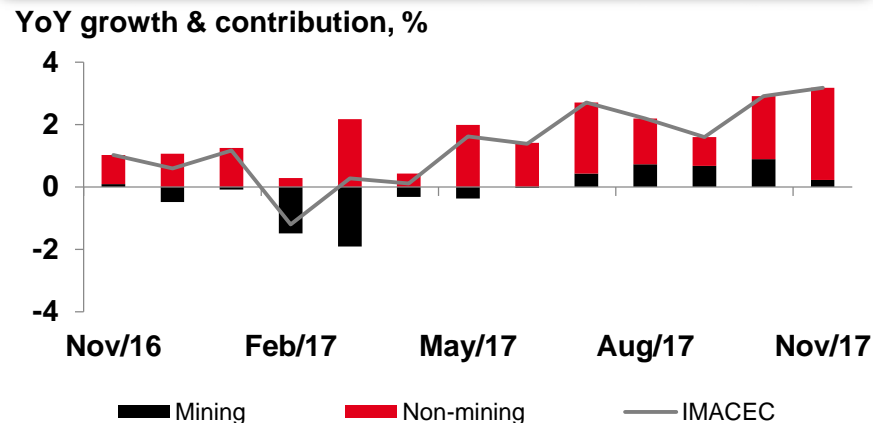
# Macroeconomic environment

## The economy is accelerating

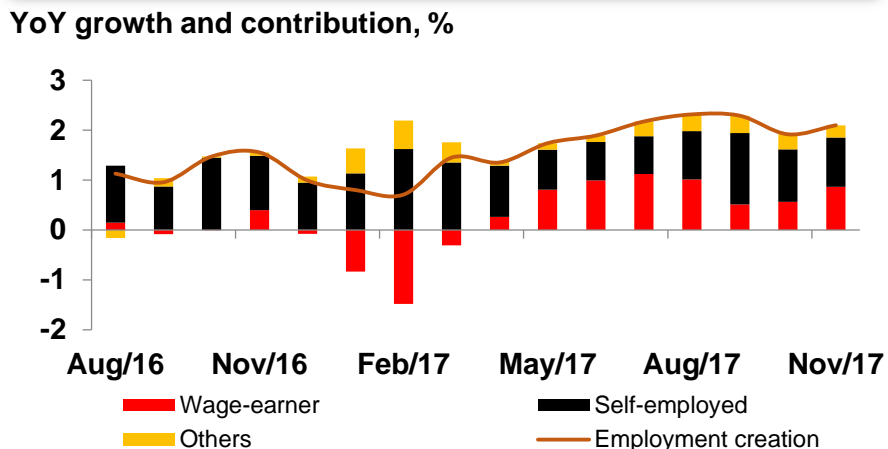
### Business confidence (IMCE<sup>1,2</sup>)



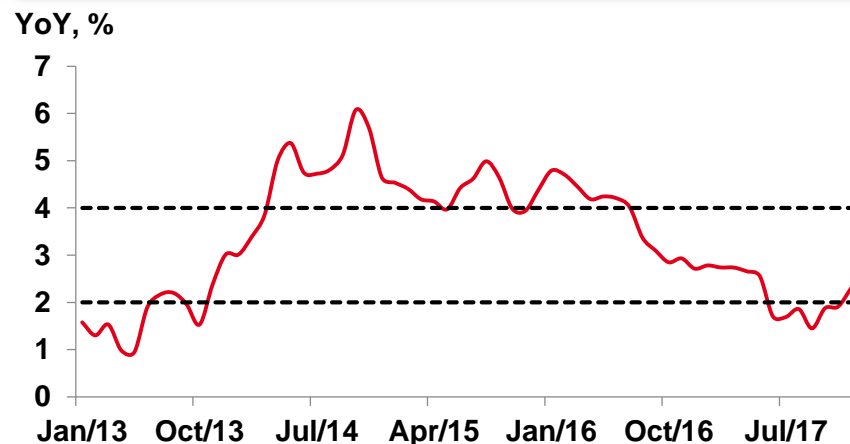
### Monthly economic activity<sup>2</sup>



### Job Creation<sup>2</sup>



### Inflation<sup>2</sup>

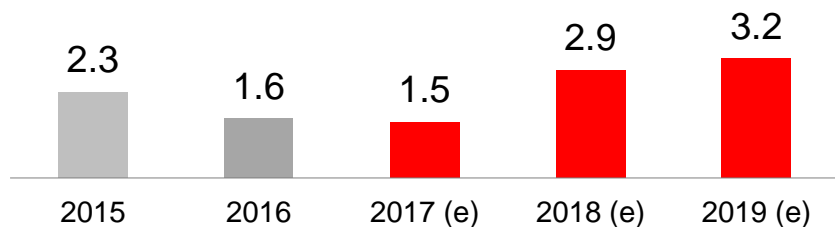


# Macroeconomic environment

## GDP growth expectations rise for 2018-19

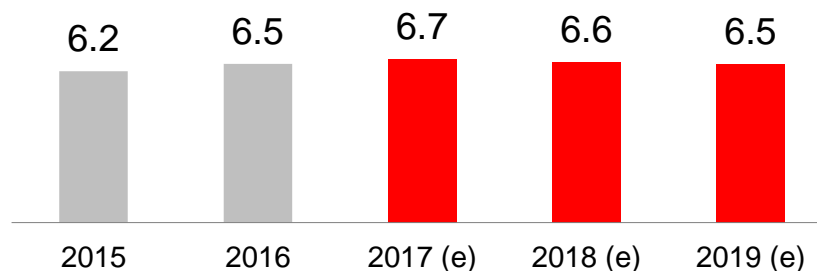
### GDP

YoY real growth, %



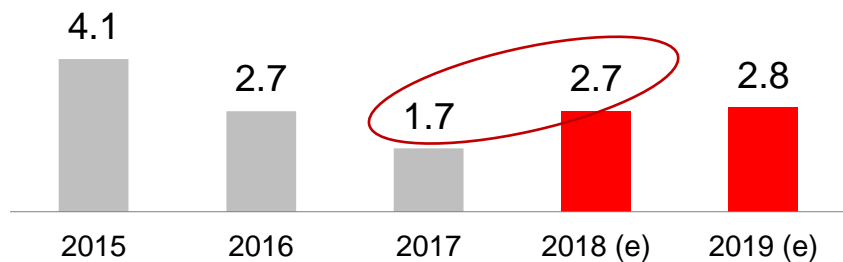
### Unemployment

% of workforce, %



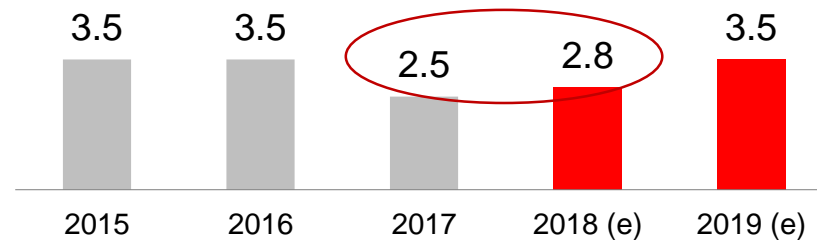
### Inflation

Annual change in UF inflation, %



### Central Bank ST Reference Rate

%



# Agenda

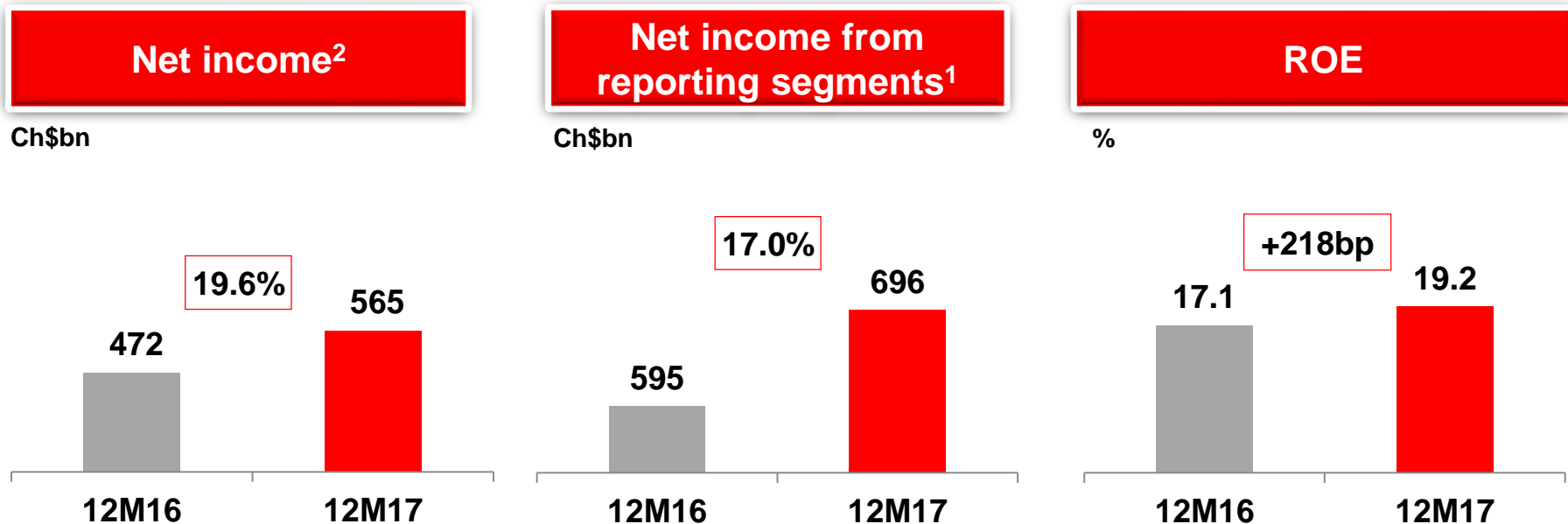
- **Macro-economic environment**

- **Strategy and results**

- **Outlook**

## Positive results in 12M17




**ROE reached 19.2% in 12M17**



**Retail Banking results up 28% in 2017**

## Positive results in 12M17

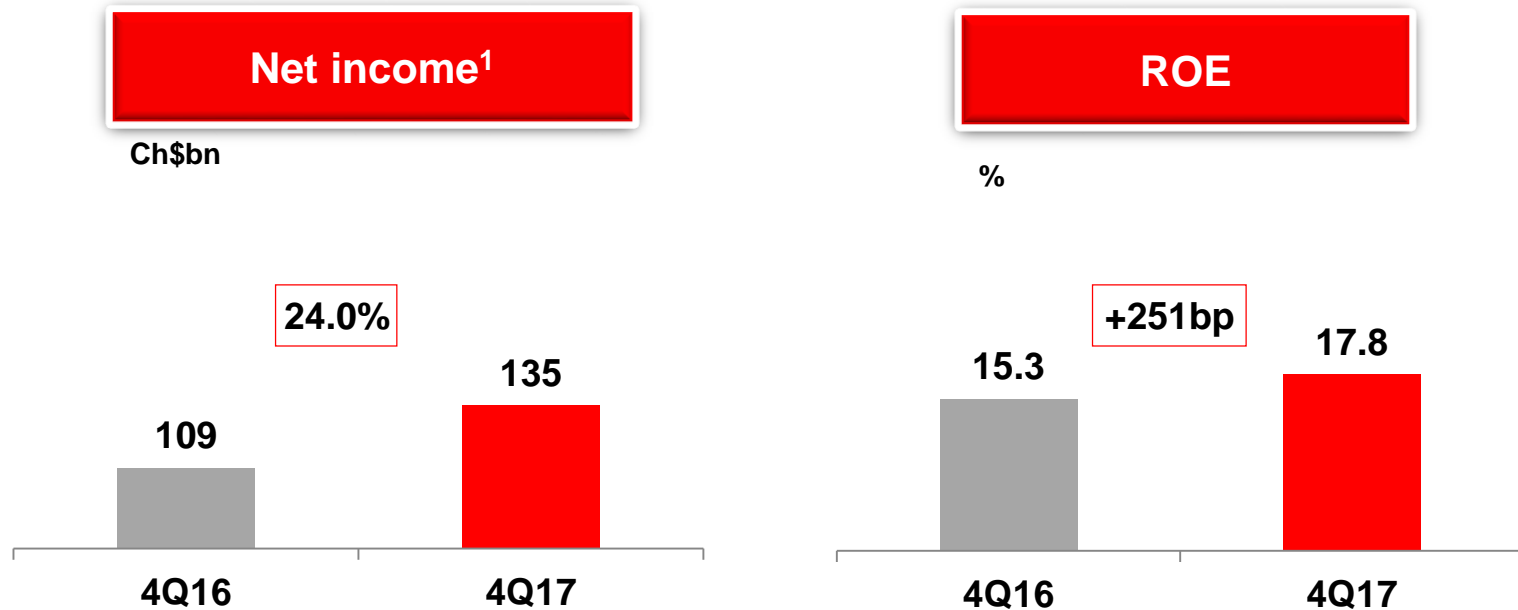
**Among our main Peers only Bank to increase ROE in 2017**

	2017 vs. 2016	2017	2016	2015
 <b>Santander</b>	↑	19.2%	17.1%	17.1%
 <b>Chile</b>	↓	19.3%	19.6%	21.3%
 <b>BCI</b>	↓	14.0%	14.7%	17.5%
<b>Competition<sup>1</sup></b>	↑	11.1%	10.7%	14.3%



## Positive results in 4Q17

**Net income increased 24.0% in 4Q17**



**Strong quarterly results driven by successful management of margins and costs**

### 3 objectives for healthy growth / higher profitability

**I. Focusing growth on segments with the highest contribution, net of risk...**



II. ... by increasing client loyalty through an improved client experience and quality of service and expanding digital banking capabilities



III. Optimizing profitability and capital use to increase shareholder value in time

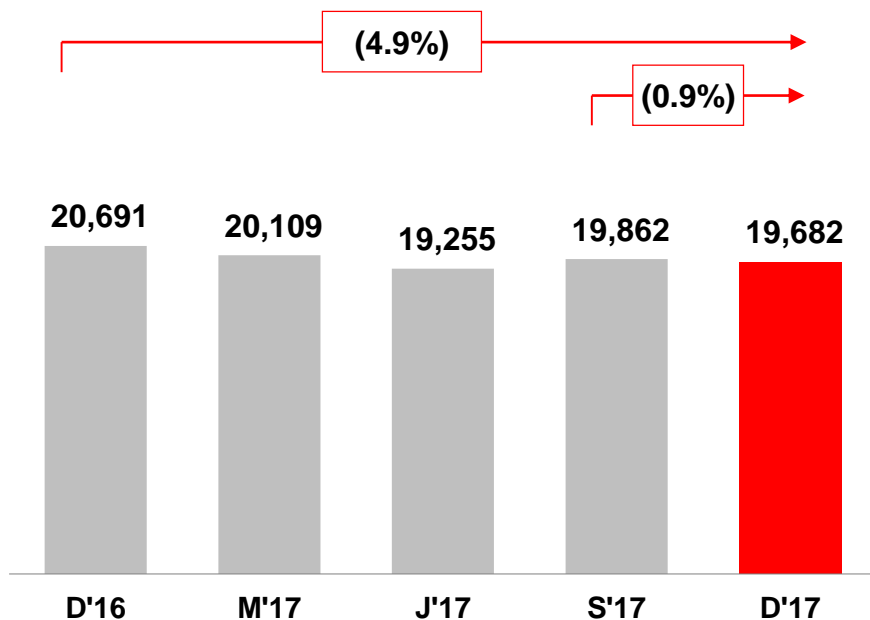


# Strategy: I. Growth focused on segments with highest contribution, net of risk

## Positive growth of demand deposits in the quarter

### Total Deposits

Ch\$bn



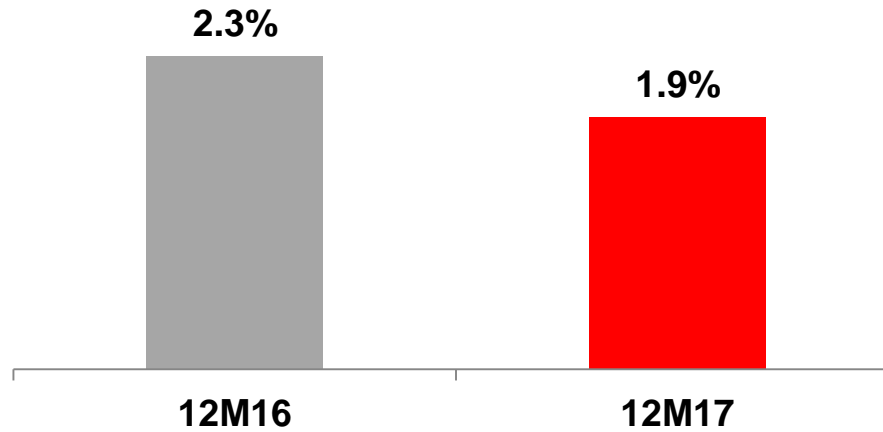
Ch\$bn

	12M'17	YoY	QoQ
Demand	7,768	3.0%	6.8%
Time	11,914	(9.4%)	(5.4%)
<b>Total deposits</b>	<b>19,682</b>	<b>(4.9%)</b>	<b>(0.9%)</b>
Mutual funds <sup>1</sup>	5,057	0.6%	(8.5%)
Loan to deposit <sup>2</sup>	100.7%		
LCR <sup>3</sup>	138%		
NSFR <sup>4</sup>	109%		

Strategy: I. Growth focused on segments with highest contribution, net of risk

## Lower funding costs

YTD average time and demand deposit cost

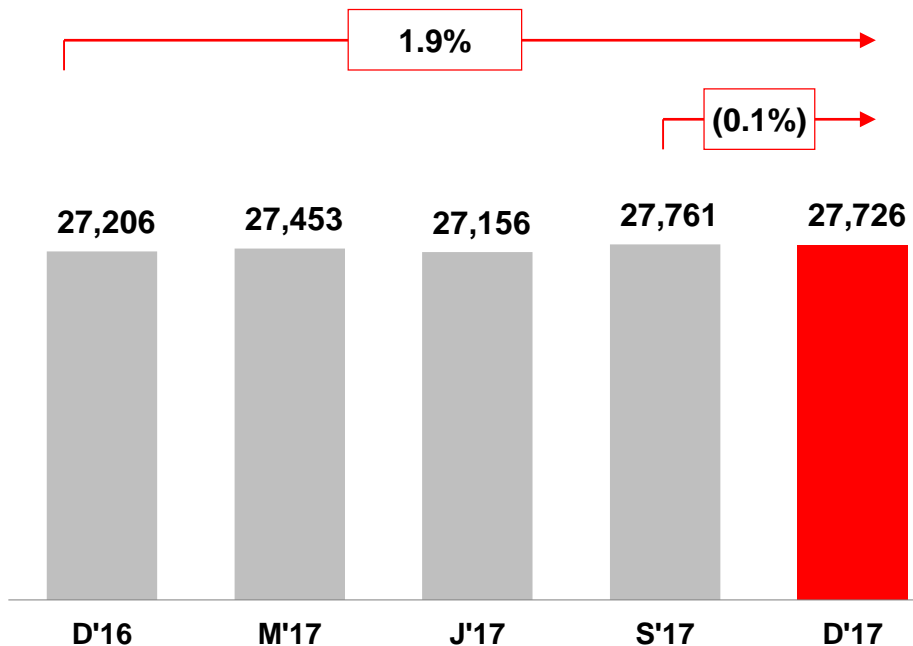


## Strategy: I. Growth focused on segments with highest contribution, net of risk

### Positive loan growth in high yielding segments in the quarter

#### Total Loans

Ch\$bn



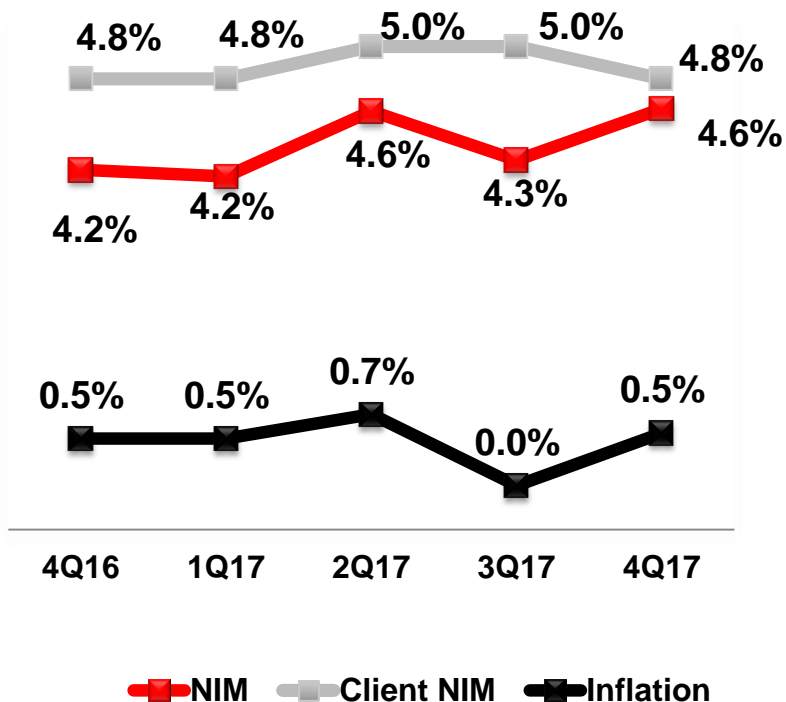
Ch\$bn

	12M'17	YoY	QoQ
<b>Individuals<sup>1</sup></b>	<b>15,408</b>	<b>4.3%</b>	<b>1.9%</b>
Consumer	4,558	2.5%	1.8%
Mortgages	9,097	5.5%	1.8%
<b>SMEs</b>	<b>3,825</b>	<b>4.4%</b>	<b>1.4%</b>
<b>Retail</b>	<b>19,233</b>	<b>4.3%</b>	<b>1.8%</b>
<b>Middle Market</b>	<b>6,776</b>	<b>4.4%</b>	<b>2.4%</b>
<b>Corporate</b>	<b>1,634</b>	<b>(25.5%)</b>	<b>(21.0%)</b>
<b>Total<sup>2</sup></b>	<b>27,726</b>	<b>1.9%</b>	<b>(0.1%)</b>

Strategy: I. Growth focused on segments with highest contribution, net of risk

## Income growth throughout all segments during the year

### NIM<sup>1</sup>, Client NIM<sup>2</sup> & UF Inflation



### NII by segment

Ch\$bn

	12M'17	YoY	QoQ
Retail	970	5.6%	(3.1%)
Middle Market	265	7.3%	4.0%
Corporate	101	5.4%	6.1%
<b>Subtotal</b>	<b>1,336</b>	<b>5.9%</b>	<b>(1.0%)</b>
Others	(9)	--	--
<b>Total</b>	<b>1,327</b>	<b>3.5%</b>	<b>9.1%</b>

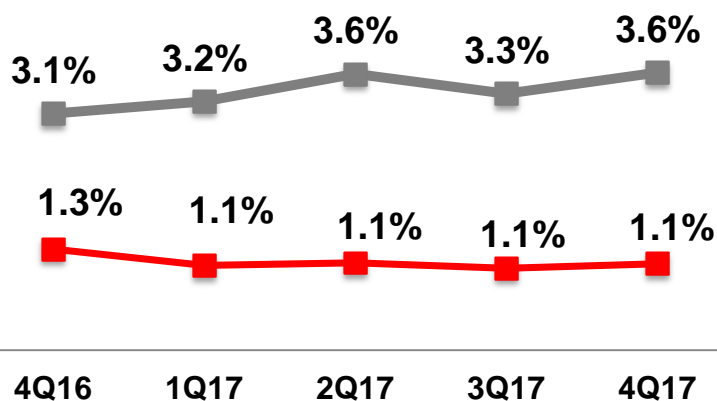
Lower funding cost, optimization of liquidity levels and correct management of UF GAP were fundamental in defending the Bank's profitability this quarter

# Strategy: I. Growth focused on segments with highest contribution, net of risk

## Cost of credit at 1.1%. Stable asset quality metrics

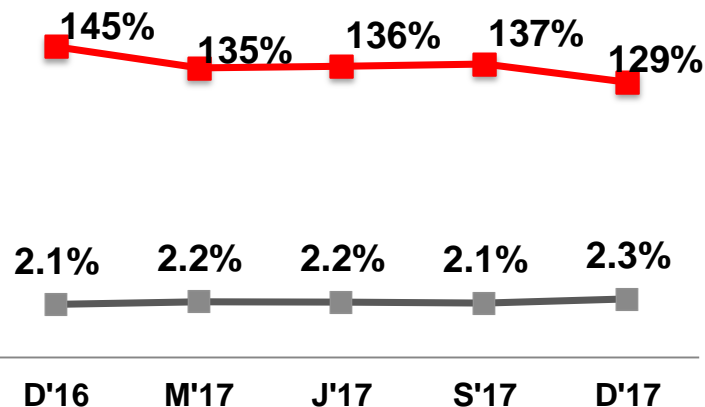
### Cost of credit and NIM Net of Risk

% of loans



■ Cost of Credit<sup>1</sup> ■ NIM net of risk<sup>2</sup>

### NPL and coverage ratio



■ NPL<sup>3</sup> ■ Coverage<sup>4</sup>

## 3 objectives for healthy growth / higher profitability

I. Focusing growth on segments with the highest contribution, net of risk...



II. ... by increasing client loyalty through an improved client experience and quality of service and expanding digital banking capabilities



III. Optimizing profitability and capital use to increase shareholder value in time





# 2012: Santander Chile was like an American muscle car

“POWERFUL ENGINE – HIGH OCTANE”



## Under The Hood

- High interest rates
- Large unbanked market
- High NIM
- High NPL
- High cost of client attraction



## Strategy: II. Increasing client loyalty and expanding digital banking

**Then the market changed...**

### 2012-2013 – Regulation changes

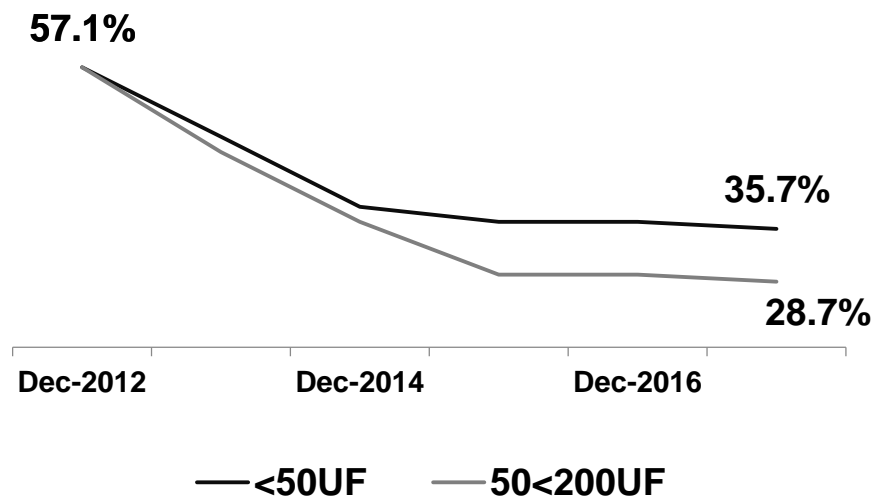
2011: La Polar crisis

2012: Dicom Law

2012: Restrictions on fees

2013: Reduction of Maximum rates

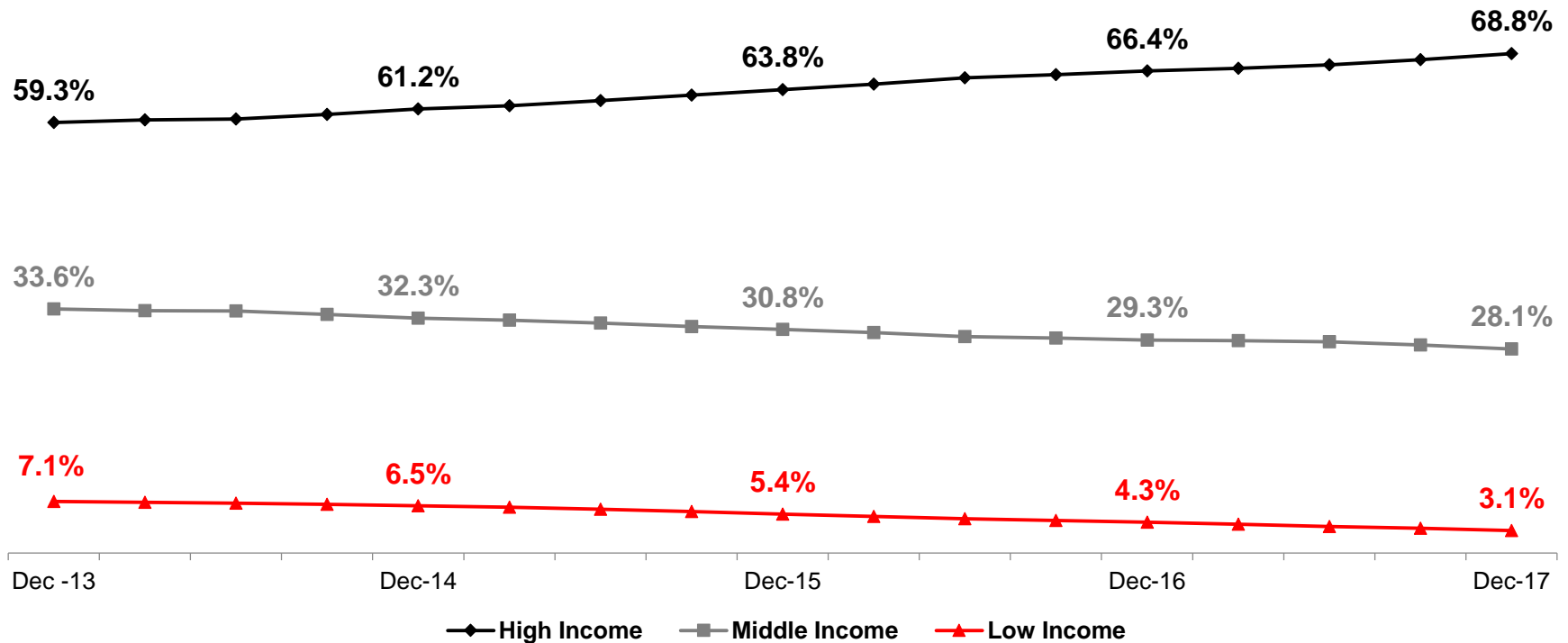
### Maximum rates



# Strategy: II. Increasing client loyalty and expanding digital banking

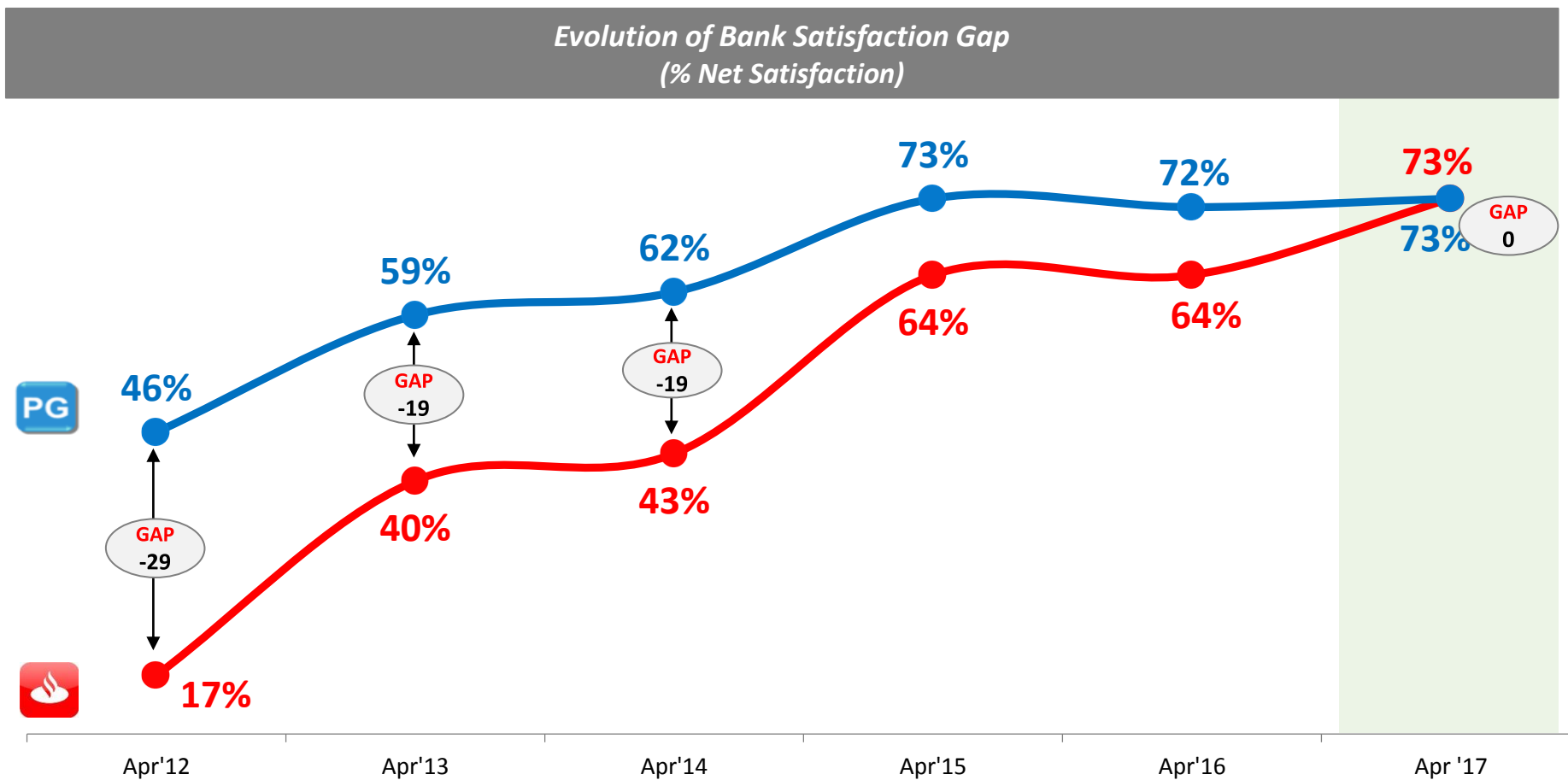
...and so did we

## Client Loan Mix<sup>1</sup>



# Strategy: II. Increasing client loyalty and expanding digital banking

...and so did we



# Strategy: II. Increasing client loyalty and expanding digital banking

...and so did we



During the fourth quarter of 2017, we continued to expand in WorkCafés and completed digital onboarding

life

[Click here for video](#)

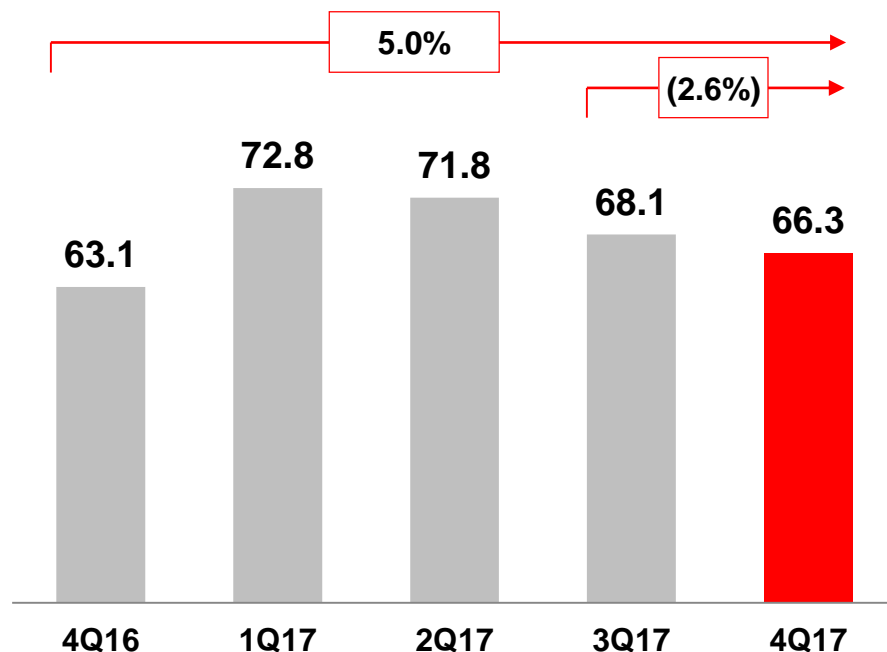


## Strategy: II. Increasing client loyalty and expanding digital banking

**This leads to a 9.7% YoY growth in fee income in 12M17**

### Net fee income

Ch\$bn



### Fee income from business segments

Ch\$bn

	12M'17	YoY	QoQ
Retail <sup>1</sup>	184.5	6.6%	1.3%
Middle Market	36.3	(4.5%)	0.2%
Corporate	27.6	3.7%	(0.7%)
<b>Subtotal</b>	<b>249.4</b>	<b>4.5%</b>	<b>25.8%</b>
Others <sup>2</sup>	29.7	88.4%	(30.4%)
<b>Total</b>	<b>279.1</b>	<b>9.7%</b>	<b>(2.6%)</b>

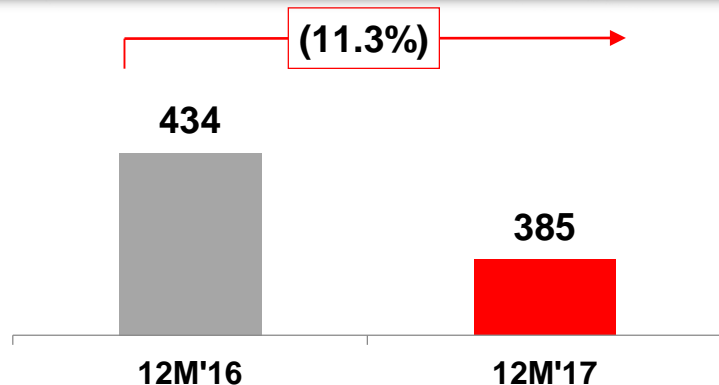
**QoQ decline in fees is mainly due to lower ATM fees and lower fees in GCB**



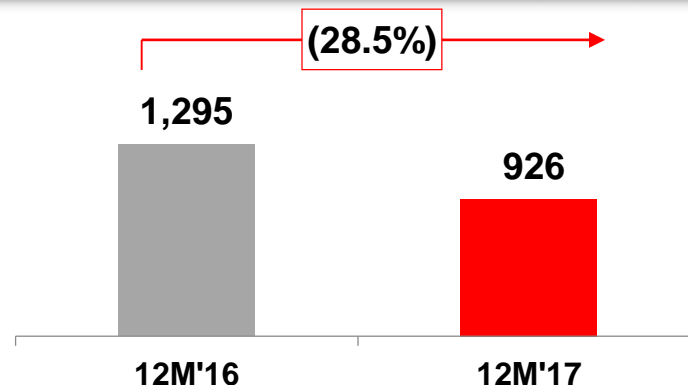
## Strategy: II. Increasing client loyalty and expanding digital banking

### Improving and reducing the physical distribution network

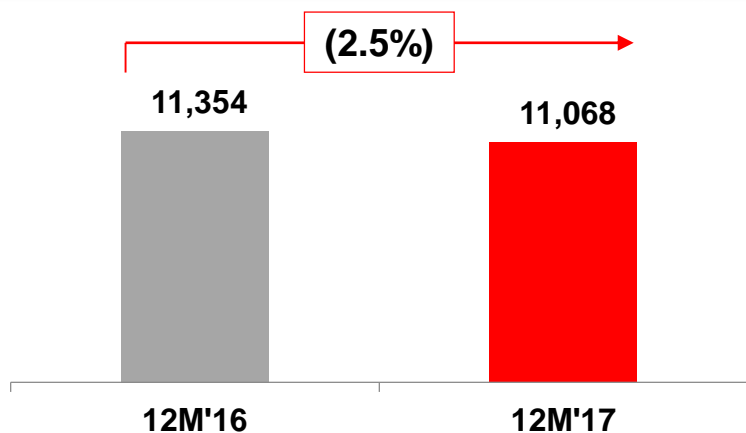
#### Branches



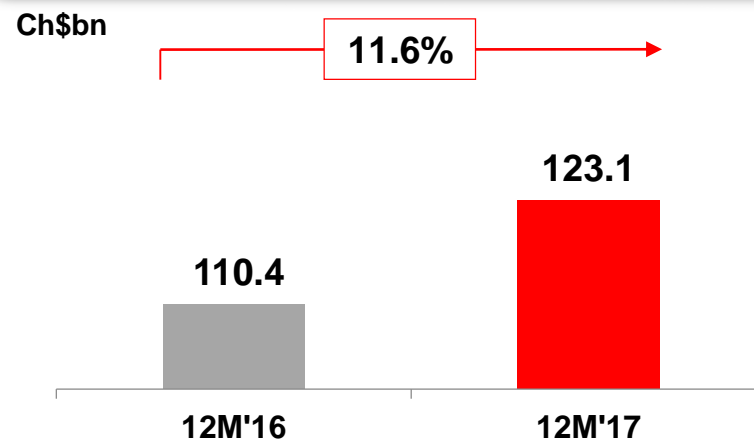
#### ATMs



#### Employees



#### Loans and Deposits/ Branches

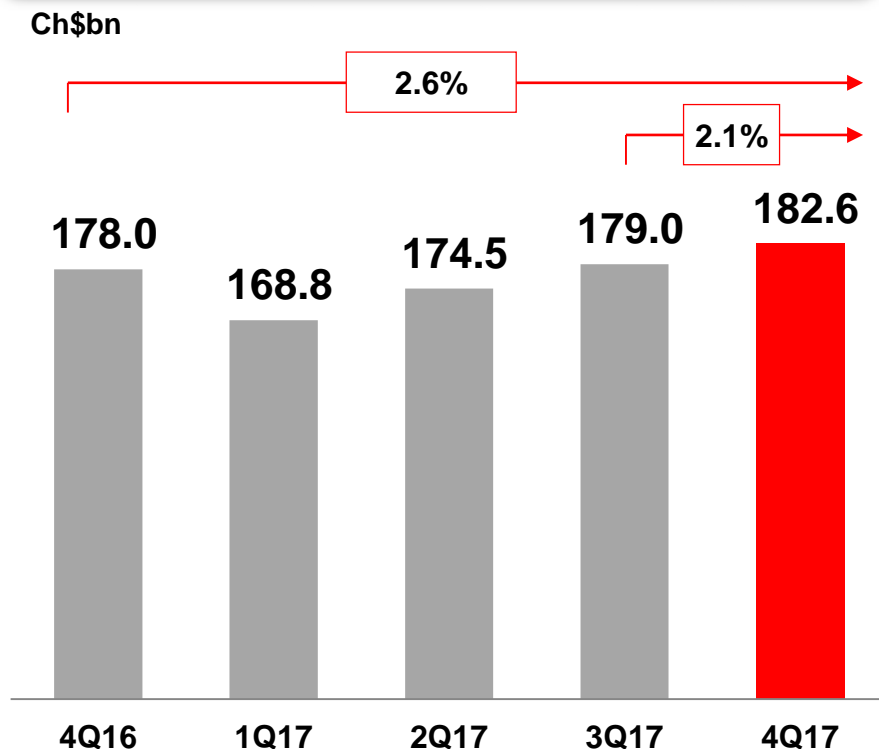




## Strategy: II. Increasing client loyalty and expanding digital banking

### Improving our efficiency

#### Operating expenses



	12M'17	YoY	QoQ
Personnel exp.	397.0	0.5%	1.2%
Administrative exp.	230.1	1.6%	(1.4%)
Depreciation	77.8	19.1%	17.2%
<b>Op. expenses<sup>1</sup></b>	<b>704.9</b>	<b>2.6%</b>	<b>2.1%</b>
Efficiency ratio <sup>2</sup>	40.8%	(186bp)	260bp
Cost / Assets	2.0%	3bp	5bp

### 3 objectives for healthy growth / higher profitability

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**III. Optimizing profitability and capital use to increase shareholder value in time**

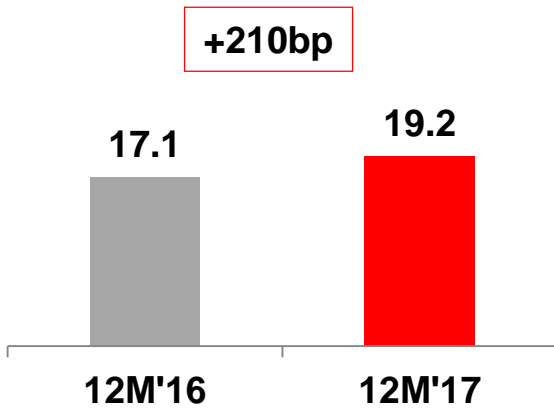


## Strategy: III. Optimizing profitability and capital

### High profitability levels sustains high core capital ratios

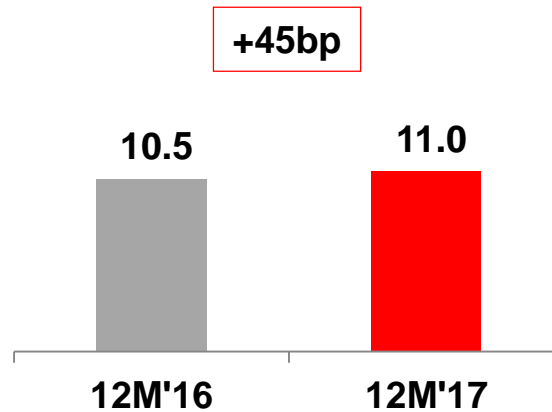
#### ROE

%



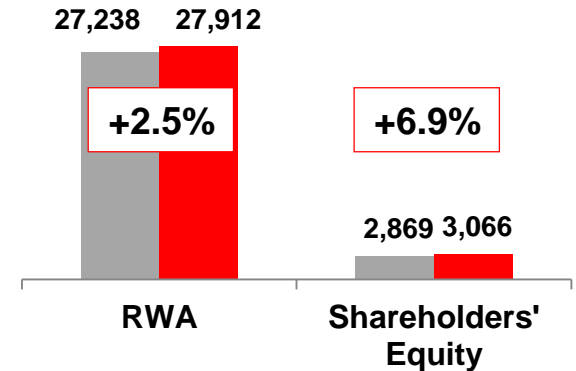
#### Core Capital ratio

%



#### RWA & Equity

%



Dividend payout over 2017 earnings should be 70%-75%

# Agenda

- **Macro-economic environment**
- **Strategy and results**
- **Outlook**

## Soft guidance 2018

### ● 2018:

- Loan growth 6-8% with focus in Retail and Middle-market.
- Stable rates and 2018 UF inflation >2.5% should drive margins, but with potential downside risks
- Client loyalty and higher growth of total clients to drive fee income, but lower ATM fees compensated in with cost control
- Financial transaction income rising mid-single digits
- Cost of credit stable
- Efficiency ratio between 40%-40.5%
- Effective tax rate to rise 1.5%-2.0%

Return on Average Equity at similar levels to 2017

# SAVE THE DATE

## Banco Santander Chile Investor Day

With the participation of top management and discussions  
on our commercial strategy and digital banking

**May 24, 2018:** Santiago, Chile- Double Tree by Hilton

**June 1, 2018:** New York, US - NYSE

# Thank You

Nuestra misión es contribuir al progreso de las personas y de las empresas.

Nuestra cultura se basa en la creencia de que todo lo que hacemos debe ser

**Simple Personal  
Fair**



# Agenda

## Annexes



## ■ Unaudited Balance Sheet

	Dec-17	Dec-17	Dec-16	Dec-17/Dec16
	US\$ Ths <sup>1</sup>	Ch\$ Million		% Chg.
Cash and deposits in banks	2,355,389	1,452,922	2,279,389	(36.3%)
Cash items in process of collection	1,083,156	668,145	495,283	34.9%
Trading investments	787,446	485,736	396,987	22.4%
Investments under resale agreements	-	-	6,736	—%
Financial derivative contracts	3,629,159	2,238,647	2,500,782	(10.5%)
Interbank loans, net	263,596	162,599	272,635	(40.4%)
Loans and account receivables from customers, net	43,361,501	26,747,542	26,113,485	2.4%
Available for sale investments	4,173,699	2,574,546	3,388,906	(24.0%)
Held-to-maturity investments	-	-	-	—%
Investments in associates and other companies	44,719	27,585	23,780	16.0%
Intangible assets	102,487	63,219	58,085	8.8%
Property, plant and equipment	393,203	242,547	257,379	(5.8%)
Current taxes	-	-	-	—%
Deferred taxes	625,124	385,608	372,699	3.5%
Other assets	1,224,258	755,183	840,499	(10.2%)
<b>Total Assets</b>	<b>58,043,737</b>	<b>35,804,279</b>	<b>37,006,645</b>	<b>(3.2%)</b>
Deposits and other demand liabilities	12,593,282	7,768,166	7,539,315	3.0%
Cash items in process of being cleared	789,051	486,726	288,473	68.7%
Obligations under repurchase agreements	434,564	268,061	212,437	26.2%
Time deposits and other time liabilities	19,314,169	11,913,945	13,151,709	(9.4%)
Financial derivatives contracts	3,468,409	2,139,488	2,292,161	(6.7%)
Interbank borrowings	2,753,274	1,698,357	1,916,368	(11.4%)
Issued debt instruments	11,499,802	7,093,653	7,326,372	(3.2%)
Other financial liabilities	392,364	242,030	240,016	0.8%
Current taxes	10,432	6,435	29,294	(78.0%)
Deferred taxes	15,665	9,663	7,686	25.7%
Provisions	525,783	324,329	308,982	5.0%
Other liabilities	1,208,338	745,363	795,785	(6.3%)
<b>Total Liabilities</b>	<b>53,005,133</b>	<b>32,696,216</b>	<b>34,108,598</b>	<b>(4.1%)</b>
<b>Equity</b>				
Capital	1,444,927	891,303	891,303	—%
Reserves	2,888,576	1,781,818	1,640,112	8.6%
Valuation adjustments	(3,748)	(2,312)	6,640	—%
<b>Retained Earnings:</b>				
Retained earnings from prior years	-	-	-	—%
Income for the period	915,644	564,815	472,351	19.6%
Minus: Provision for mandatory dividends	(274,693)	(169,444)	(141,700)	19.6%
<b>Total Shareholders' Equity</b>	<b>4,970,706</b>	<b>3,066,180</b>	<b>2,868,706</b>	<b>6.9%</b>
Non-controlling interest	67,898	41,883	29,341	42.7%
<b>Total Equity</b>	<b>5,038,604</b>	<b>3,108,063</b>	<b>2,898,047</b>	<b>7.2%</b>
<b>Total Liabilities and Equity</b>	<b>58,043,737</b>	<b>35,804,279</b>	<b>37,006,645</b>	<b>(3.2%)</b>

1. The exchange rate used to calculate the figures in dollars was Ch\$616.85 / US\$1

## ■ Unaudited YTD Income Statement

	Dec-17	Dec-17	Dec-16	Dec-17/Dec-16
	US\$ Ths <sup>1</sup>	Ch\$ Million		% Chg.
Interest income	3,337,028	2,058,446	2,137,044	(3.7%)
Interest expense	(1,186,277)	(731,755)	(855,678)	(14.5%)
<b>Net interest income</b>	<b>2,150,751</b>	<b>1,326,691</b>	<b>1,281,366</b>	<b>3.5%</b>
Fee and commission income	738,523	455,558	431,184	5.7%
Fee and commission expense	(286,123)	(176,495)	(176,760)	(0.1%)
<b>Net fee and commission income</b>	<b>452,400</b>	<b>279,063</b>	<b>254,424</b>	<b>9.7%</b>
Net income (expense) from financial operations	4,533	2,796	(367,034)	<b>(100.8%)</b>
Net foreign exchange gain	205,813	126,956	507,392	(75.0%)
<b>Total financial transactions, net</b>	<b>210,346</b>	<b>129,752</b>	<b>140,358</b>	<b>(7.6%)</b>
Other operating income	141,303	87,163	18,299	376.3%
<b>Net operating profit before provisions for loan losses</b>	<b>2,954,801</b>	<b>1,822,669</b>	<b>1,694,447</b>	<b>7.6%</b>
Provision for loan losses	(485,053)	(299,205)	(343,286)	(12.8%)
<b>Net operating profit</b>	<b>2,469,748</b>	<b>1,523,464</b>	<b>1,351,161</b>	<b>12.8%</b>
Personnel salaries and expenses	(643,539)	(396,967)	(395,133)	0.5%
Administrative expenses	(373,029)	(230,103)	(226,413)	1.6%
Depreciation and amortization	(126,162)	(77,823)	(65,359)	19.1%
<b>Op. expenses excl. Impairment and Other operating expenses</b>	<b>(1,142,730)</b>	<b>(704,893)</b>	<b>(686,905)</b>	<b>2.6%</b>
Impairment of property, plant and equipment	(9,150)	(5,644)	(234)	<b>2312.0%</b>
Other operating expenses	(155,652)	(96,014)	(85,198)	12.7%
<b>Total operating expenses</b>	<b>(1,307,532)</b>	<b>(806,551)</b>	<b>(772,337)</b>	<b>4.4%</b>
<b>Operating income</b>	<b>1,162,216</b>	<b>716,913</b>	<b>578,824</b>	<b>23.9%</b>
Income from investments in associates and other companies	6,425	3,963	3,012	31.6%
<b>Income before tax</b>	<b>1,168,641</b>	<b>720,876</b>	<b>581,836</b>	<b>23.9%</b>
Income tax expense	(232,817)	(143,613)	(107,120)	34.1%
<b>Net income from ordinary activities</b>	<b>935,824</b>	<b>577,263</b>	<b>474,716</b>	<b>21.6%</b>
Net income discontinued operations	-	-	-	-%
<b>Net income attributable to:</b>				
Non-controlling interest	20,180	12,448	2,365	426.3%
<b>Net income attributable to equity holders of the Bank</b>	<b>915,644</b>	<b>564,815</b>	<b>472,351</b>	<b>19.6%</b>

1. The exchange rate used to calculate the figures in dollars was Ch\$616.85 / US\$1

## Unaudited Quarterly Income Statement

	4Q17	4Q17	3Q17	4Q16	4Q17/4Q16	4Q17/3Q17
	US\$ Ths <sup>1</sup>		Ch\$ Million			% Chg.
Interest income	849,962	524,299	459,304	526,330	(0.4%)	14.2%
Interest expense	(288,235)	(177,798)	(141,723)	(209,681)	(15.2%)	25.5%
<b>Net interest income</b>	<b>561,727</b>	<b>346,501</b>	<b>317,581</b>	<b>316,649</b>	<b>9.4%</b>	<b>9.1%</b>
Fee and commission income	182,067	112,308	112,388	112,187	0.1%	(0.1%)
Fee and commission expense	(74,585)	(46,008)	(44,286)	(49,050)	(6.2%)	3.9%
<b>Net fee and commission income</b>	<b>107,482</b>	<b>66,300</b>	<b>68,102</b>	<b>63,137</b>	<b>5.0%</b>	<b>(2.6%)</b>
Net income (expense) from financial operations	(81,279)	(50,137)	48,034	(74,850)	(33.0%)	--%
Net foreign exchange gain	110,742	68,311	(8,593)	112,397	(39.2%)	--%
<b>Total financial transactions, net</b>	<b>29,463</b>	<b>18,174</b>	<b>39,441</b>	<b>37,547</b>	<b>(51.6%)</b>	<b>(53.9%)</b>
Other operating income	31,165	19,224	38,871	4,456	331.4%	(50.5%)
<b>Net operating profit before provisions for loan losses</b>	<b>729,835</b>	<b>450,199</b>	<b>463,995</b>	<b>421,789</b>	<b>6.7%</b>	<b>(3.0%)</b>
<b>Provision for loan losses</b>	<b>(124,512)</b>	<b>(76,805)</b>	<b>(72,028)</b>	<b>(87,713)</b>	<b>(12.4%)</b>	<b>6.6%</b>
<b>Net operating profit</b>	<b>605,324</b>	<b>373,394</b>	<b>391,967</b>	<b>334,076</b>	<b>11.8%</b>	<b>(4.7%)</b>
Personnel salaries and expenses	(165,496)	(102,086)	(100,855)	(101,306)	0.8%	1.2%
Administrative expenses	(94,355)	(58,203)	(59,035)	(57,898)	0.5%	(1.4%)
Depreciation and amortization	(36,241)	(22,355)	(19,068)	(18,812)	18.8%	17.2%
<b>Op. expenses excl. Impairment and Other operating expenses</b>	<b>(296,091)</b>	<b>(182,644)</b>	<b>(178,958)</b>	<b>(178,016)</b>	<b>2.6%</b>	<b>2.1%</b>
Impairment of property, plant and equipment	-	-	(5,295)	(139)	--%	--%
Other operating expenses	(37,842)	(23,343)	(18,673)	(20,326)	14.8%	25.0%
<b>Total operating expenses</b>	<b>(333,934)</b>	<b>(205,987)</b>	<b>(202,926)</b>	<b>(198,481)</b>	<b>3.8%</b>	<b>1.5%</b>
<b>Operating income</b>	<b>271,390</b>	<b>167,407</b>	<b>189,041</b>	<b>135,595</b>	<b>23.5%</b>	<b>(11.4%)</b>
Income from investments in associates and other companies	1,636	1,009	1,349	764	32.1%	(25.2%)
<b>Income before tax</b>	<b>273,026</b>	<b>168,416</b>	<b>190,390</b>	<b>136,359</b>	<b>23.5%</b>	<b>(11.5%)</b>
Income tax expense	(61,589)	(37,991)	(37,271)	(27,126)	40.1%	1.9%
<b>Net income from ordinary activities</b>	<b>211,437</b>	<b>130,425</b>	<b>153,119</b>	<b>109,233</b>	<b>19.4%</b>	<b>(14.8%)</b>
Net income discontinued operations	-	-	-	-		
<b>Net income attributable to:</b>						
Non-controlling interest	(6,895)	(4,253)	15,793	600	--%	--%
<b>Net income attributable to equity holders of the Bank</b>	<b>218,332</b>	<b>134,678</b>	<b>137,326</b>	<b>108,633</b>	<b>24.0%</b>	<b>(1.9%)</b>

1. The exchange rate used to calculate the figures in dollars was Ch\$616.85/ US\$1

## Annexes: Key Indicators

<b>Profitability and efficiency</b>	<b>12M17</b>	<b>12M16</b>	<b>Change bp</b>
Net interest margin (NIM) <sup>1</sup>	4.4%	4.5%	-3
Efficiency ratio <sup>2</sup>	40.8%	42.7%	-186
Return on avg. equity	19.2%	17.1%	218
Return on avg. assets	1.6%	1.3%	25
Core Capital ratio	11.0%	10.5%	45
BIS ratio	13.9%	13.4%	48
Return on RWA	2.1%	1.6%	46

<b>Asset quality ratios (%)</b>	<b>Dec'17</b>	<b>Dec'16</b>	<b>Change bp</b>
NPL ratio <sup>3</sup>	2.3%	2.1%	21.1
Coverage of NPLs ratio <sup>4</sup>	128.8%	145.4%	(1,663)
Cost of credit <sup>5</sup>	1.1%	1.3%	(18)

<b>Structure (#)</b>	<b>Dec'17</b>	<b>Dec'16</b>	<b>Change (%)</b>
Branches	385	434	(11.3%)
ATMs	926	1,295	(28.5%)
Employees	11,068	11,354	(2.5%)

<b>Market capitalization</b>	<b>Dec'17</b>	<b>Dec'16</b>	<b>Change (%)</b>
Net income per share (Ch\$)	3.00	2.51	19.6%
Net income per ADR (US\$)	1.94	1.51	29.1%
Stock price (Ch\$/per share)	48.19	37.26	29.3%
ADR price (US\$ per share)	31.27	21.87	43.0%
Market capitalization (US\$m)	14,732	10,303	43.0%
Shares outstanding (millions)	188,446.1	188,446.1	--%
ADRs (1 ADR = 400 shares) (millions)	471.1	471.1	--%

1 NIM = Net interest income annualized divided by interest earning assets.

2. Efficiency ratio: Operating expenses excluding impairment and other operating expenses divided by Operating income. Operating income = Net interest income + Net fee and commission income + Total financial transactions, net + Other operating income minus other operating expenses.

3. Capital + future interest of all loans with one installment 90 days or more overdue divided by total loans.

4. Loan loss allowance divided by Capital + future interest of all loans with one installment 90 days or more overdue.

5. Provision expense annualized divided by average loans.