

# Banco Santander Chile

## Results 2Q14

*Santiago, August 4, 2014*

Banco Santander Chile caution 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.

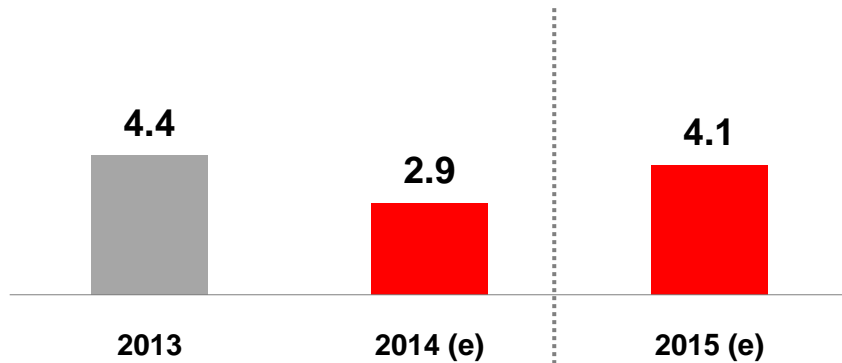
Note: the information contained in this presentation is not audited and is presented in Chilean Bank GAAP which is similar to IFRS, but there are some differences. Please refer to our 2013 20-F filed with the SEC for an explanation of the differences between Chilean Bank GAAP and IFRS. Nevertheless, 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

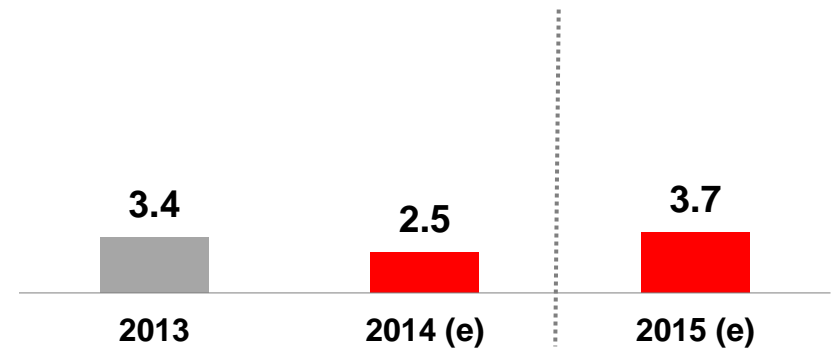
- **Macro-economic environment and financial system**
- Strategy and activity
- Results
- Annexes

Despite slight deceleration, economy expected to rebound...

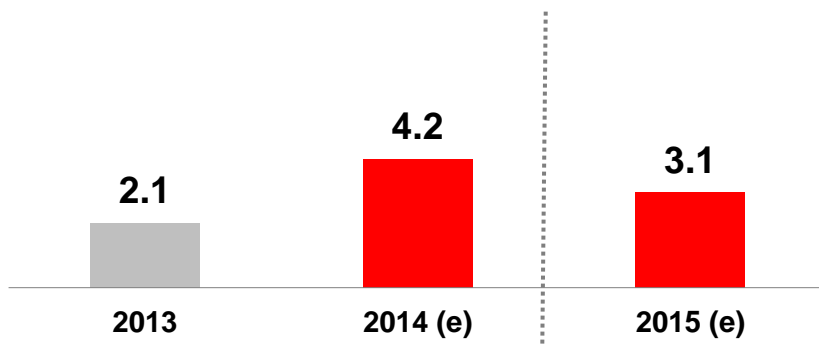
GDP (YoY growth, %)



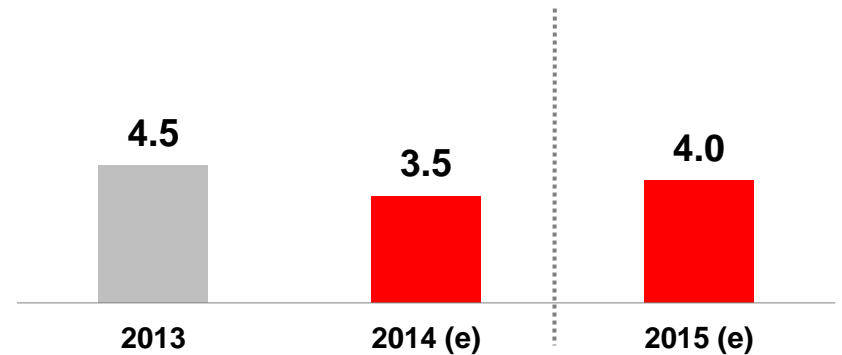
Internal Demand (YoY growth, %)



Inflation (YoY var. of UF, %)\*



Central Bank Reference rate (%)

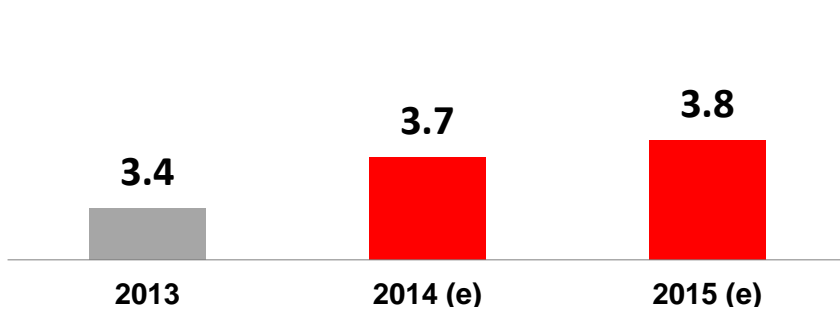


\* Inflation measured by the annual change in the Unidad de Fomento (UF).

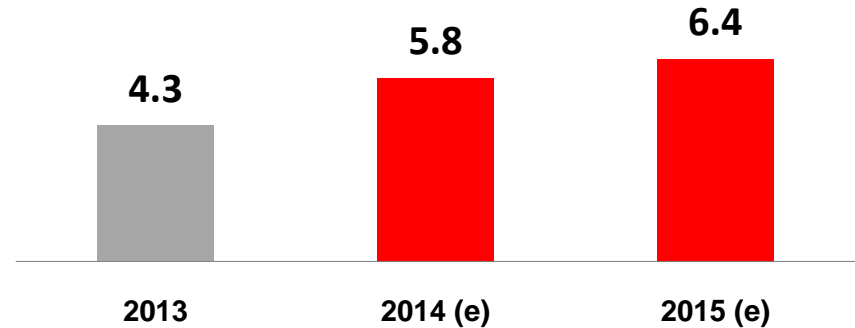
Source: Banco Central de Chile. (e): Estimates Santander Chile

.... led by export growth, investment and total consumption

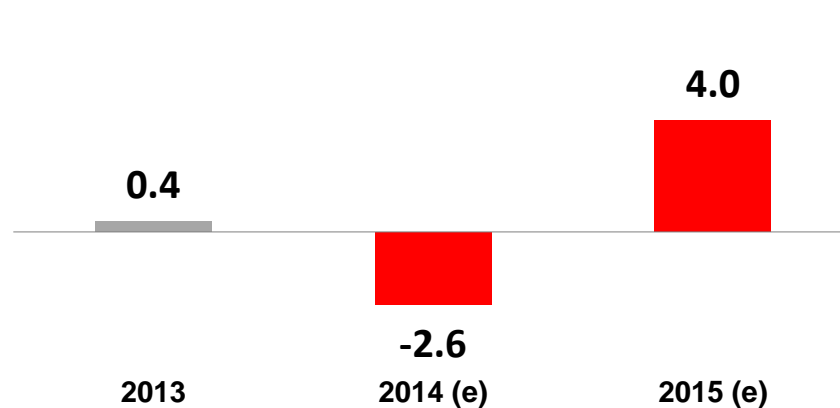
GDP growth of Chile's main trade partners...  
(YoY growth, %)



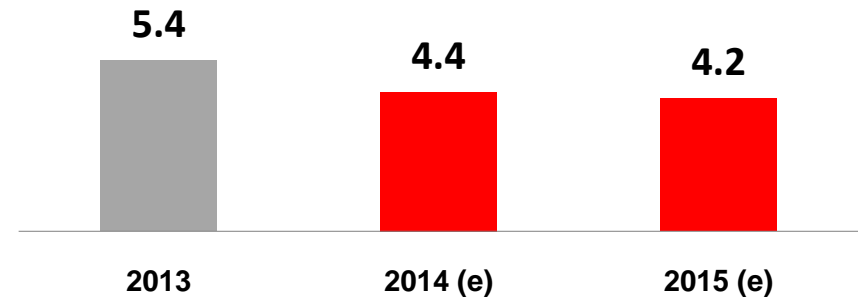
... is boosting export growth  
(YoY growth, %)



Investment should rebound, led by the energy  
and infrastructure sectors (YoY growth, %)



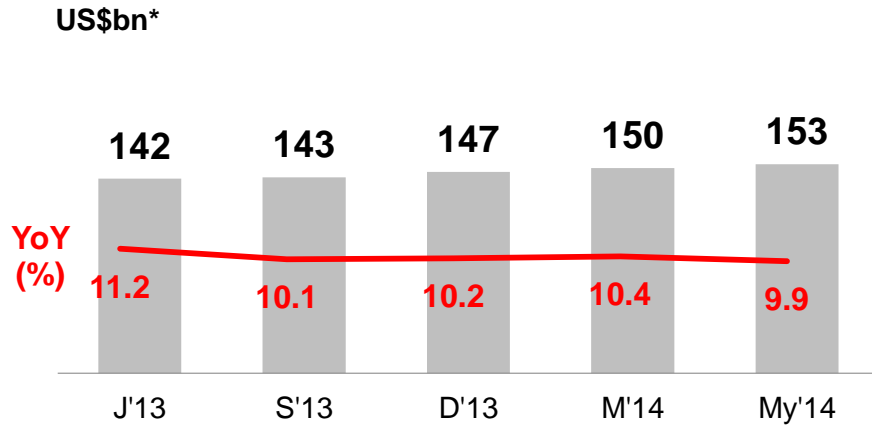
Total consumption\* expected to remain strong  
(YoY growth, %)



Source: Banco Central de Chile. (e): Estimates Santander Chile. \* Includes private and government consumption

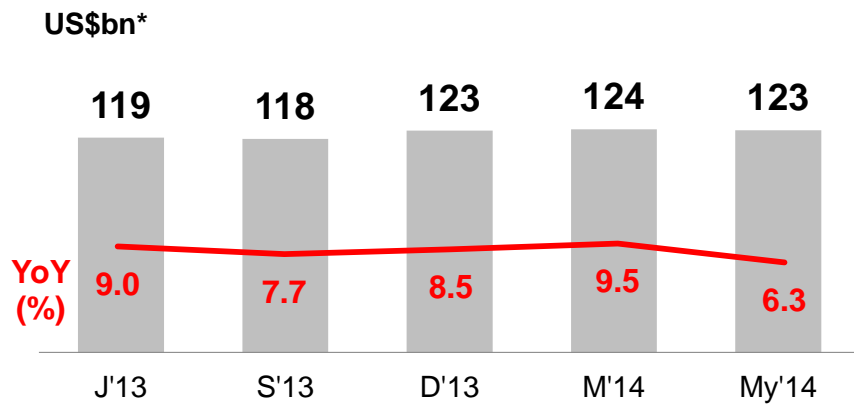
## Financial system with stable growth trends

### Total Loans



- Relatively stable loan growth in 2014
- Loan growth less affected by lower investment as slowdown concentrated in reconstruction / large mining projects with little bank financing

### Total Deposits\*\*



- Deposit growth remains healthy, with some flow of funds away from time deposits to money market funds
- Financial system gross operating income up 54.4% YoY as of May 2014, in part due to higher than normal levels of inflation.

\* Converted using constant exchange rate as of May 2014. Source: Superintendency of Banks, SBIF. Excludes Corpbanca Colombia.

\*\* Demand and time deposits

# Agenda

- Macro-economic environment and financial system
- **Strategy and activity**
- Results
- Annexes

## 3 objectives for healthy growth / higher profitability

I. Growth focused on segments with highest net contribution...

II. ...improving relationships with customers and quality of service

III. ... and managing risks conservatively

Transformation  
Project

Optimizing the  
risk return  
relation

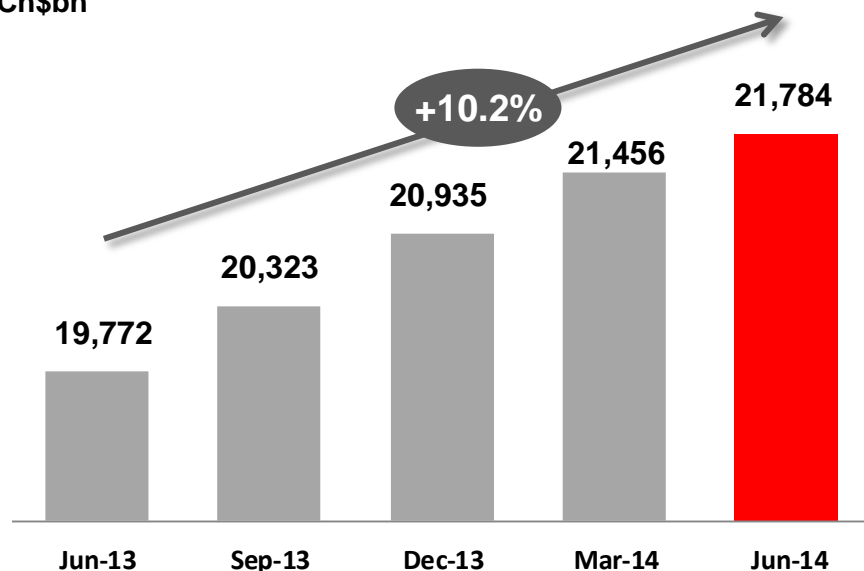




**Loan growth up 10.2% YoY, especially in segments with higher risk-adjusted contribution...**

## Total Loans

Ch\$bn



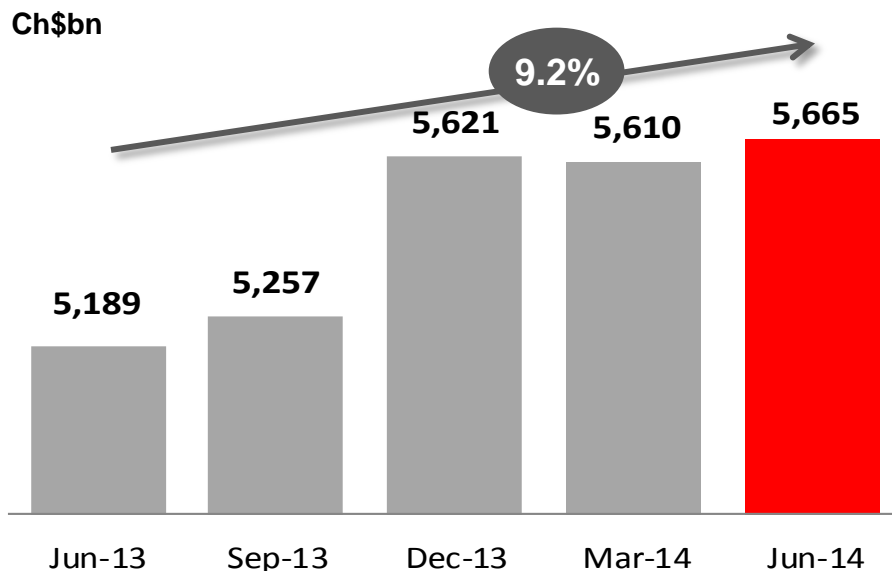
Ch\$bn

	6M'14	YoY	QoQ
Individuals	11,049	11.7%	2.0%
– Consumer	3,737	14.4%	1.1%
– Mortgage	6,096	13.8%	4.4%
SMEs	3,294	7.4%	0.1%
Middle-Market	4,784	7.6%	0.6%
Corporate	2,315	16.2%	6.7%
<b>Total loans</b>	<b>21,784</b>	<b>10.2%</b>	<b>1.5%</b>

# Strategy: I. Focused growth

... with positive growth of demand deposits

## Demand Deposits

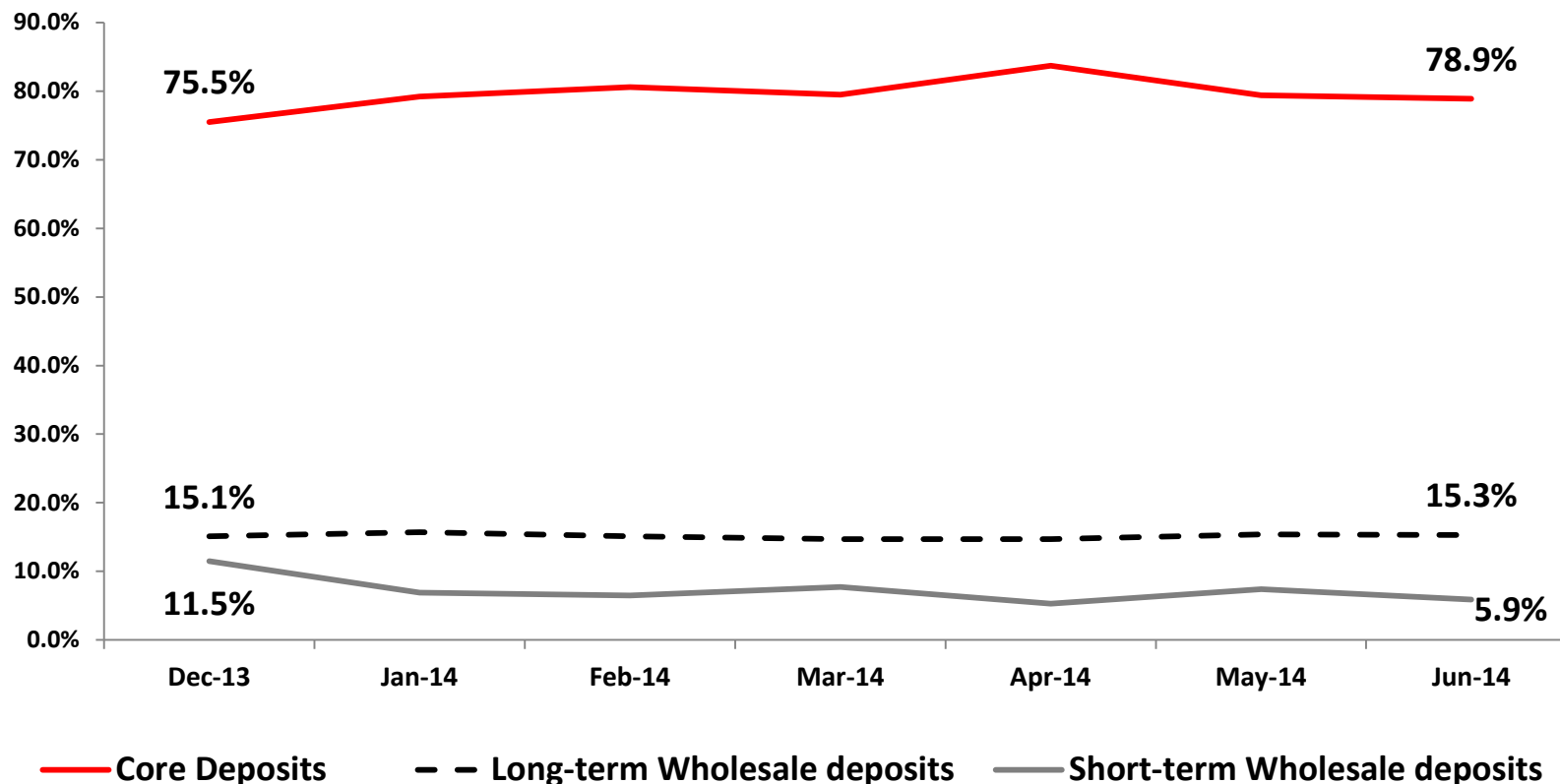


Ch\$bn

	6M'14	YoY	QoQ
Demand	5,665	9.2%	1.0%
Time	9,311	-1.2%	-3.4%
<b>Total deposits</b>	<b>14,975</b>	<b>2.5%</b>	<b>-1.8%</b>

...and an improved funding mix\*

Composition of total deposits, %

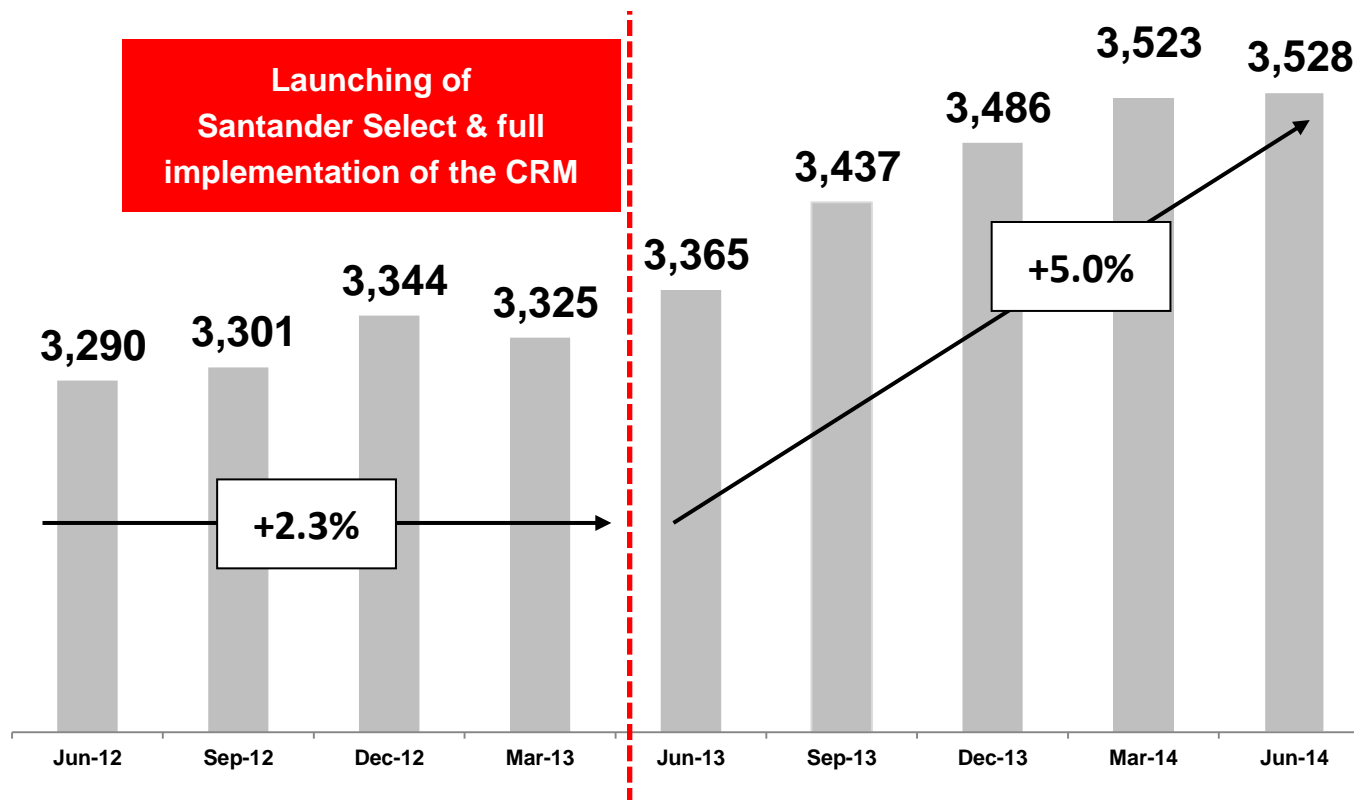


The Bank is increasing core deposits and reducing ST wholesale deposits

\* Core deposits: checking accounts plus retail and middle-market time deposits. LT wholesale deposits: time deposits from institutional sources and corporate clients with an average maturity greater than 120 days. ST wholesale deposits: time deposits from institutional sources and the corporate segment with an average maturity of less than 120 days

## The CRM & improvements in quality of service are pushing client growth

Total Clients (ths.)

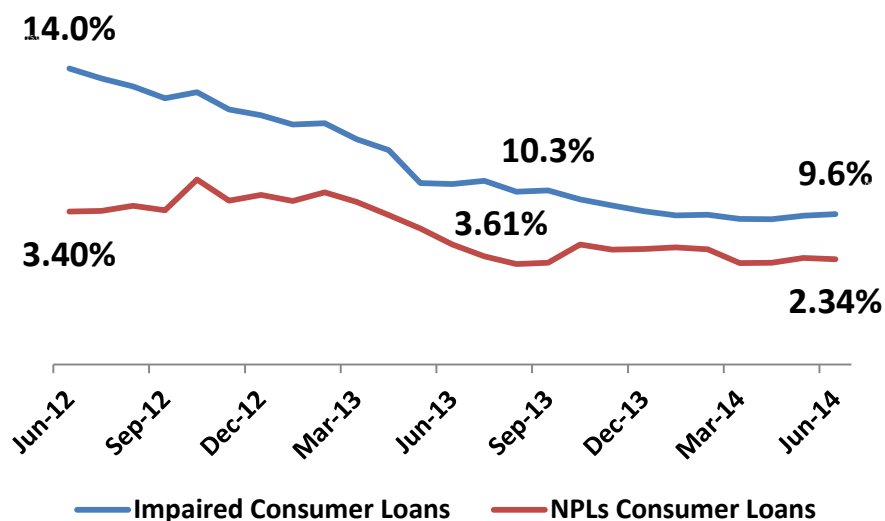


Santander Select clients increased 9.0% YoY

## Steady improvement in consumer asset quality indicators

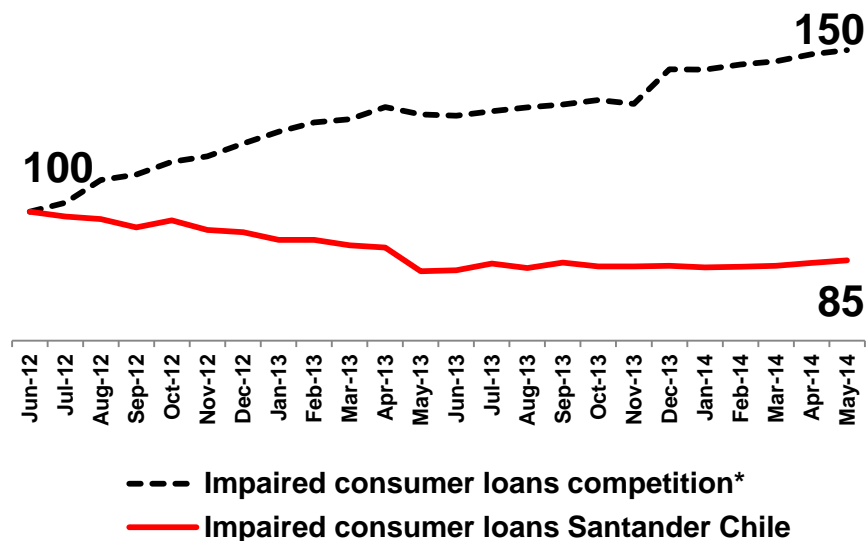
### Impaired + NP consumer loans

% of consumer loans



### Evolution of impaired consumer loans

Base 100 = 06/2012



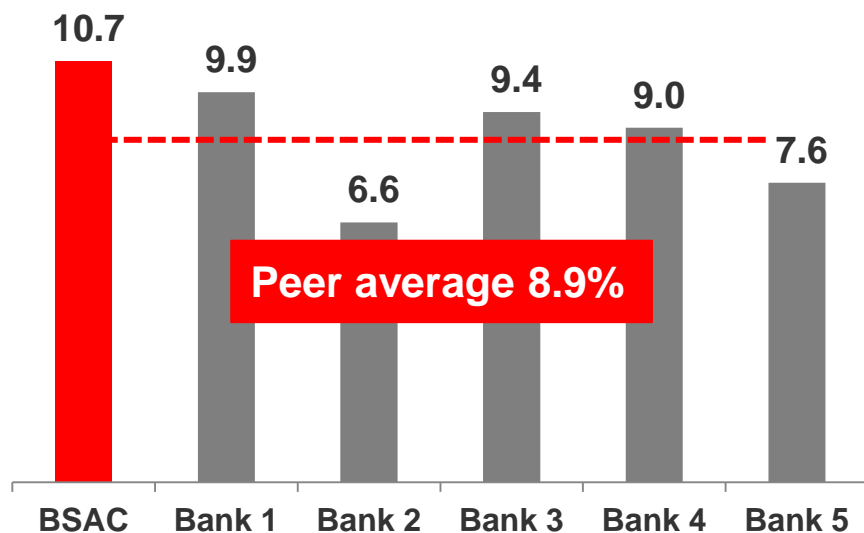
**Risk reduction in consumer loans also reflects: (i) the portfolio mix change, (ii) improvements in risk models, (iii) origination focusing on pre-approved loans, and (iv) improvements in collection efforts**

\* Source: SBIF. As of May 2014. Competition is all banks excluding Santander Chile. Impaired consumer loans include NPLs and renegotiated loans

## Optimizing the risk-return relation

### High capital base\*

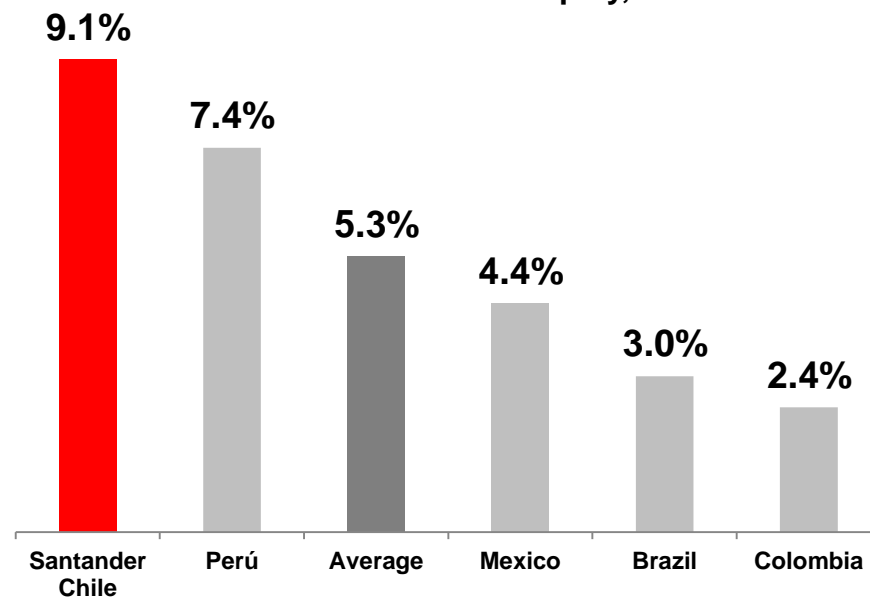
Core Capital ratios, %



Peer average 8.9%

### Positive ROE vs Cost of Equity

ROE minus Cost of Equity, %



**Dividend yield = 4.1%**  
**Dividend up 13.8% in 2014**

**Leader in value creation for shareholders**

\* As of May 2014 for Competition (Financial System ex-Santander) and as of June 2014 for Santander Chile. Source: SBIF

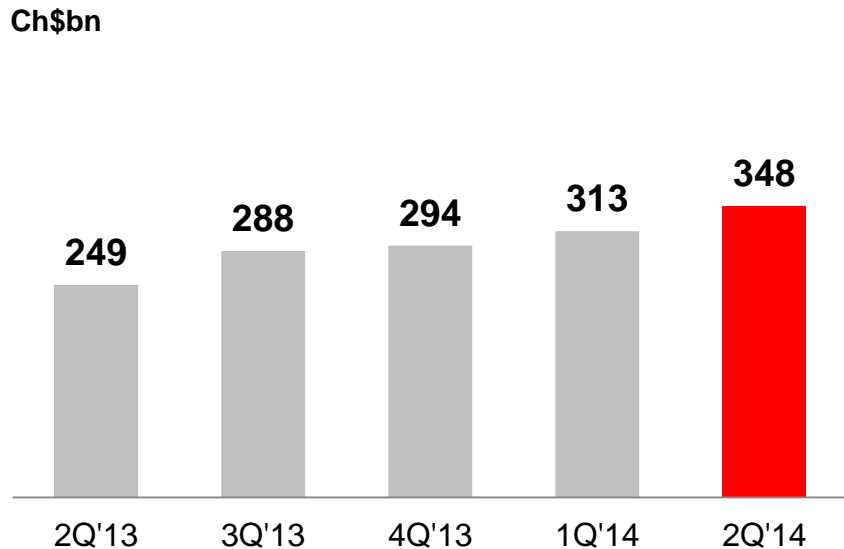
\* Source: UBS, except Santander Chile's ROE which we utilized a 20% ROE

# Agenda

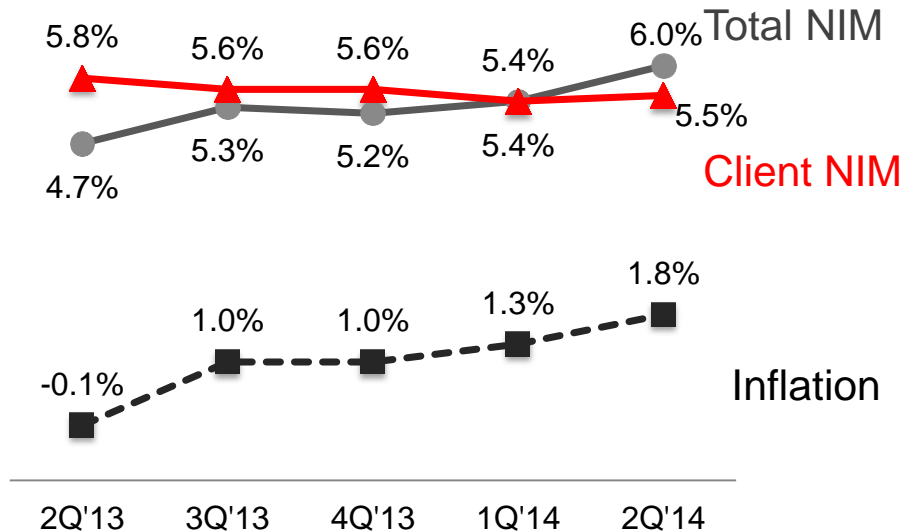
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## NIM trending up due to higher inflation...

### Net interest income



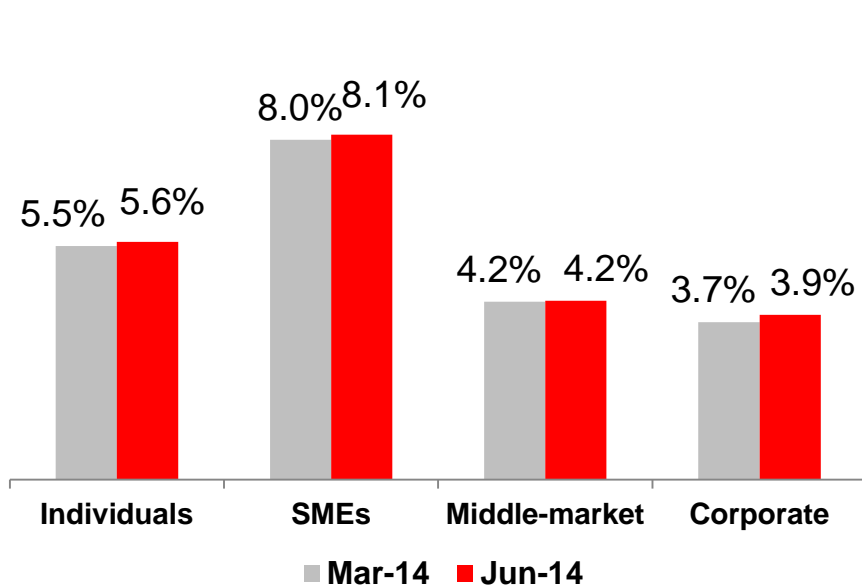
### NIM, client NIM and inflation



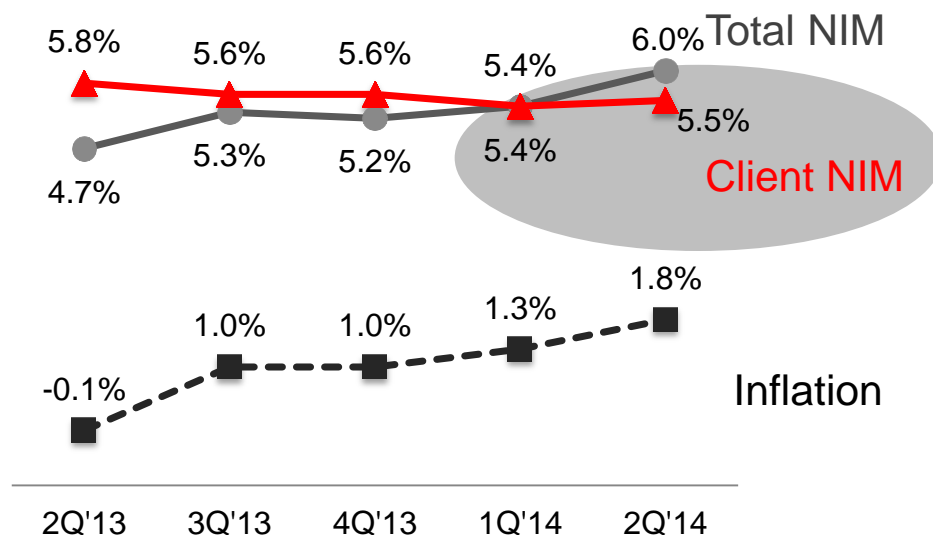


## ...expanding Client NIMs\*

### QoQ Client NIMs by segment



### NIM, client NIM and inflation

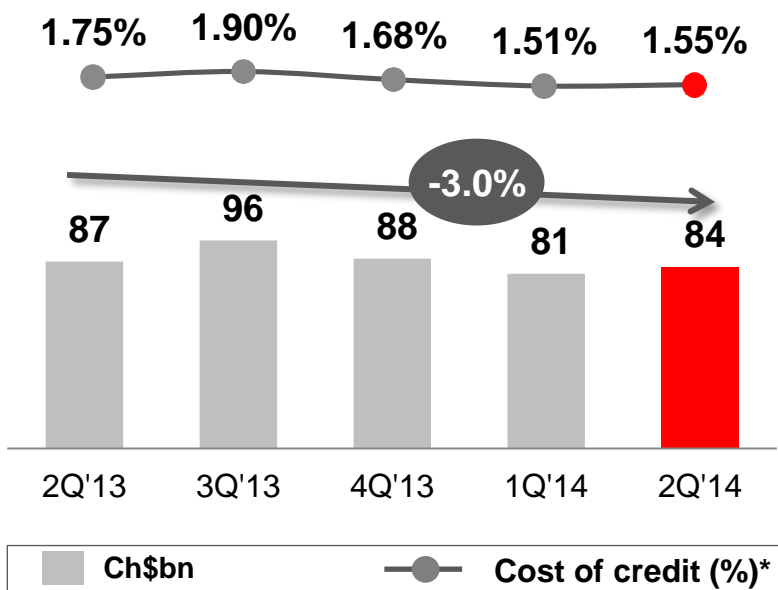


## Proactively increasing spreads and improving the funding mix

\* Client NIM: Client net interest income / average loans. Excludes the impact on margins of Financial Management and the impact of the UF gap on NIMs

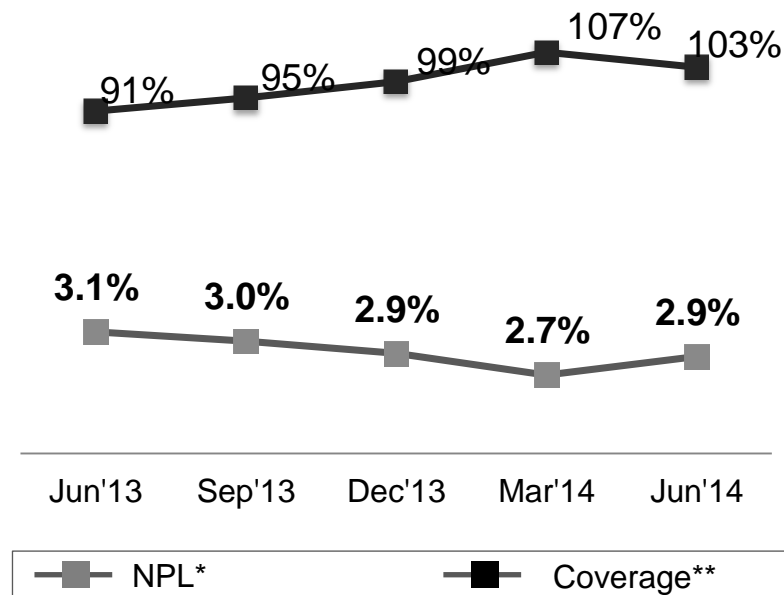
## Sustained improvement of most asset quality metrics

### Provision expense & cost of credit



### NPL and coverage ratio

% of loans

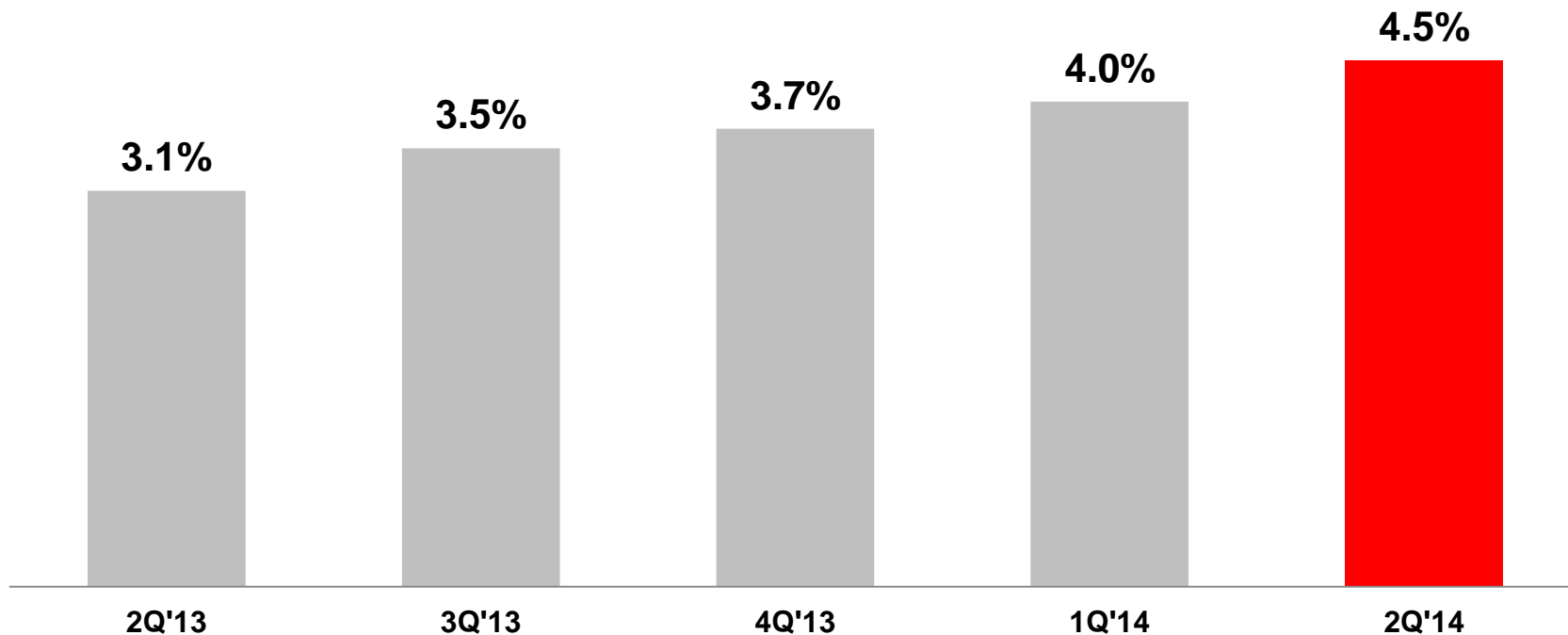


## Mix shift has supported asset quality improvements

\* Annualized quarterly provision expense / total loans

\* 90 days or more NPLs. \*\* Loan loss reserves over NPLs

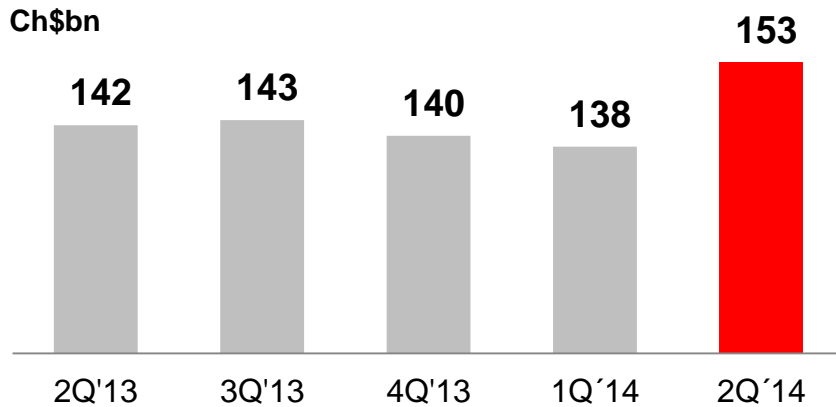
**NIM, net of provisions, is steadily rising**



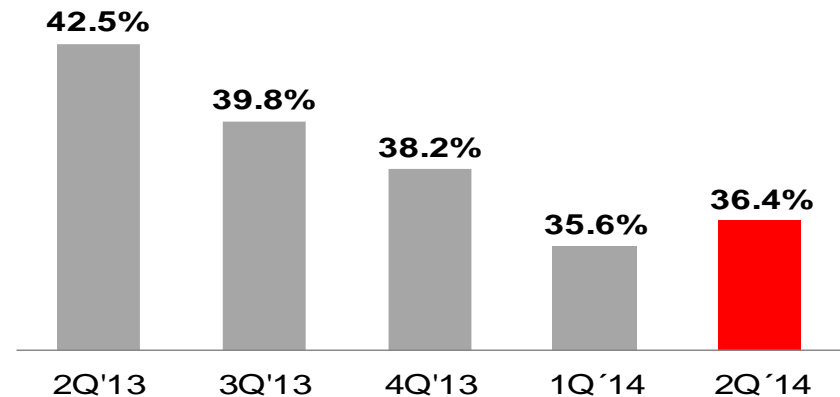
**The Bank's focus is to maximize spreads net of provisions by gaining market share in segments with higher risk-adjusted contribution**

## Transformation Project enhancing productivity: efficiency reaches 36.4% in 2Q14

### Operating expenses



### Efficiency ratio



### Network

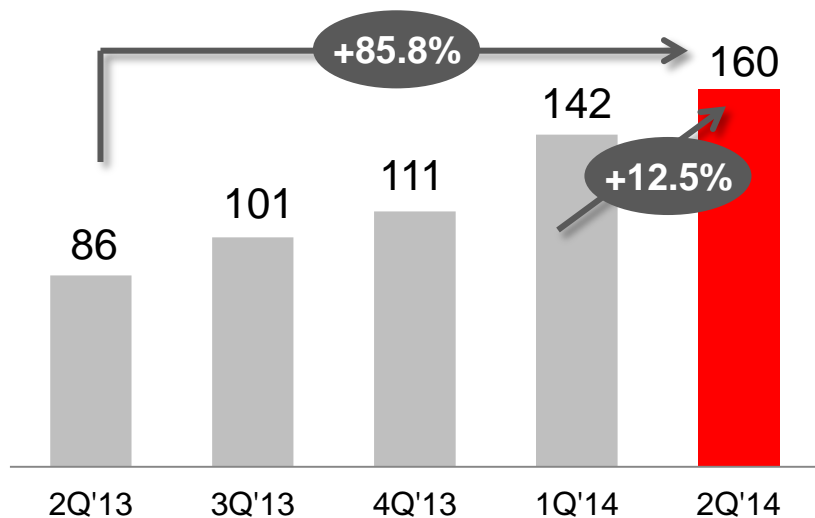
	2Q'14	2Q'13	%
▪ Branches	479	485	-2.6%
--Traditional	273	269	1.5%
--MM Centers	3	0	--%
--Select	44	44	0.0%
--Banefe	74	77	-3.9%
-- Others	85	95	-10.5%
▪ Employees	11,381	11,558	-1.5%

- QoQ increase in costs is mainly due to a seasonally low 1Q14 and a salary adjustment done in April due to higher inflation
- Productivity continues to rise with stable headcount and branch network and increasing usage of complementary channels

**Net income up 12.5% QoQ and 85.8% YoY. ROE reaches 26.7%**

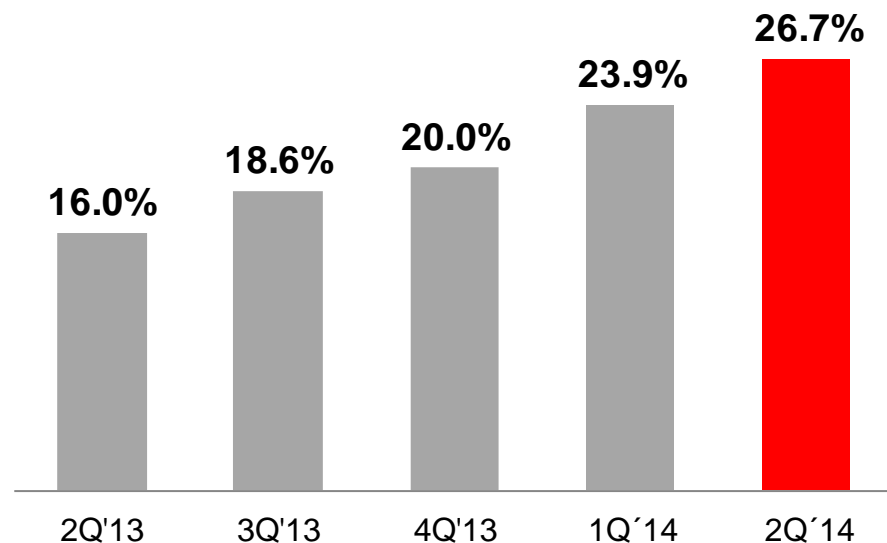
## Net income\*

Ch\$bn



## ROE\*

%



**At current trends, normalized ROE with a 3% annual inflation: 19-20%\*\***

\* Excludes gain from the sale of Santander Asset Management in 4Q13. \*\* 8 quarters moving average

## Sound outlook for 2014-15

- **Chile: despite slight deceleration, economy expected to rebound in 2015**
- **Financial system with stable growth trends**
- **Santander Chile: 2Q14 Net income up 12.5% QoQ and 85.8% YoY. ROE at 26.7%**
  - **Transformation Project is boosting commercial activity:**
    - **Loan growth up 10.2% YoY, especially in segments with higher risk-adjusted contribution**
    - **Improving funding mix: 9.2% YoY growth of demand deposits**
  - **High Core Capital ratio: 10.7%**
  - **NIM, net of provisions, rises to 4.5% (+100 bp YoY) due to higher inflation. Client NIMs rising as spreads increase and the funding mix improves**
  - **Cost of credit stable**
  - **Fees still affected by regulatory changes. Client base continues to grow steadily**
  - **Transformation Project also enhancing productivity: efficiency ratio at 36.4%**

# Agenda

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## Annexes

- Balance Sheet
- Income Statement
- Quarterly Income Statement



## Balance Sheet: Assets

Unaudited Balance Sheet Assets	Jun-14 US\$ths	Jun-14 Ch\$ million	Dec-13	June 14 / Dec. 13 % Chg.
Cash and balances from Central Bank	1,943,554	1,074,727	1,571,810	(31.6%)
Funds to be cleared	1,219,015	674,079	604,077	11.6%
Financial assets held for trading	1,161,157	642,085	287,567	123.3%
Investment collateral under agreements to repurchase	-	-	17,469	--%
Derivatives	3,427,951	1,895,554	1,494,018	26.9%
Interbank loans	176,798	97,764	125,395	(22.0%)
<b>Loans, net of loan loss allowances</b>	<b>38,232,908</b>	<b>21,141,651</b>	<b>20,327,021</b>	<b>4.0%</b>
Available-for-sale financial assets	2,400,134	1,327,202	1,700,993	(22.0%)
Held-to-maturity investments	-	-	-	--%
Investments in other companies	30,076	16,631	9,681	71.8%
Intangible assets	107,525	59,458	66,703	(10.9%)
Fixed assets	324,821	179,616	180,215	(0.3%)
Current tax assets	41,490	22,943	1,643	1296.4%
Deferred tax assets	353,990	195,746	230,215	(15.0%)
Other assets	566,861	313,457	400,025	(21.6%)
<b>Total Assets</b>	<b>49,986,280</b>	<b>27,640,913</b>	<b>27,016,832</b>	<b>2.3%</b>

## Balance Sheet: Liabilities

	Jun-14 US\$ths	Jun-14 Ch\$ million	Dec-13	June 14 / Dec. 13 % Chg.
<b>Liabilities and Equity</b>				
Demand deposits	10,243,883	5,664,560	5,620,763	0.8%
Funds to be cleared	739,959	409,175	276,379	48.0%
Investments sold under agreements to repurchase	246,952	136,557	208,972	(34.7%)
Time deposits and savings accounts	16,837,552	9,310,661	9,675,272	(3.8%)
Derivatives	3,195,741	1,767,149	1,300,109	35.9%
Deposits from credit institutions	3,119,912	1,725,218	1,682,377	2.5%
Marketable debt securities	9,930,192	5,491,098	5,198,658	5.6%
Other obligations	343,476	189,932	189,781	0.1%
Current tax liabilities	0	0	50,242	(100.0%)
Deferred tax liability	36,248	20,044	25,088	(20.1%)
Provisions	352,301	194,812	236,232	(17.5%)
Other liabilities	517,751	286,301	198,777	44.0%
<b>Total Liabilities</b>	<b>45,563,967</b>	<b>25,195,507</b>	<b>24,662,650</b>	<b>2.2%</b>
<b>Equity</b>				
Capital	1,611,847	891,303	891,303	0.0%
Reserves	2,364,976	1,307,761	1,130,991	15.6%
Unrealized gain (loss) Available-for-sale financial assets	12,270	6,785	(5,964 )	(213.8%)
<b>Retained Earnings:</b>	<b>381,614</b>	<b>211,021</b>	<b>309,348</b>	<b>(31.8%)</b>
Retained earnings previous periods	-	-	-	--%
Net income	545,163	301,459	441,926	(31.8%)
Provision for mandatory dividend	(163,550 )	(90,438 )	(132,578 )	(31.8%)
<b>Total Shareholders' Equity</b>	<b>4,370,707</b>	<b>2,416,870</b>	<b>2,325,678</b>	<b>3.9%</b>
Minority Interest	51,605	28,536	28,504	0.1%
<b>Total Equity</b>	<b>4,422,312</b>	<b>2,445,406</b>	<b>2,354,182</b>	<b>3.9%</b>
<b>Total Liabilities and Equity</b>	<b>49,986,280</b>	<b>27,640,913</b>	<b>27,016,832</b>	<b>2.3%</b>

# Income Statement

YTD Income Statement Unaudited	Jun-14 US\$ths.	Jun-14 Ch\$ million	Jun-13	June 14 / Dec. 13 % Chg.
Interest income	2,047,303	1,132,097	839,468	34.9%
Interest expense	(850,977 )	(470,565 )	(344,320 )	36.7%
<b>Net interest income</b>	<b>1,196,325</b>	<b>661,532</b>	<b>495,148</b>	<b>33.6%</b>
Fee and commission income	324,497	179,437	173,536	3.4%
Fee and commission expense	(122,716 )	(67,858 )	(54,771 )	23.9%
<b>Net fee and commission income</b>	<b>201,781</b>	<b>111,579</b>	<b>118,765</b>	<b>(6.1%)</b>
Net income from financial operations	(133,897 )	(74,041 )	(1,834 )	3937.1%
Foreign exchange profit (loss), net	247,889	137,075	57,349	139.0%
<b>Total financial transactions, net</b>	<b>113,992</b>	<b>63,034</b>	<b>55,515</b>	<b>13.5%</b>
Other operating income	16,267	8,995	11,757	(23.5%)
<b>Total operating income</b>	<b>1,528,365</b>	<b>845,140</b>	<b>681,185</b>	<b>24.1%</b>
<b>Provision for loan losses</b>	<b>(298,877 )</b>	<b>(165,270 )</b>	<b>(179,513 )</b>	<b>(7.9%)</b>
<b>Net operating profit</b>	<b>1,229,488</b>	<b>679,870</b>	<b>501,672</b>	<b>35.5%</b>
Personnel salaries and expenses	(292,088 )	(161,516 )	(151,327 )	6.7%
Administrative expenses	(182,485 )	(100,909 )	(92,622 )	8.9%
Depreciation and amortization	(51,694 )	(28,585 )	(30,914 )	(7.5%)
Impairment	(52 )	(29 )	(173 )	(83.2%)
<b>Operating expenses</b>	<b>(526,320 )</b>	<b>(291,039 )</b>	<b>(275,036 )</b>	<b>5.8%</b>
Other operating expenses	(66,814 )	(36,946 )	(25,673 )	43.9%
Total operating expenses	(593,133 )	(327,985 )	(300,709 )	9.1%
<b>Operating income</b>	<b>636,355</b>	<b>351,885</b>	<b>200,963</b>	<b>75.1%</b>
Income from investments in other companies	1,517	839	1,149	(27.0%)
<b>Income before taxes</b>	<b>637,872</b>	<b>352,724</b>	<b>202,112</b>	<b>74.5%</b>
Income tax expense	(92,647 )	(51,231 )	(34,530 )	48.4%
<b>Net income from ordinary activities</b>	<b>545,225</b>	<b>301,493</b>	<b>167,582</b>	<b>79.9%</b>
Net income discontinued operations	-	-	-	--%
<b>Net income attributable to:</b>				
Minority interest	61	34	811	(95.8%)
<b>Net income attributable to shareholders</b>	<b>545,163</b>	<b>301,459</b>	<b>166,771</b>	<b>80.8%</b>

# Income Statement

## Unaudited Quarterly Income Statement

	2Q14	2Q14	1Q14	2Q13	2Q14 / 2Q13	2Q14 / 1Q14
	US\$ths.		Ch\$mn			% Chg.
Interest income	1,069,118	591,190	540,907	413,671	42.9%	9.3%
Interest expense	(439,718)	(243,151)	(227,414)	(165,004)	47.4%	6.9%
<b>Net interest income</b>	<b>629,399</b>	<b>348,039</b>	<b>313,493</b>	<b>248,667</b>	<b>40.0%</b>	<b>11.0%</b>
Fee and commission income	160,508	88,756	90,681	85,996	3.2%	(2.1%)
Fee and commission expense	(59,571)	(32,941)	(34,917)	(27,852)	18.3%	(5.7%)
<b>Net fee and commission income</b>	<b>100,937</b>	<b>55,815</b>	<b>55,764</b>	<b>58,144</b>	<b>(4.0%)</b>	<b>0.1%</b>
Net income from financial operations	(187,321)	(103,583)	29,542	15,039	-%	-%
Foreign exchange profit (loss), net	241,686	133,645	3,430	18,214	633.7%	3796.4%
<b>Total financial transactions, net</b>	<b>54,365</b>	<b>30,062</b>	<b>32,972</b>	<b>33,253</b>	<b>(9.6%)</b>	<b>(8.8%)</b>
Other operating income	6,302	3,485	5,510	7,188	(51.5%)	(36.8%)
<b>Total operating income</b>	<b>791,003</b>	<b>437,401</b>	<b>407,739</b>	<b>347,252</b>	<b>26.0%</b>	<b>7.3%</b>
<b>Provision for loan losses</b>	<b>(151,972)</b>	<b>(84,036)</b>	<b>(81,234)</b>	<b>(86,655)</b>	<b>(3.0%)</b>	<b>3.4%</b>
<b>Net operating profit</b>	<b>639,031</b>	<b>353,365</b>	<b>326,505</b>	<b>260,597</b>	<b>35.6%</b>	<b>8.2%</b>
Personnel salaries and expenses	(157,059)	(86,849)	(74,667)	(79,794)	8.8%	16.3%
Administrative expenses	(93,101)	(51,482)	(49,427)	(46,762)	10.1%	4.2%
Depreciation and amortization	(27,340)	(15,118)	(13,467)	(15,261)	(0.9%)	12.3%
Impairment	(29)	(16)	(13)	(146)	(89.0%)	23.1%
<b>Operating expenses</b>	<b>(277,529)</b>	<b>(153,465)</b>	<b>(137,574)</b>	<b>(141,963)</b>	<b>8.1%</b>	<b>11.6%</b>
Other operating expenses	(29,056)	(16,067)	(20,879)	(12,871)	24.8%	(23.0%)
Total operating expenses	(306,584)	(169,532)	(158,453)	(154,834)	9.5%	7.0%
<b>Operating income</b>	<b>332,447</b>	<b>183,833</b>	<b>168,052</b>	<b>105,763</b>	<b>73.8%</b>	<b>9.4%</b>
Income from investments in other companies	998	552	287	667	(17.2%)	92.3%
<b>Income before taxes</b>	<b>333,445</b>	<b>184,385</b>	<b>168,339</b>	<b>106,430</b>	<b>73.2%</b>	<b>9.5%</b>
Income tax expense	(45,353)	(25,079)	(26,152)	(20,293)	23.6%	(4.1%)
<b>Net income from ordinary activities</b>	<b>288,092</b>	<b>159,306</b>	<b>142,187</b>	<b>86,137</b>	<b>84.9%</b>	<b>12.0%</b>
Net income discontinued operations	-	-	-	-		
<b>Net income attributable to:</b>						
Minority interest	(561)	(310)	344	245	-226.5%	-190.1%
<b>Net income attributable to shareholders</b>	<b>288,652</b>	<b>159,616</b>	<b>141,843</b>	<b>85,892</b>	<b>85.8%</b>	<b>12.5%</b>



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