

# Banco Santander Chile

## *Solid business and client profitability trends*

January 2017

Simple | Personal | Fair



# 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 2015 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

- **Growth expected to accelerate in 2017. Financial system with relatively stable growth and risk trends**
- **Santander Chile has adjusted its medium-term strategy and is starting to benefit from stronger client activity and improved profitability trends...**
- **... leading to a sound medium-term outlook**

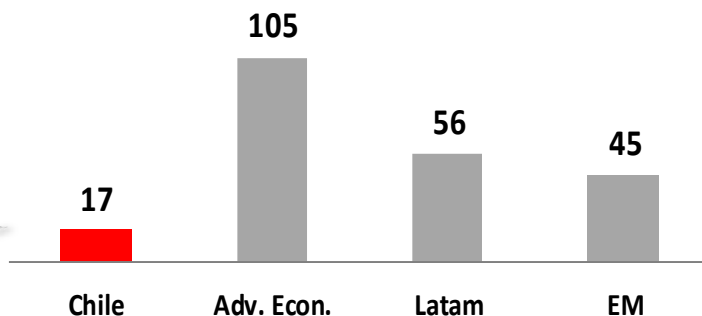
## Chile: a stable and diversified economy

### Chile: key economic indicators<sup>1</sup>

Population:	18.0 mn
GDP:	US\$220bn
GDP per capita (PPP):	US\$23,000
Exports / GDP:	28%
Investment / GDP :	22.5%
Net public debt / GDP:	-3.5%
Sovereign ratings:	AA-/A+/Aa3

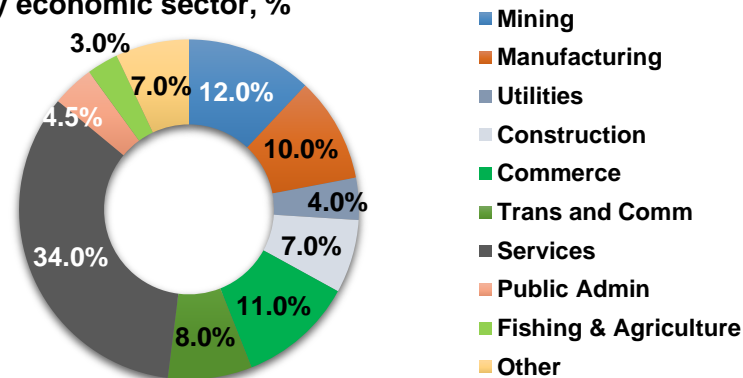
### Low public debt<sup>2</sup>

Gross public debt, % GDP

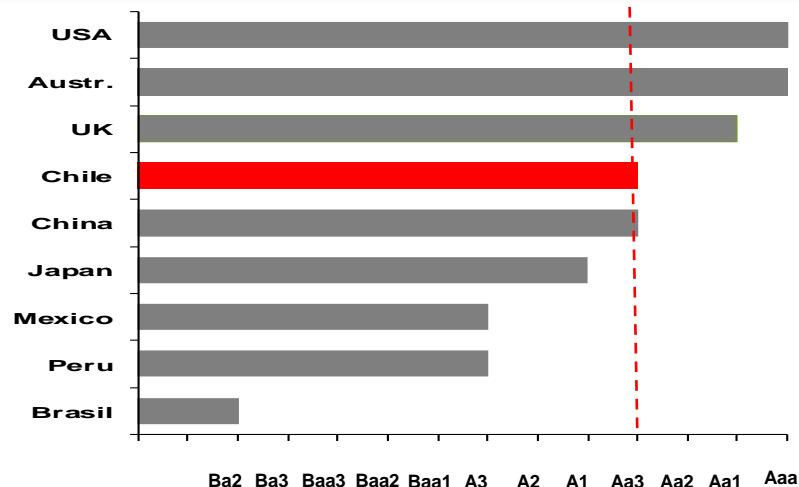


### Chile's economy is well diversified<sup>1</sup>

GDP by economic sector, %



### ... and high Sovereign rating<sup>3</sup>

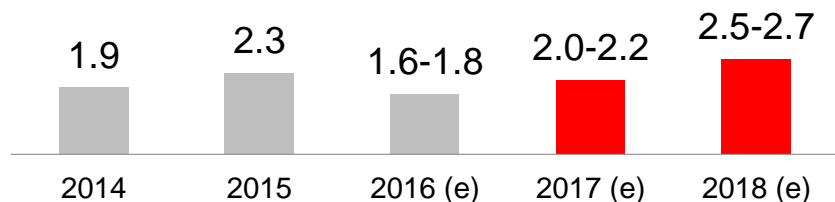


# Macroeconomic environment

## GDP growth to rise in 2017 and 2018

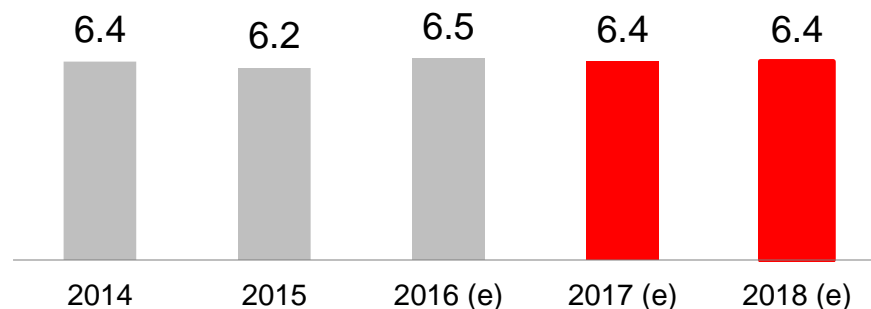
### GDP

YoY real growth, %



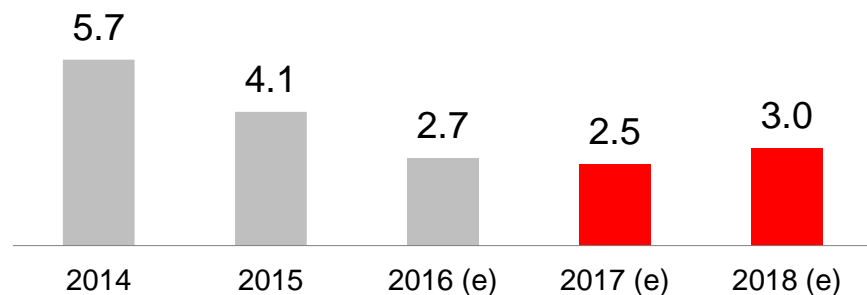
### Avg. Unemployment

% of workforce, %



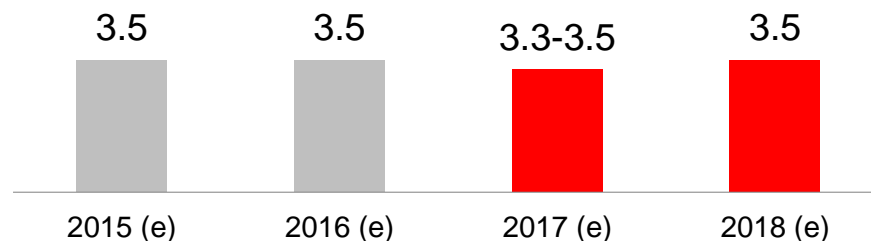
### Inflation

Annual change in UF inflation, %



### Central Bank ST Reference Rate

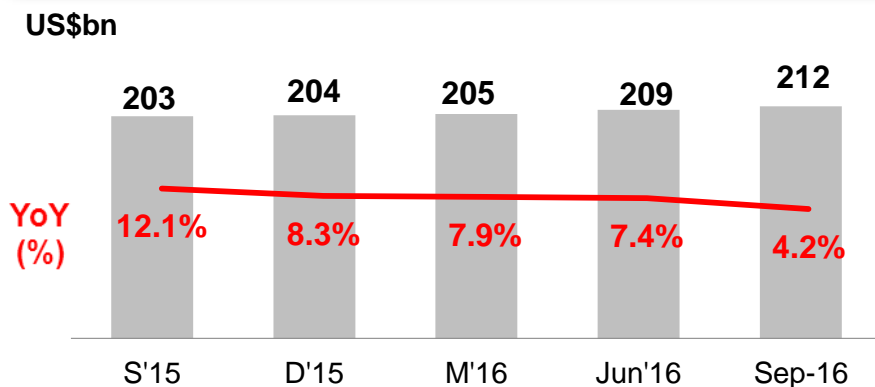
%



## Financial system: loan and deposit growth

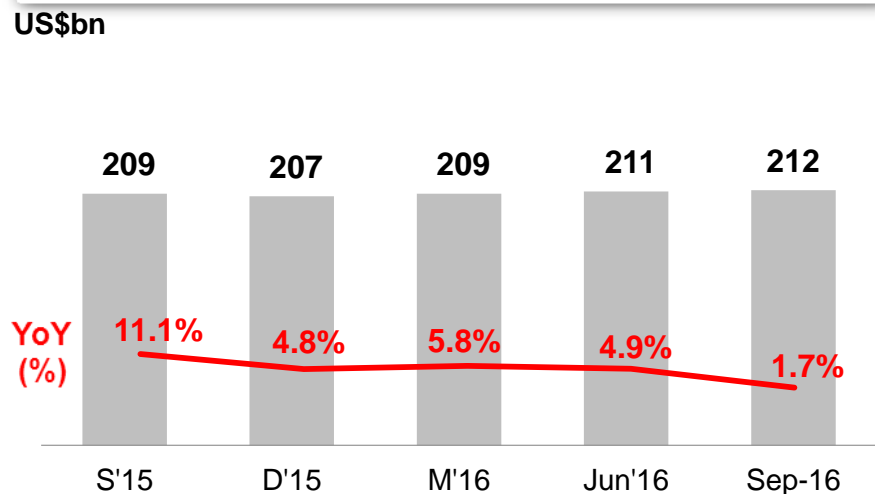
# Financial system outstripping GDP growth due to low exposure to the mining sector

### Total Loans<sup>1</sup>



- Mortgage lending leading deceleration after extraordinary leading growth in 2015
- Appreciation of the peso lowers commercial loan growth in 3Q16
- Growth of retail banking and non-copper sectors drives loan growth
- Stable asset quality

### Customer funds<sup>1,2</sup>

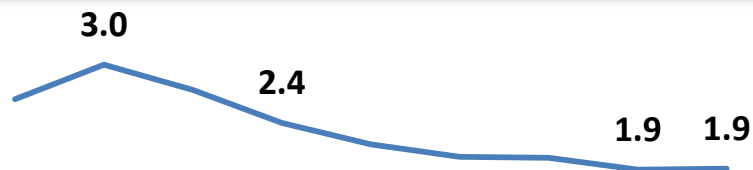


- High liquidity in the system to fund business growth
- Deceleration of customer fund growth due to shift of investment flows away from deposits to bonds given low interest rates

# Financial system: risks metrics

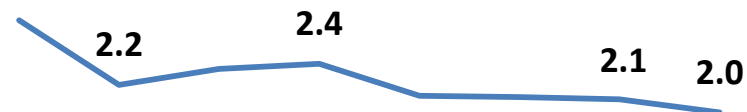
... with an improving risk profile

## Non-performing loan ratio (%)<sup>1</sup>



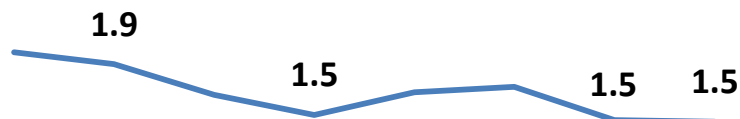
Dec-08 Dec-09 Dec-10 Dec-11 Dec-12 Dec-13 Dec-14 Dec-15 Sep-16

## Consumer NPL (%)<sup>1</sup>



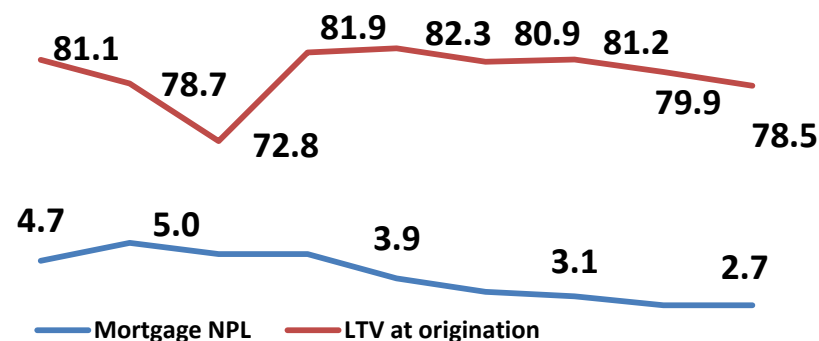
Dec-09 Dec-10 Dec-11 Dec-12 Dec-13 Dec-14 Dec-15 Sep-16

## Commercial NPL (%)<sup>1</sup>



Dec-09 Dec-10 Dec-11 Dec-12 Dec-13 Dec-14 Dec-15 Sep-16

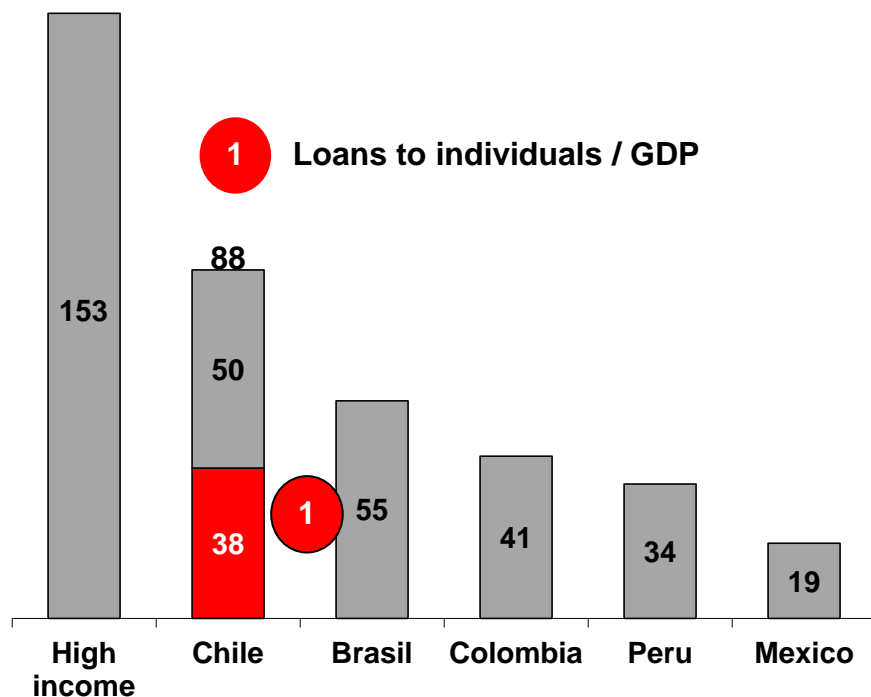
## Mortgage NPL & LTV (%)<sup>1,2</sup>



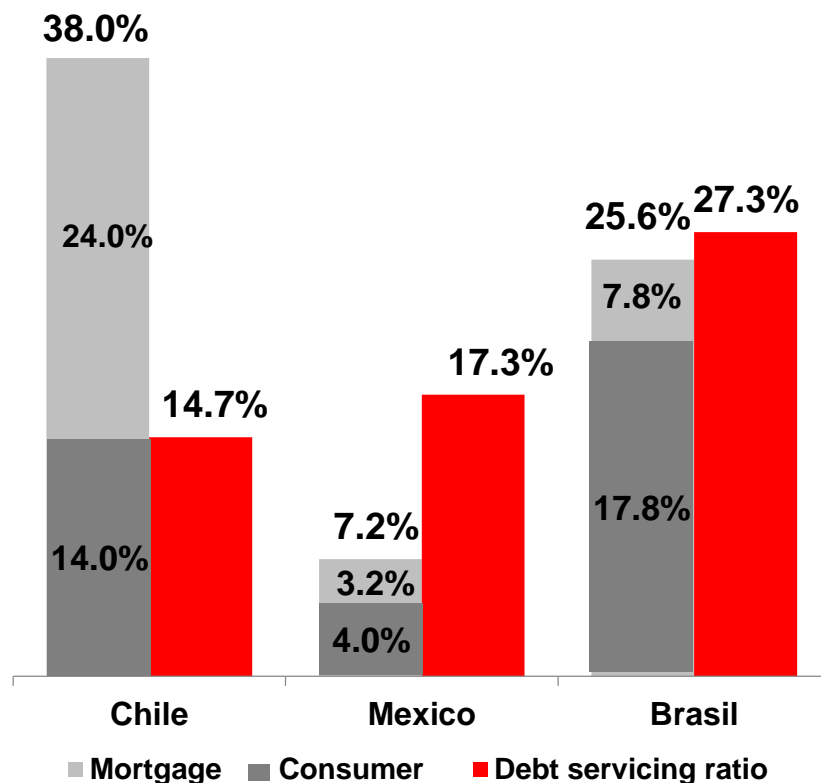
Dec-08 Dec-09 Dec-10 Dec-11 Dec-12 Dec-13 Dec-14 Dec-15 Sep-16

## The market has high growth potential in loans to individuals...

Loans to GDP, 2015 (%)<sup>1</sup>



Individual loans penetration and DSR<sup>2</sup>



1. Or latest available information. Source: World Bank, weighted by size of world economies. Chilean loan include bank and non-bank lending. Source Chile: Santander Chile based on information from SBIF, BCCh, Superintendency of Securities of Chile, SVS, and [www.cajasdechile.cl](http://www.cajasdechile.cl).

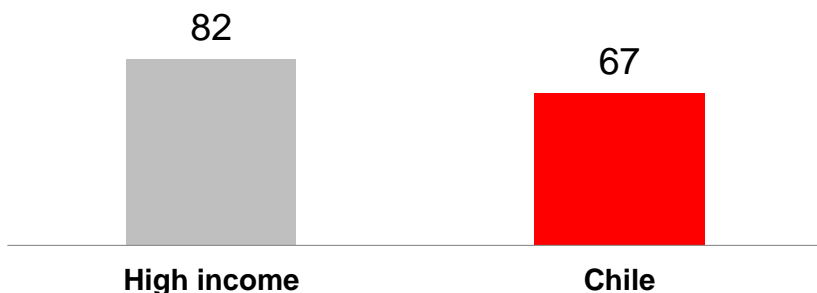
2. Debt servicing ratio, DSR: Total debt payments including amortization and interest / Disposable income. Sources: for Chile: SVS, SBIF and SVS; for Brazil and Mexico: JP Morgan, Scotiabank and Felaban



# Financial system: growth potential

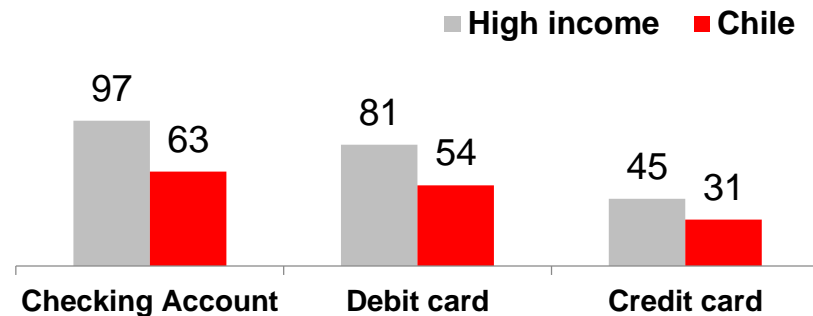
## ... and in other transactional and non-lending products

### Deposits (% GDP)

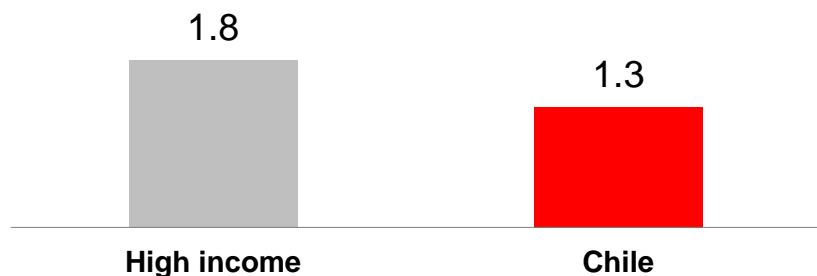


### Transactional product penetration (%)

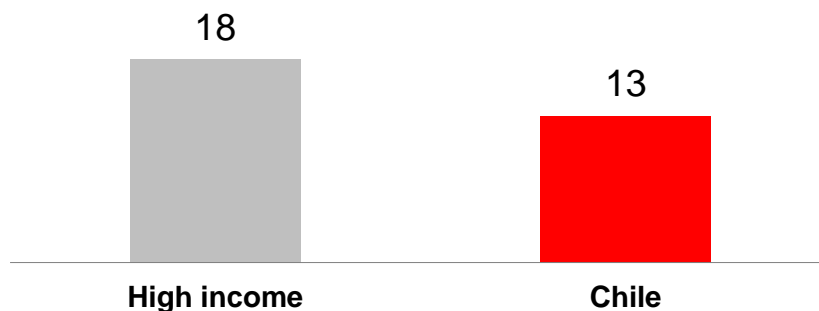
% of pop. > 15 yrs. having product



### Non-life insurance premiums (% GDP)

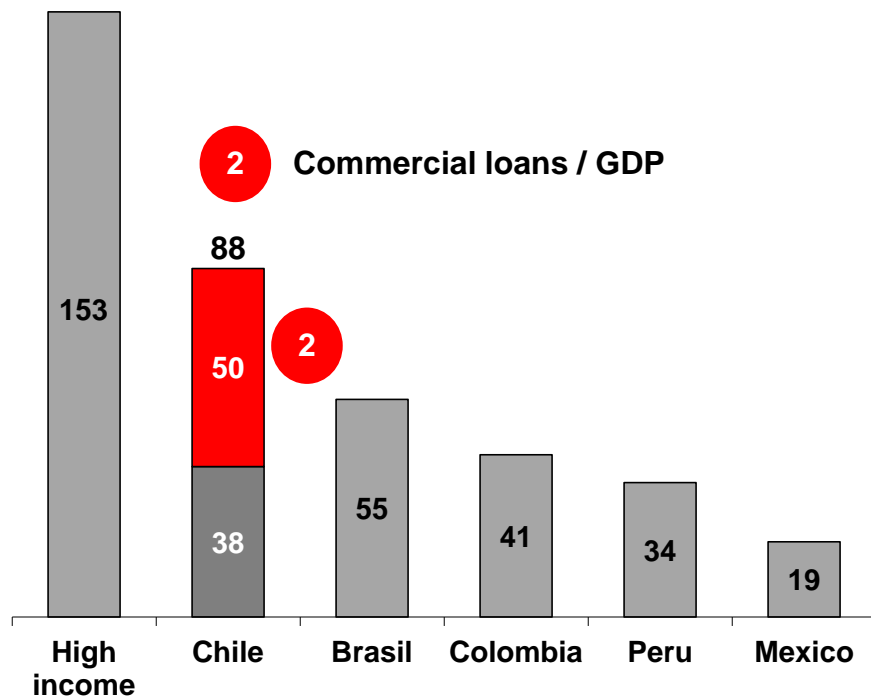


### Mutual funds (% GDP)

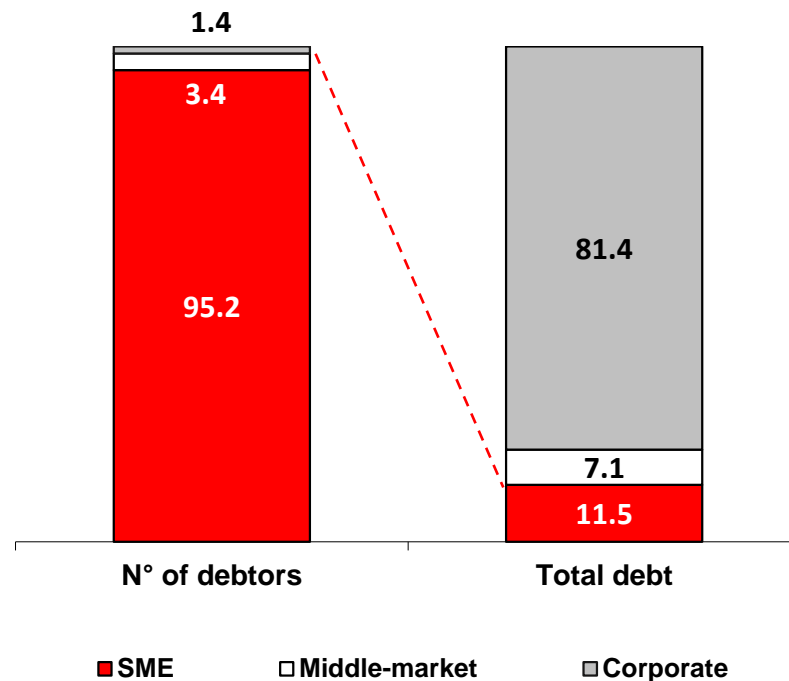


## High growth potential in Middle-market and SME customers...

Loans to GDP, 2015 (%)<sup>1</sup>



Commercial lending by type of client



1. Or latest available information. Source: World Bank, weighted by size of world economies. Chilean loan include bank and non-bank lending. Source Chile: Santander Chile based on information from SBIF, BCCh, Superintendency of Securities of Chile, SVS, and [www.cajasdechile.cl](http://www.cajasdechile.cl).

Source: SBIF, 2015

## Financial system: growth potential

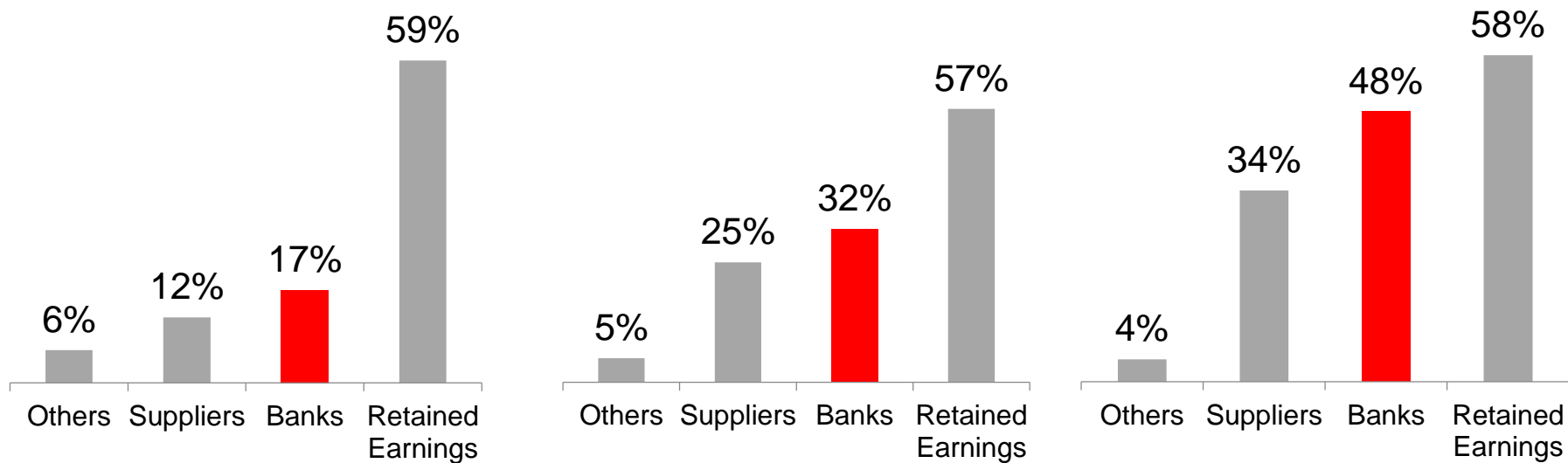
... as non-bank sources of financing are still widely used

### Micro-entrepreneurs

### SMEs

### Middle-market

Funding structure by type of borrower\*



Chilean companies have traditionally relied on the tax advantage of financing their investments with retained earnings, which with the tax reform is no longer an option

# Agenda

- **Growth expected to accelerate in 2017. Financial system with relatively stable growth and risk trends**
- **Santander Chile has adjusted its medium-term strategy and is starting to benefit from stronger client activity and improved profitability trends...**
- **... leading to a sound medium-term outlook**

## Santander Chile is the nation's leading bank...

Figures in US\$



### Business and Results

	9M'16	Var. YoY
Gross Loans	40.9bn	6.2%
Deposits	30.5bn	6.9%
Equity	4.3bn	2.2%
Net inc. business segments	690mn	16.6%
Net income	553mn	(0.4%)

### Network and Customers

	9M'16	Mkt. share <sup>1</sup>
Clients	3.6 mn.	22.1% <sup>2</sup>
Branches	464	20.0%
ATMs	1,406	18.6%

### Market Share<sup>1</sup>

	%	Rank
Loans	19.5%	1
Deposits	18.9%	1
Checking accounts	22.1%	1
Bank credit cards <sup>3</sup>	22.9%	1

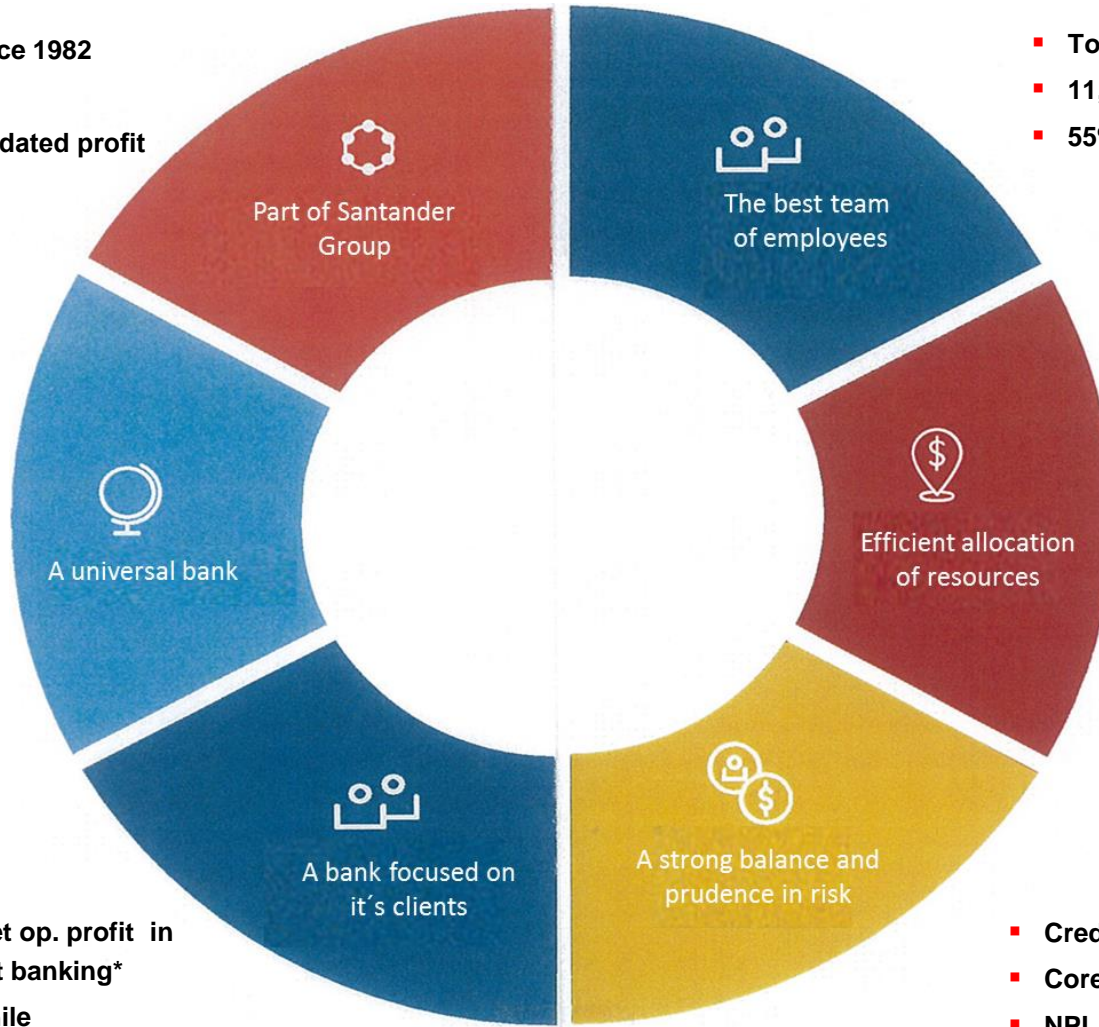
# Our Franchise

## ... with a solid business model

- Part of Santander since 1982
- 3.8% of Group assets
- 9.1% Group's consolidated profit

- 54% loans to individuals
- 46% loans to companies
- Market leader in most products

- 91% loans and 86% of net op. profit in Retail and middle-market banking\*
- Largest client base in Chile
- # 1 in loans in deposits in Chile



- Top 5 Best Place to Work\*\*
- 11,600 employees
- 55% women

- Simple organization
- Cost / Income: 42.1 %
- Cost / Assets: 1.9%

- Credit rating: Aa3
- Core Capital BIS I: 10.1%\*\*\*
- NPL ratio : 2.1%
- Provisions / NPLs: 146%

## 4 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**



**III. Deepening ongoing commercial transformation by expanding digital banking capabilities**



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



### 4 objectives for healthy growth / higher profitability

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



- **Individual:** focus on growing in the mid-high income segments. Selective growth in lower-end (massive) segments
- **SMEs:** focus on larger SMEs, especially with a balanced flow of income (lending and non-lending products)
- Steady improvement in retail banking **asset quality**. Focus on **NIMs, net of provisions**
- **Middle-market:** focus on non-lending business activities. Loans as part of an integral client relationship
- **Corporate:** strong focus on non-lending activities

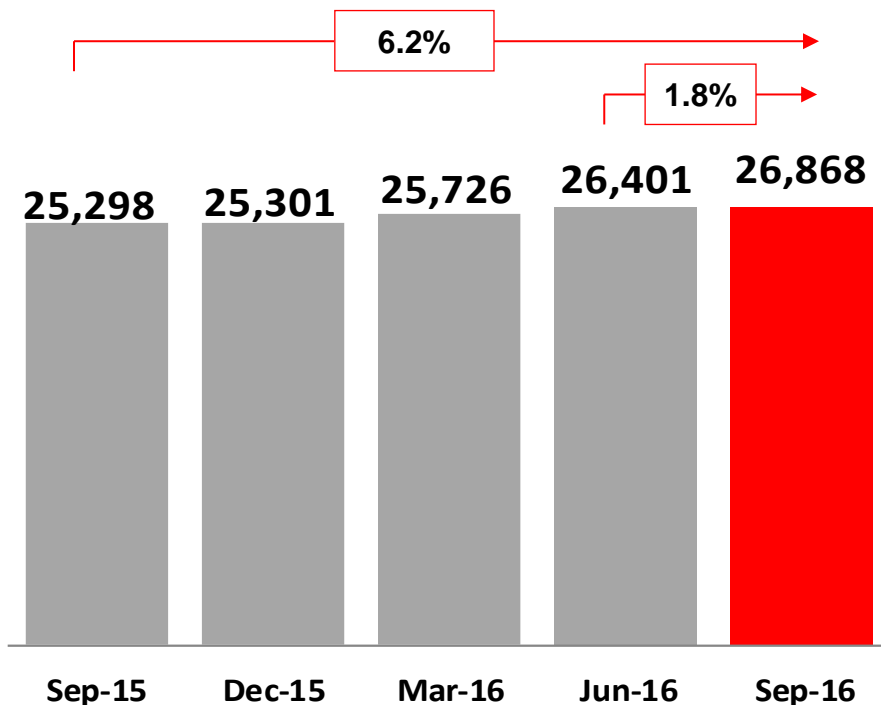


Strategy: I. Growth focused on segments with highest contribution, net of risk

## Balanced loan growth in the quarter in all business segments...

### Total Loans

Ch\$bn



Ch\$bn

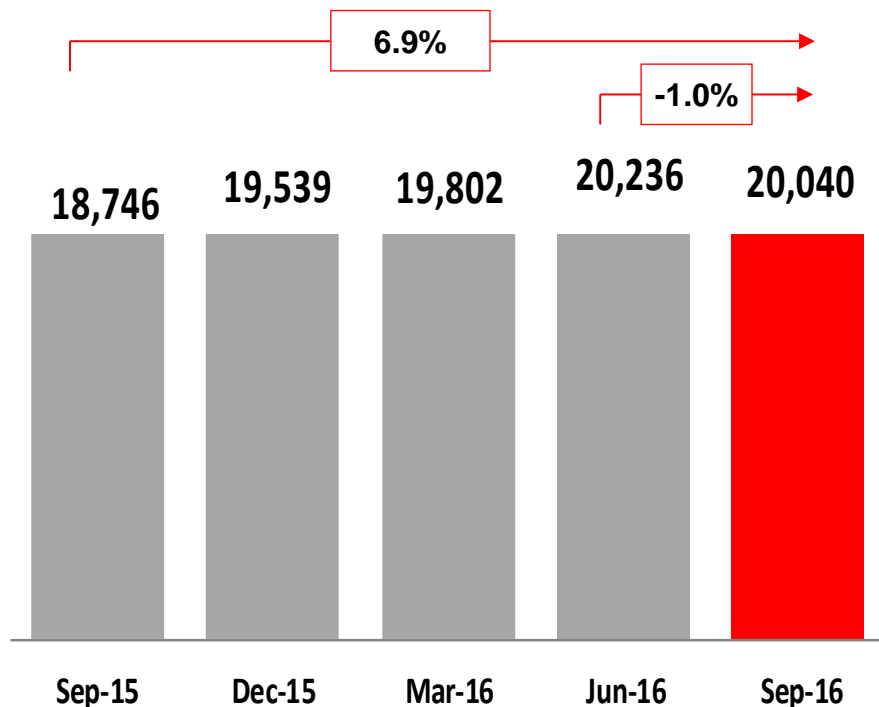
	9M'16	YoY (%)	QoQ(%)
<b>Individuals<sup>1</sup></b>	<b>14,463</b>	<b>11.1</b>	<b>1.4</b>
Consumer	4,311	6.6	1.7
Mortgages	8,472	13.7	1.8
<b>SMEs</b>	<b>3,750</b>	<b>9.3</b>	<b>1.7</b>
<b>Retail</b>	<b>18,214</b>	<b>10.7</b>	<b>1.5</b>
<b>Middle Market</b>	<b>6,313</b>	<b>1.5</b>	<b>2.9</b>
<b>Corporate</b>	<b>2,257</b>	<b>-9.2</b>	<b>0.9</b>
<b>Total<sup>2</sup></b>	<b>26,868</b>	<b>6.2</b>	<b>1.8</b>

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

... with strong liquidity levels

### Total Deposits

Ch\$bn



Ch\$bn

	1H'16	YoY(%)	QoQ(%)
Demand	6,913	4.0	-4.5
Time	13,127	8.5	1.0
<b>Total deposits</b>	<b>20,040</b>	<b>6.9</b>	<b>-1.0</b>
<b>Mutual funds<sup>1</sup></b>	<b>5,270</b>	<b>16.0</b>	<b>8.0</b>
<b>Customer funds</b>	<b>25,310</b>	<b>8.7</b>	<b>0.8</b>
<b>Loan to deposit<sup>2</sup></b>	<b>100%</b>		

1. Banco Santander Chile is the exclusive broker of mutual funds managed by Santander Asset Management, a subsidiary of SAM Investment Holdings Limited.

2. (Loans – portion of mortgages funded with long-term bonds) / (Time deposits + demand deposits).

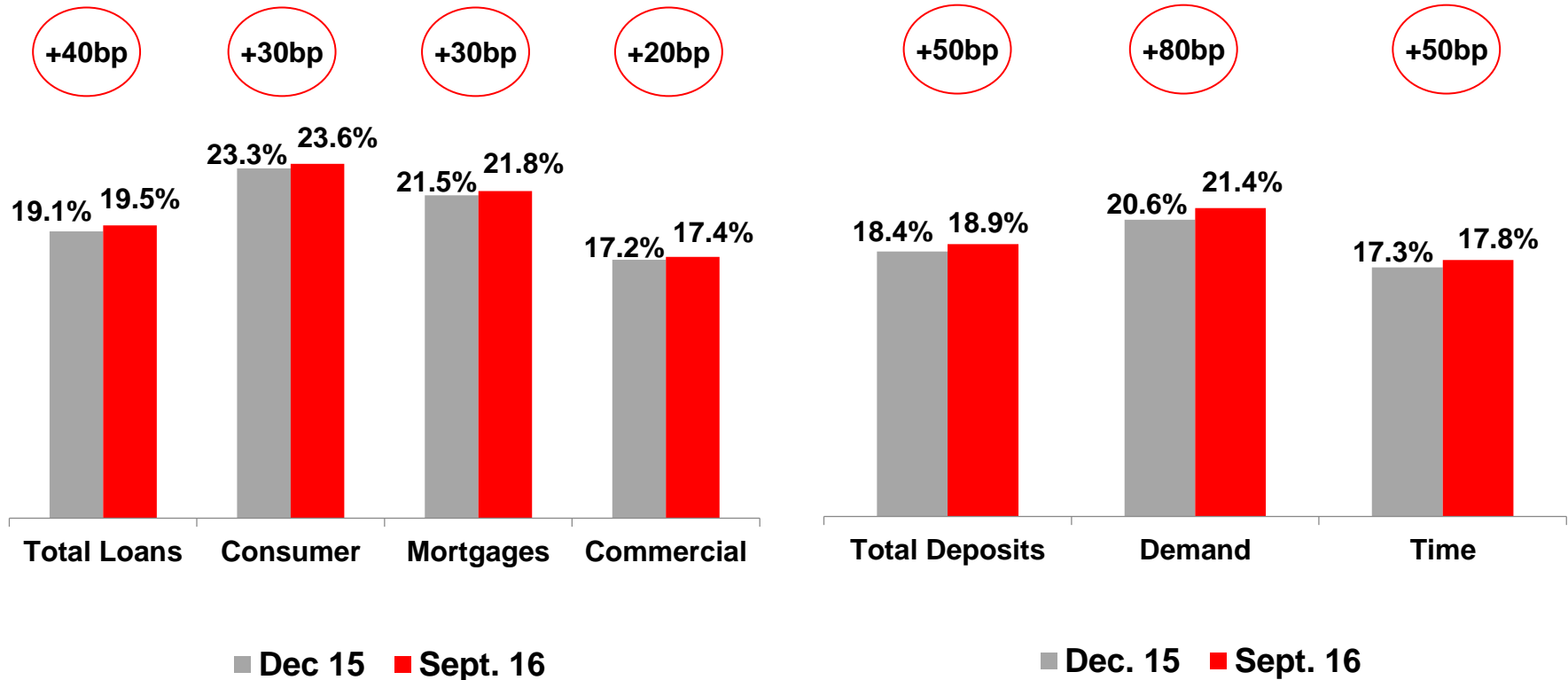
Strategy: I. Growth focused on segments with highest contribution, net of risk

## Santander Chile is gaining market share across the board in 2016...

Banco Santander Chile's market share

### Total loans

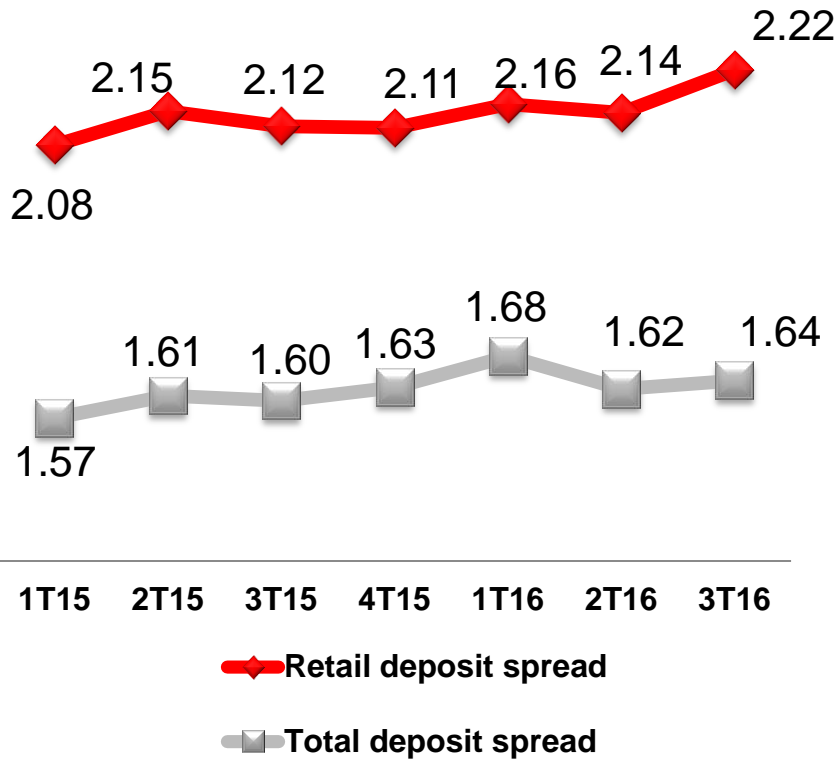
### Total deposits



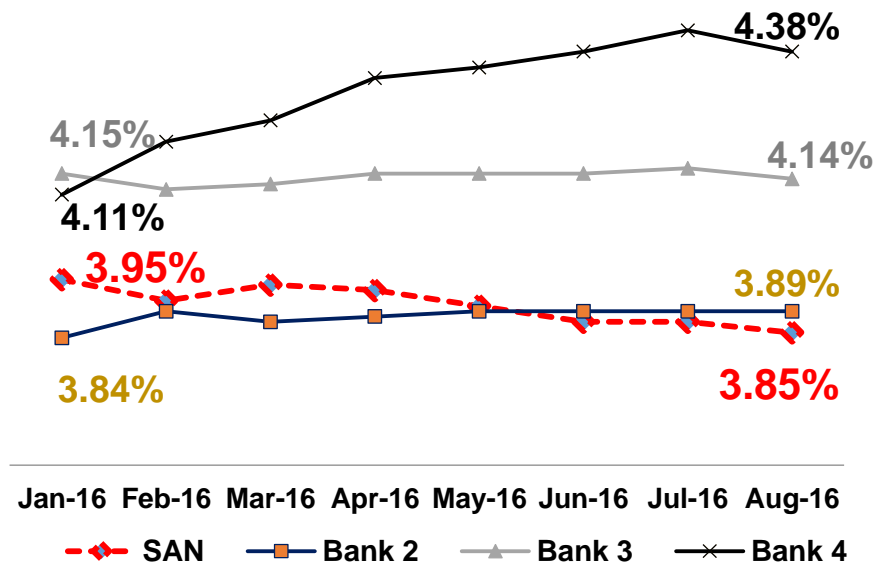
# Strategy: I. Growth focused on segments with highest contribution, net of risk

## ...and improving its funding costs

### Deposit Spread<sup>1</sup>



### YTD CLP time deposit cost<sup>2</sup>

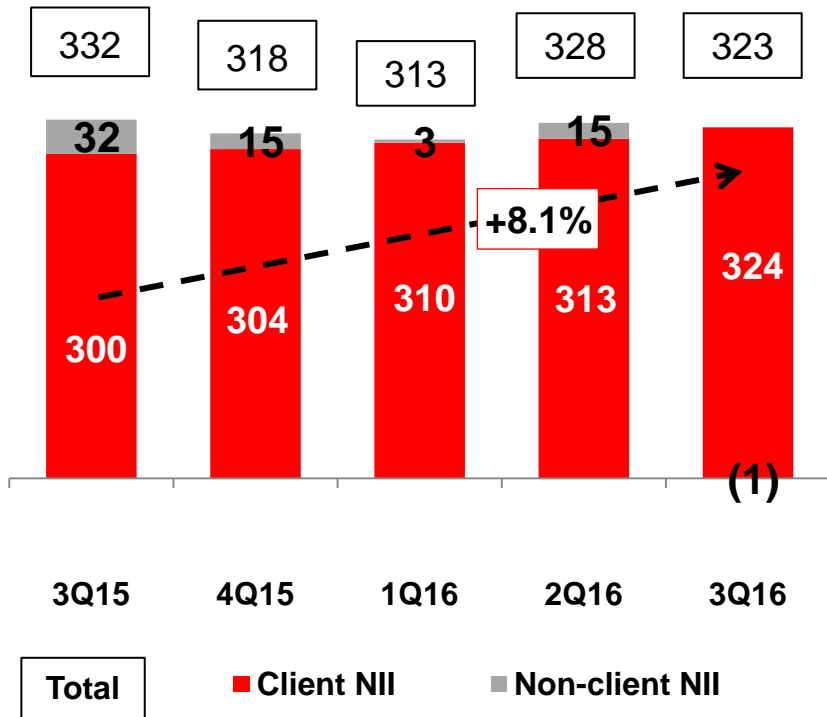


Strategy: I. Growth focused on segments with highest contribution, net of risk

**This drives the 8.1% YoY increase in Client NII growth**

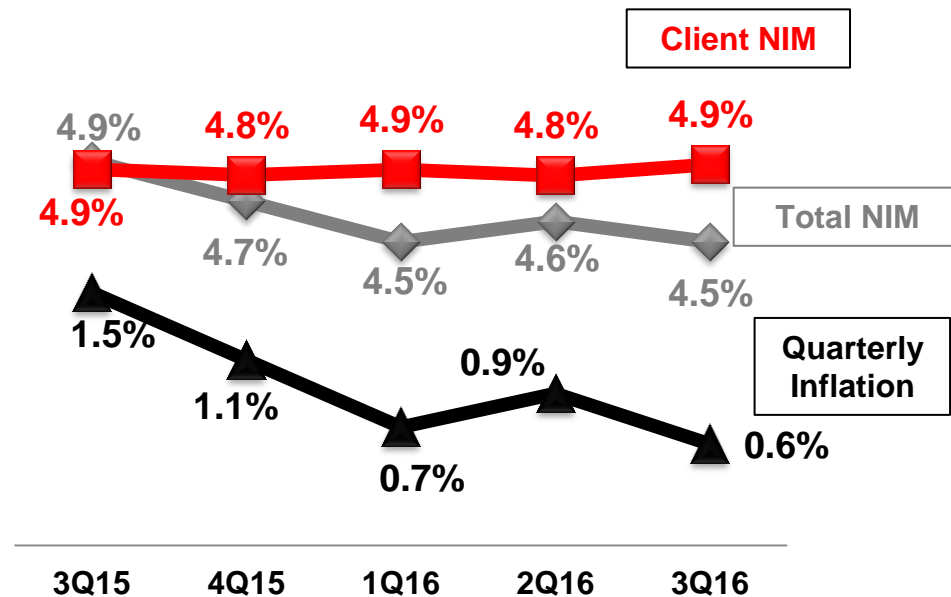
**Client and total net interest income<sup>1</sup>**

Ch\$bn



**NIM & Client NIM**

Net Interest Margin (NIM), %



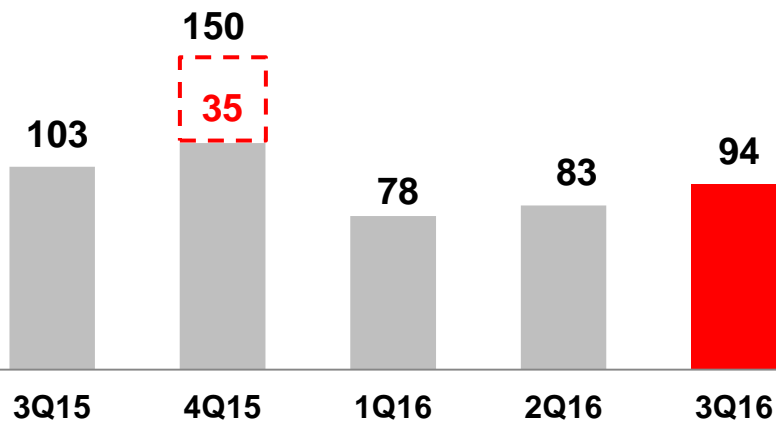
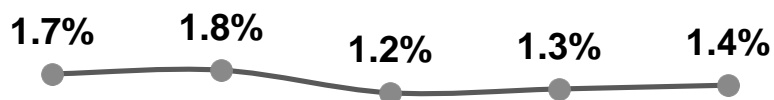
1. Client Net interest income (NII) is NII from reporting segments (Retail, Middle-market and GCB) Non-client NII is NII mainly from the Bank's ALCO positions and includes the effects of inflation on the Bank's NII

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

## Sound asset quality metrics...

### Provision expense & cost of credit<sup>1</sup>

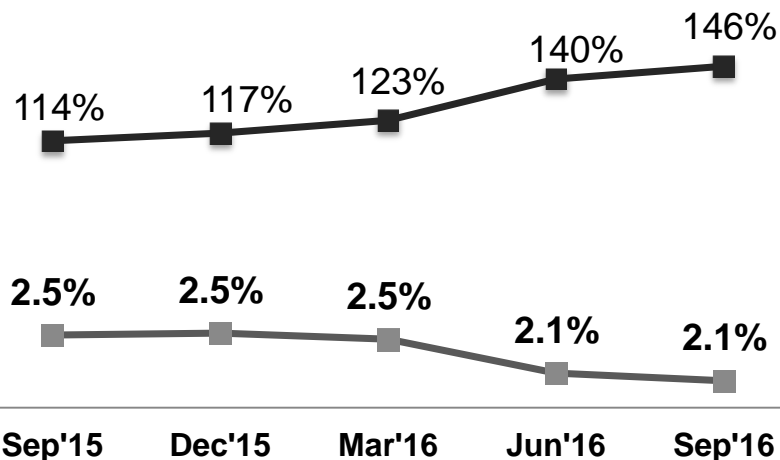
Ch\$bn



   One time Provision expense

### NPL and coverage ratio

% of loans

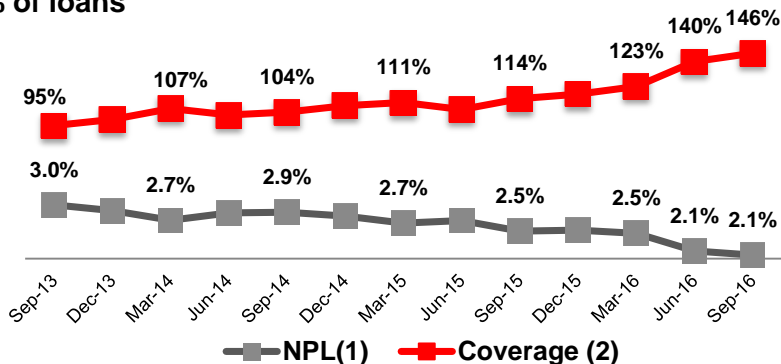


# Strategy: I. Growth focused on segments with highest contribution, net of risk

... observable in most segments we attend

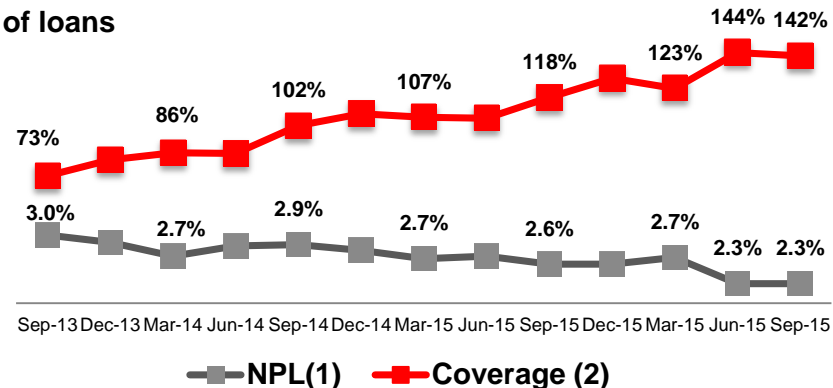
## Total loans

% of loans



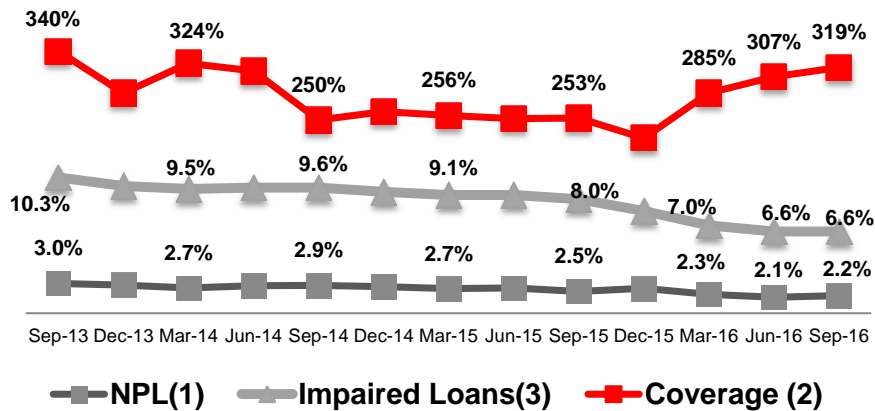
## Commercial loans

% of loans



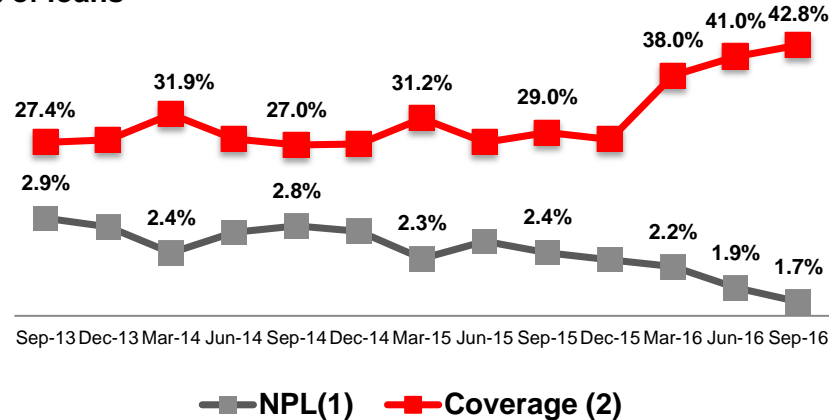
## Consumer loans

% of loans



## Mortgage loans

% of loans

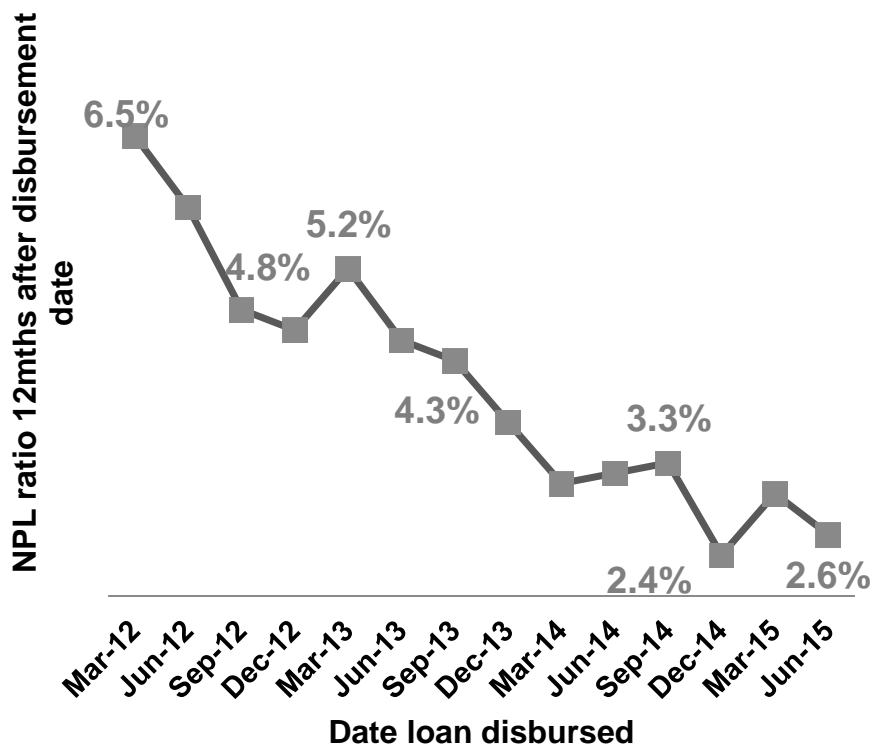


Strategy: I. Growth focused on segments with highest contribution, net of risk

## Improved vintages should lead to a lower cost of credit

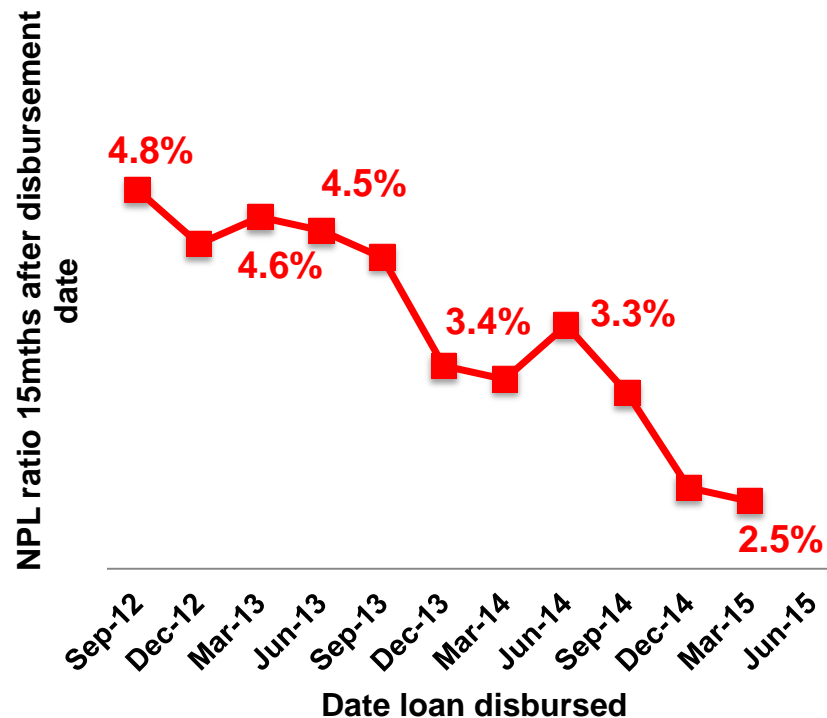
### Vintages: Individuals\*

% of loans



### Vintages: SMEs\*

% of loans



Vintages improving due to better asset mix / credit models / risk management



### 4 objectives for healthy growth / higher profitability

II. ... by increasing client loyalty through an improved client experience and quality of service



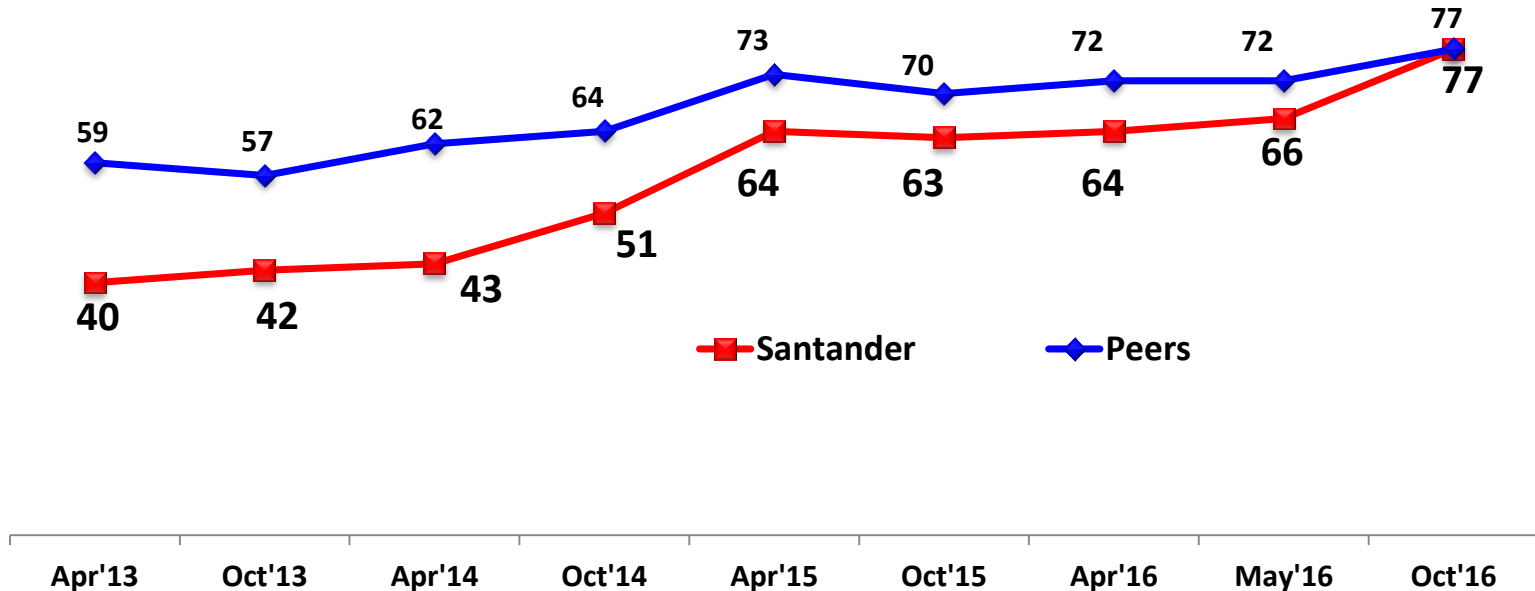
- Priority is to increase **quality of service** and improve *customer journeys*
- This should result in higher **client loyalty and cross-selling**
- Leading to **higher and sustainable fee growth**

## Strategy: II. Increasing client loyalty

### Improved customer satisfaction and service...

#### Customer Satisfaction vs peers (%)<sup>1</sup>

% of net satisfied clients

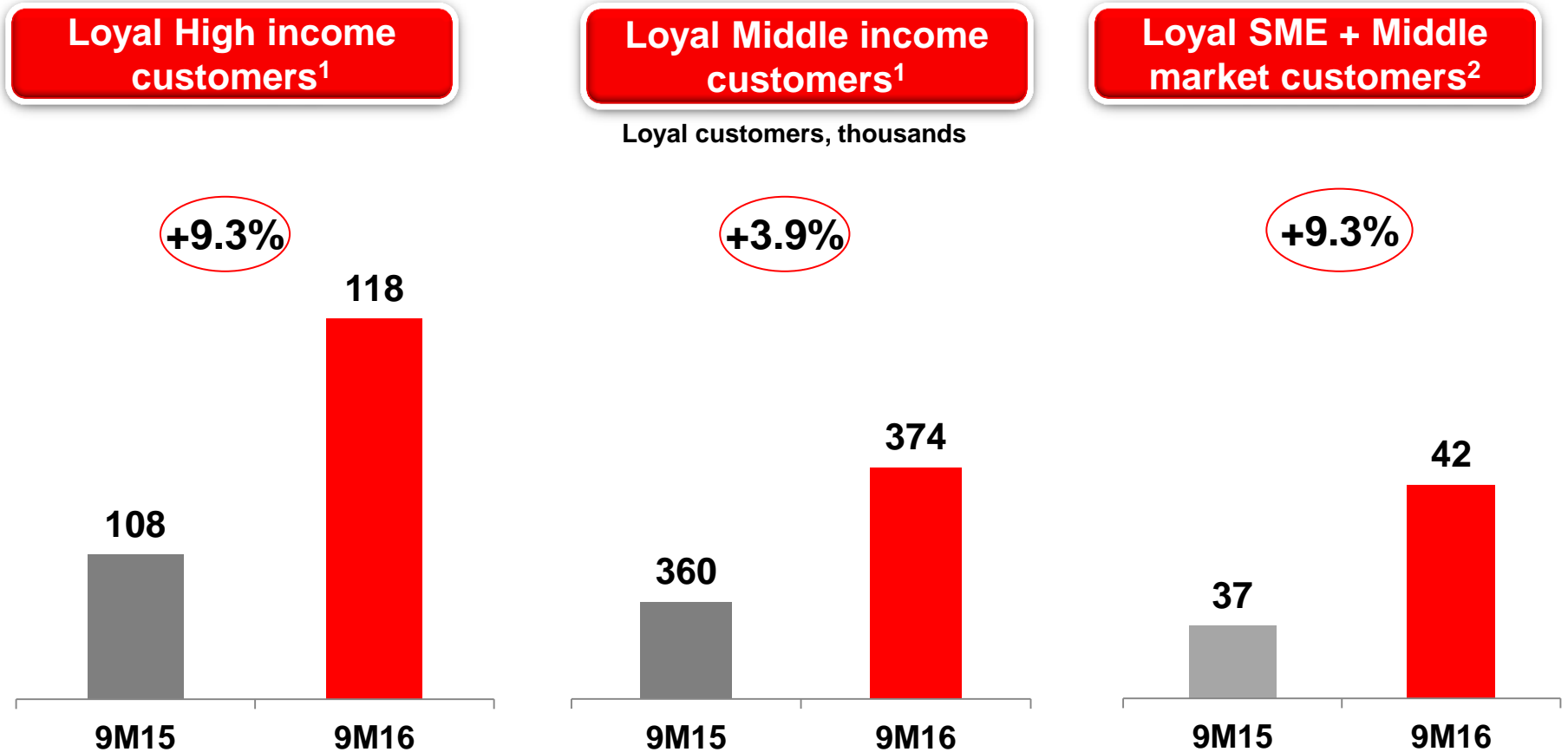


We are aiming at becoming the leader in customer satisfaction by:

- Continuous investing / improving CRM and other IT systems that boost service
- Full indoctrination in new SPF culture

## Strategy: II. Increasing client loyalty

...drives growth in customer loyalty in targeted segments

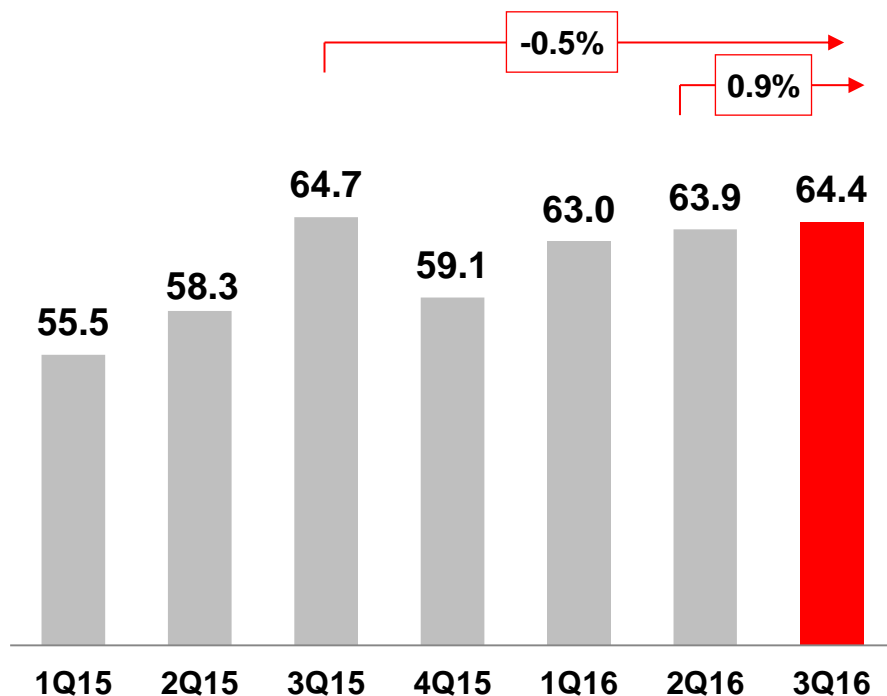


## Strategy: II. Increasing client loyalty

**This leads to a 7.2% fee income growth in 9M16**

### Net fee income

Ch\$bn



### Fee income from business segments

Ch\$bn

	9M'16	YoY (%)
Retail	148.4	4.3
Middle Market	23.3	9.0
Corporate	18.8	58.5
<b>Subtotal</b>	<b>190.5</b>	<b>8.5</b>
Others	0.8	--%
<b>Total</b>	<b>191.3</b>	<b>7.2%</b>

**Low YoY growth of fees in 3Q16 due to one-time income in 3Q15**

## 4 objectives for healthy growth / higher profitability

### III. Deepening ongoing commercial transformation by expanding digital banking capabilities



- Focus on **improving and simplifying processes** and **redesigning distribution capabilities** by leveraging in our digital platform
- Focus on integrated **omni-channel** approach with **multi-segment business centers**
- Leading the system in **digital banking**
- This transformation should lead to greater **productivity and efficiency**

# Strategy III: Digital transformation

## Redesigning our distribution network...

Trx intensive  
branch  
2013



Branch  
model 1.0  
2014-2016



**Business Center / Digital**  
2016-2019



**HIGHER  
EFFICIENCY**



**MORE  
PRODUCTIVITY**



**BEST IN CLASS  
EXPERIENCE**



**COMFORT  
#1 MOBILE**

## Strategy III: Digital transformation

... by creating multi-segment business centers...



- New Work Cafes
- 100% dedicated to value added activities
- Multi-segment
- No tellers
- No back office
- Paperless
- Fully digital



WIFI



Cafetería



Mesas de trabajo



Todo el tiempo que necesites



Ejecutivos especialistas en asesoría financiera



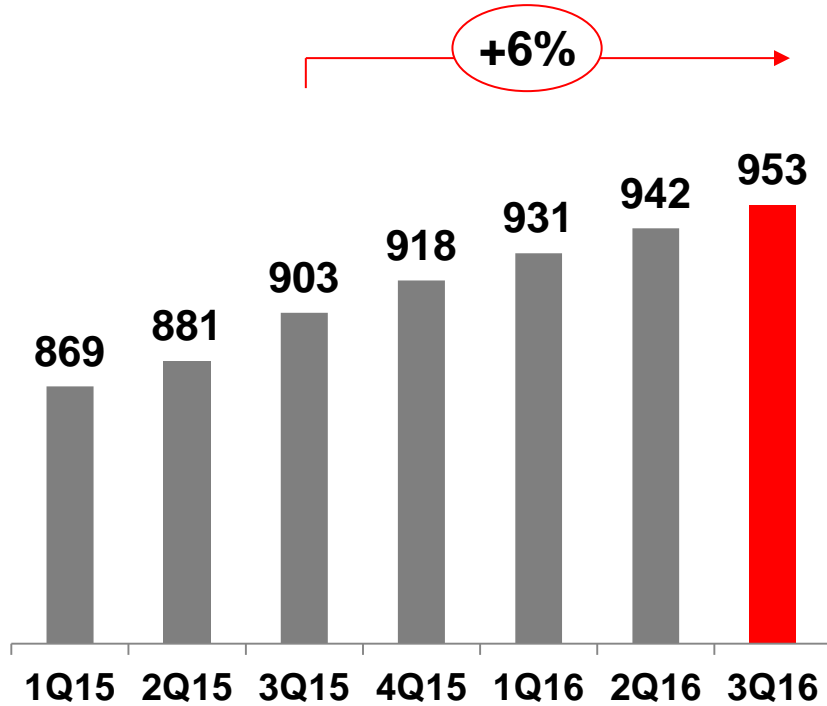
La mejor tecnología de autoservicio

# Strategy III: Digital transformation

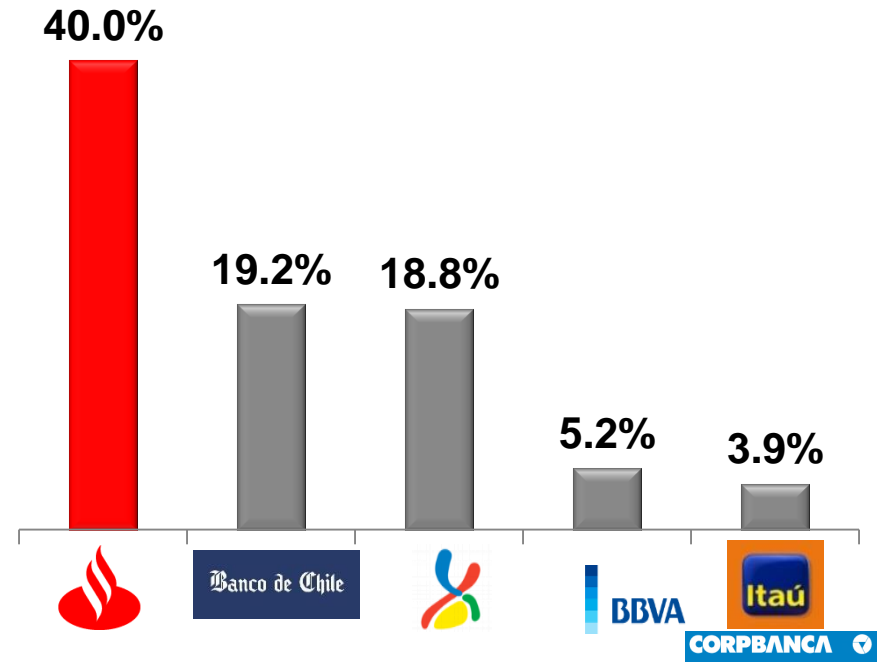
## ... and expanding the use of digital channels

### Digital clients<sup>1</sup>

Thousand



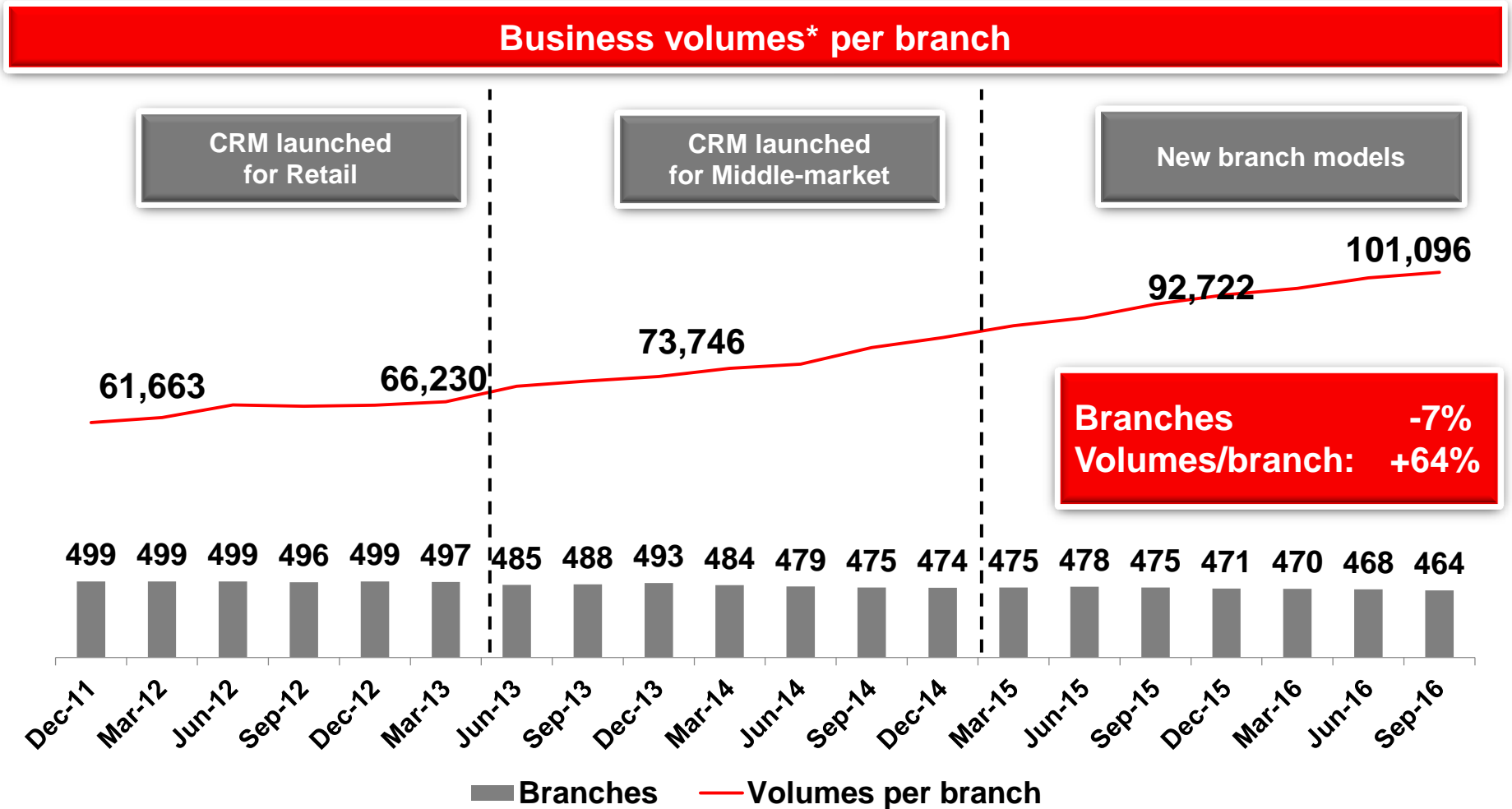
### Internet usage market share<sup>2</sup>





# Strategy III: Digital transformation

**This transformation is boosting productivity...**

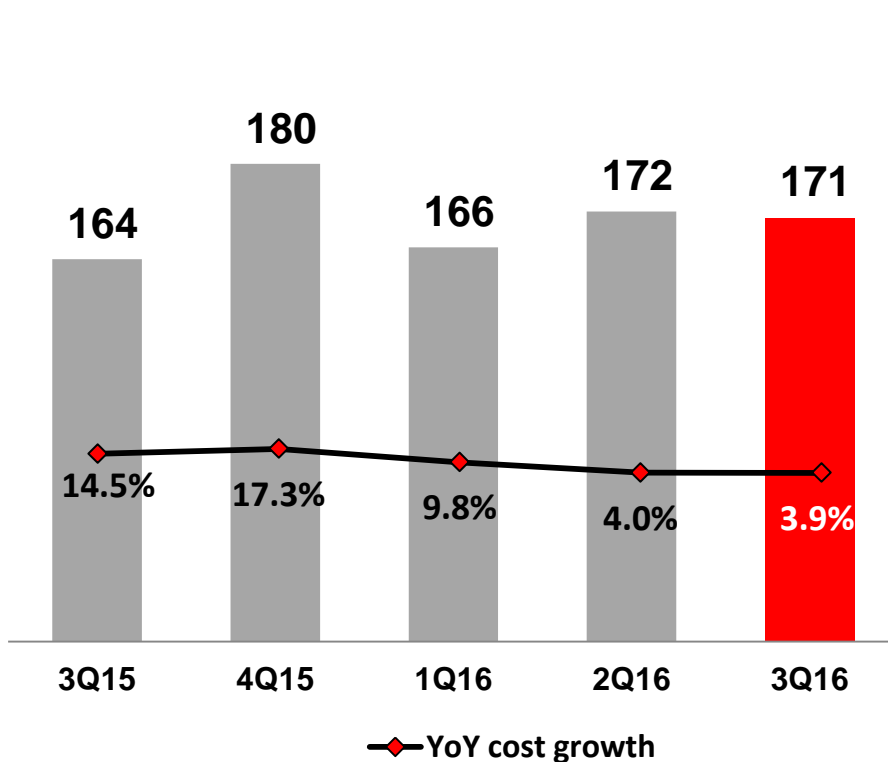


# Strategy III: Digital transformation

## ... and lowering cost growth

### Operating expenses

Ch\$bn



	9M16	YoY%
Personal exp.	294	5.7
Adm. exp.	169	2.0
Depreciation	47	23.2
<b>Op. expenses</b>	<b>509</b>	<b>5.8</b>
Efficiency Ratio <sup>1</sup>	42.1%	+150
Cost / Assets	1.9%	-10

1. Efficiency ratio: Oper. Expense excluding impairment / Net interest income + fee income + financial transactions, and Other operating income, net

### 4 objectives for healthy growth / higher profitability

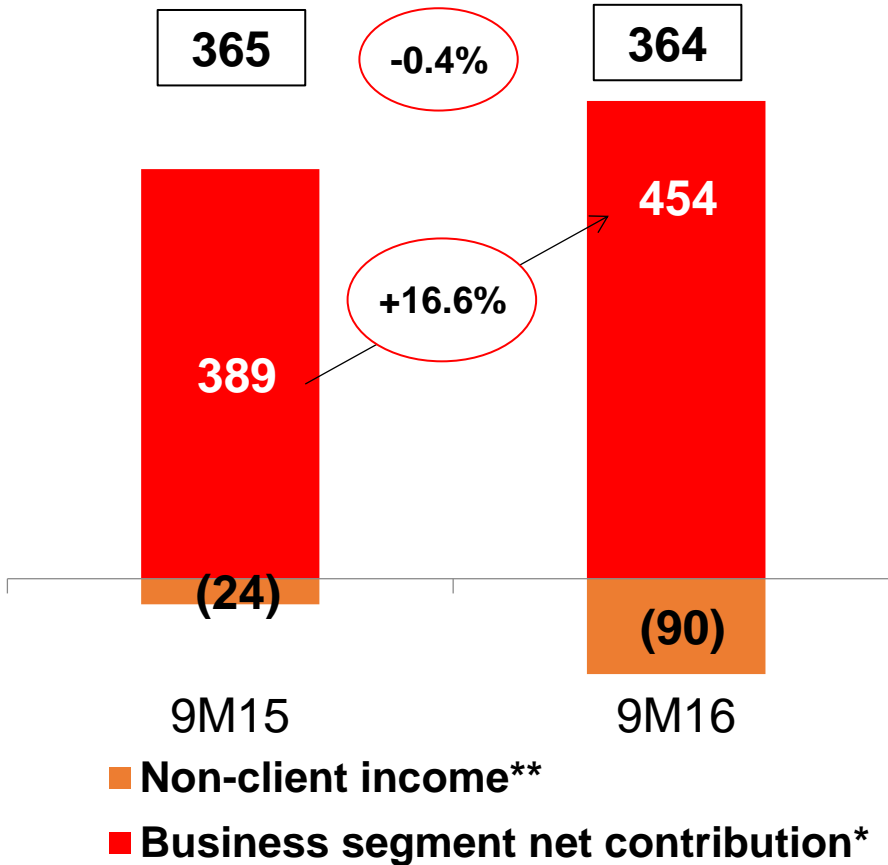
#### IV. Optimizing profitability and capital use to increase shareholder value in time



- **ROE** 17-18% in 6M15 & 6M16, in line with guidance
- Strong **Core capital** ratios to support further growth
- Dividend paid in 2016 represented **dividend yield of 5.6%**
- Maximizing the **spread between ROE and COE\***

# Stronger Client contribution driving profitability, in line with our strategy

Net income 9M16 / 9M15, Ch\$bn

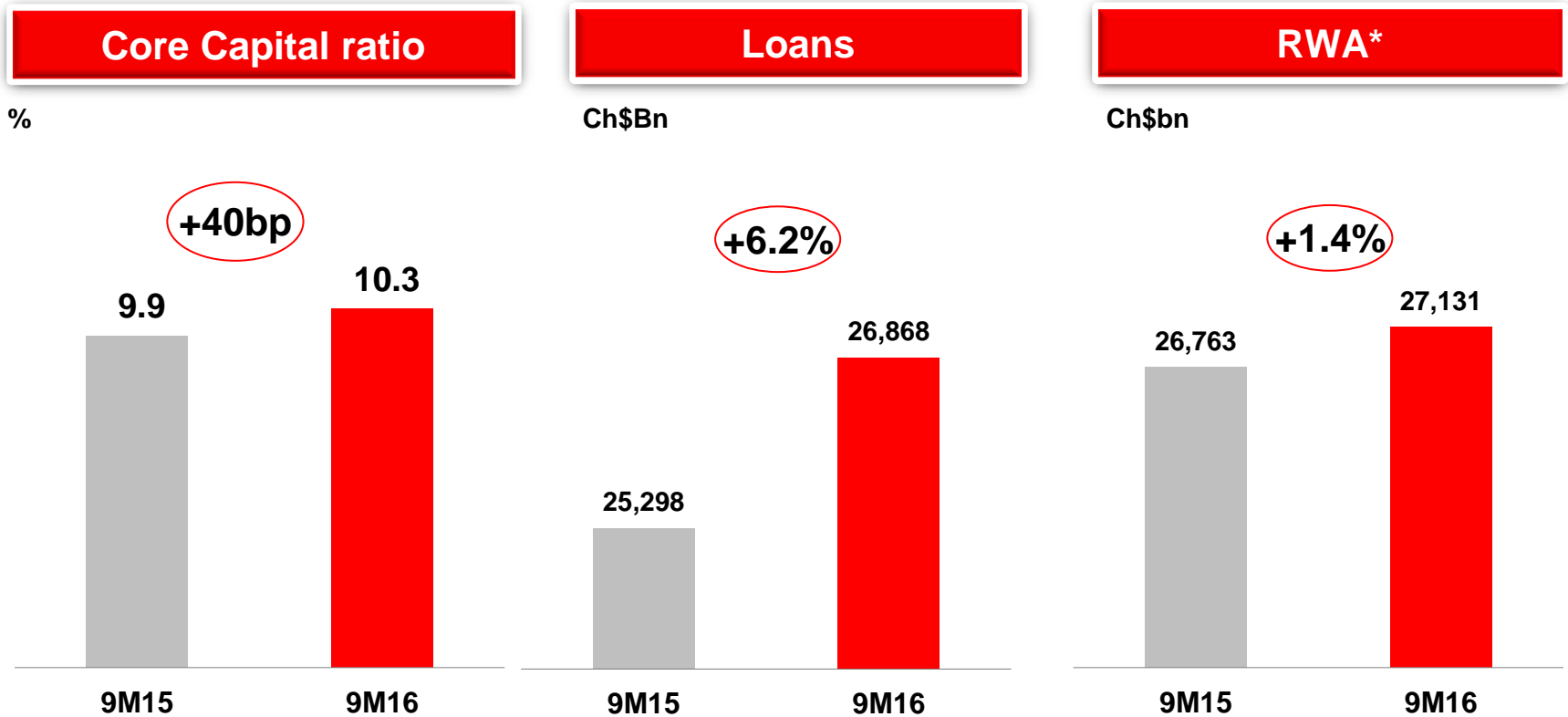


- Positive core revenue growth in all segments
- Asset quality improving
- Costs under control
- Non-client income negatively affected in 9M16 by lower inflation, severance expenses & higher tax rate

**ROE in 9M16 and 3Q16 reached 17.7%, in line with guidance**

## Strategy: IV. Optimizing profitability and capital

### Solid capital levels for further growth



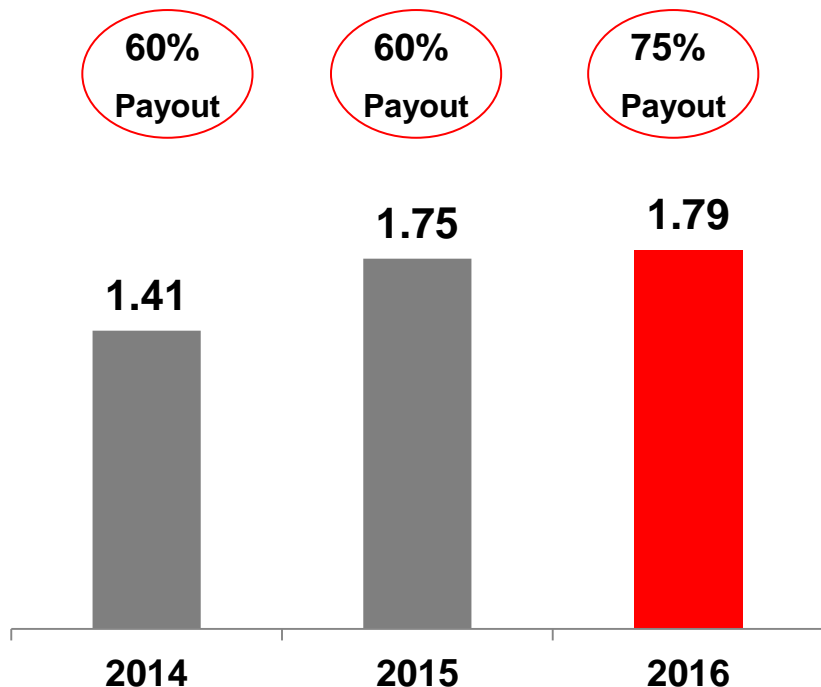
Capital ratios improve with contained RWA growth

## Strategy: IV. Optimizing profitability and capital

### Our strategy is increasing shareholder value in time

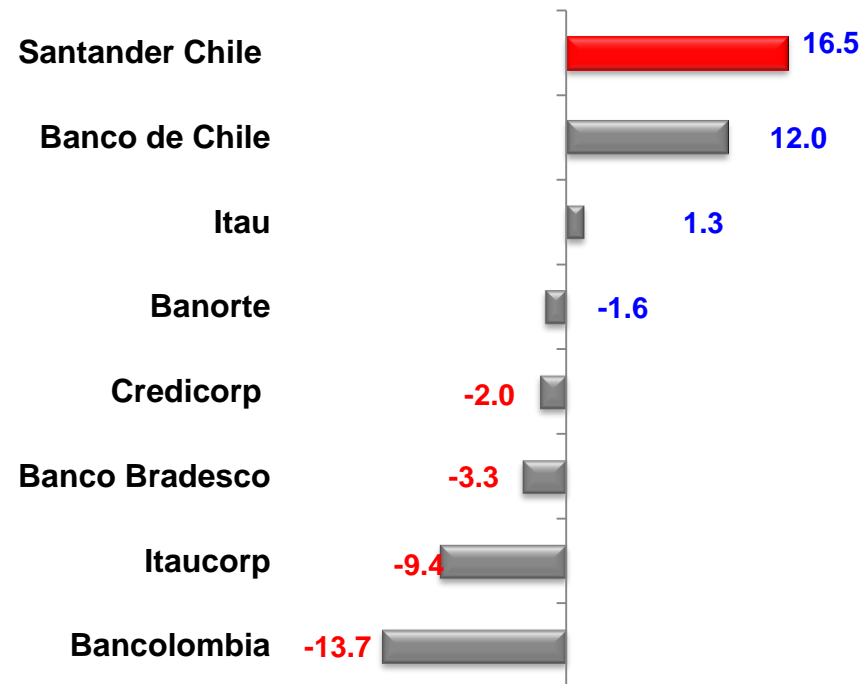
#### Dividend per share

Ch\$ per share



#### Total shareholder return

TSR including dividend, 12/31/14 - 9/30/16, %\*



Dividend yield = 5.3% in 2016

# Agenda

- **Growth expected to accelerate in 2017. Financial system with relatively stable growth and risk trends**
  - **Santander Chile has adjusted its medium-term strategy and is starting to benefit from stronger client activity and improved profitability trends...**
- **... leading to a sound medium-term outlook**

## Sound outlook for Santander Chile

- **Chile: GDP growth expectations stabilize for 2016 and rise for 2017**
- **Loans and deposits growth decelerating, with stable risk levels**
- **BSAC: stronger Client contribution driving profitability in 3Q16, in line with strategy**
  - **Loan growth up 6.2% YoY and 1.8% QoQ, with a balanced growth between all segments and solid loan spreads**
  - **Funding costs improving**
  - **Gaining market share in most products**
  - **Stronger Client revenues: Client NII grew 8.1% YoY, with rising Client NIMs.**
  - **Customer loyalty and satisfaction continue to improve**
  - **Improved asset quality: coverage rises to 146% / NPLs at 2.1%**
  - **Cost growth under control: up 3.9% YoY in the quarter. Branch optimization plans underway**
  - **Business segment contribution up 16.6% YoY in 9M16**
  - **ROE reached 17.7% in 3Q16 and 9M16**
- **In 2017, we expect these sound business trends to continue**



# Thank you

Our purpose is to help people and businesses prosper.

Our culture is based on the belief that everything we do should be

**Simple | Personal | Fair**

