

# Banco Santander Chile

## *Solid business and client profitability trends*

July 28th, 2017



Simple | Personal  
Fair

 Santander

## Important information

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 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

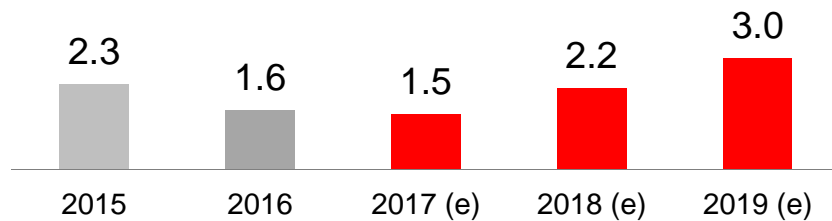
- **Macro-economic environment and financial system**
- **Strategy and results**
- **Outlook**

## Macroeconomic environment

### GDP growth expectations rise for 2018-19

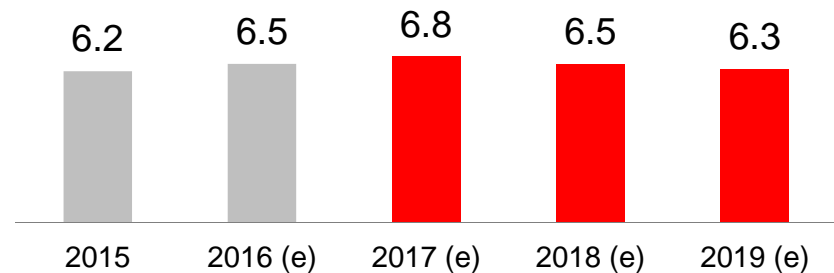
#### GDP

YoY real growth, %



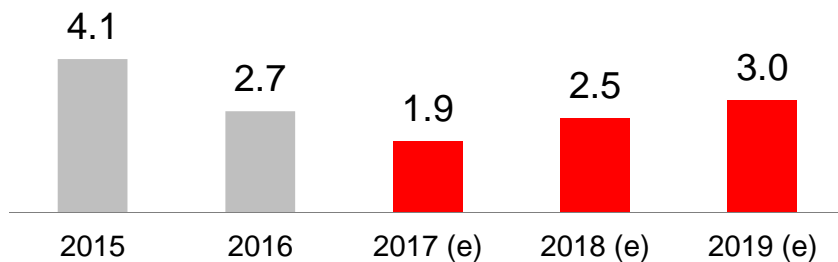
#### Unemployment

% of workforce, %



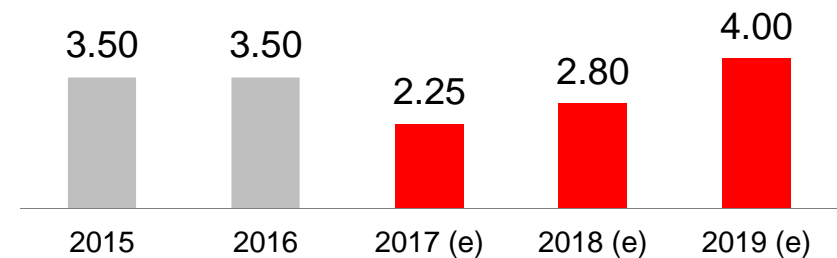
#### Inflation

Annual change in UF inflation, %



#### Central Bank ST Reference Rate

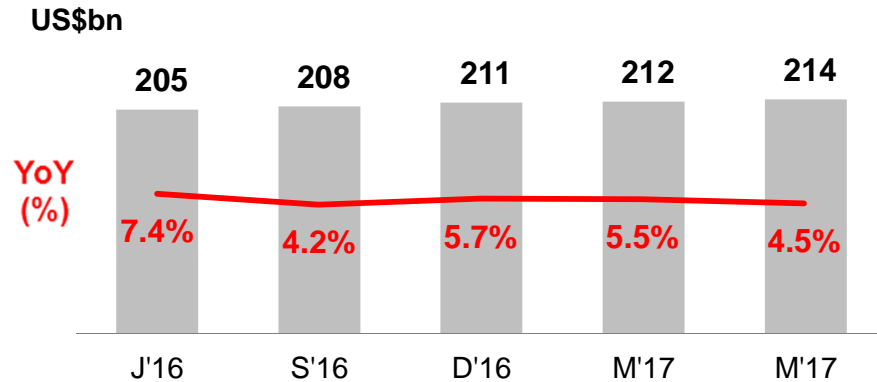
%



## Financial system: loan and customer funds

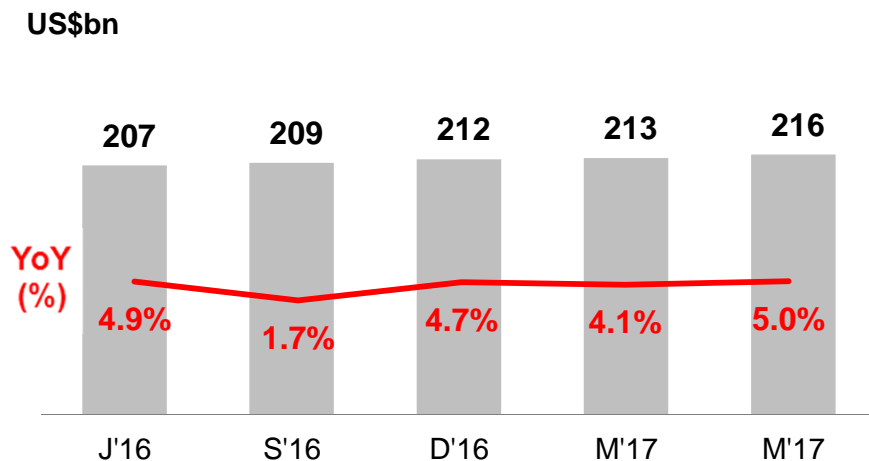
### Financial system outstripping GDP growth

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



- Growth of retail loans offset by slower commercial loan growth due to weaker macroeconomic environment
- Mortgage lending leading deceleration after extraordinary growth in 2015-16
- 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

# Agenda

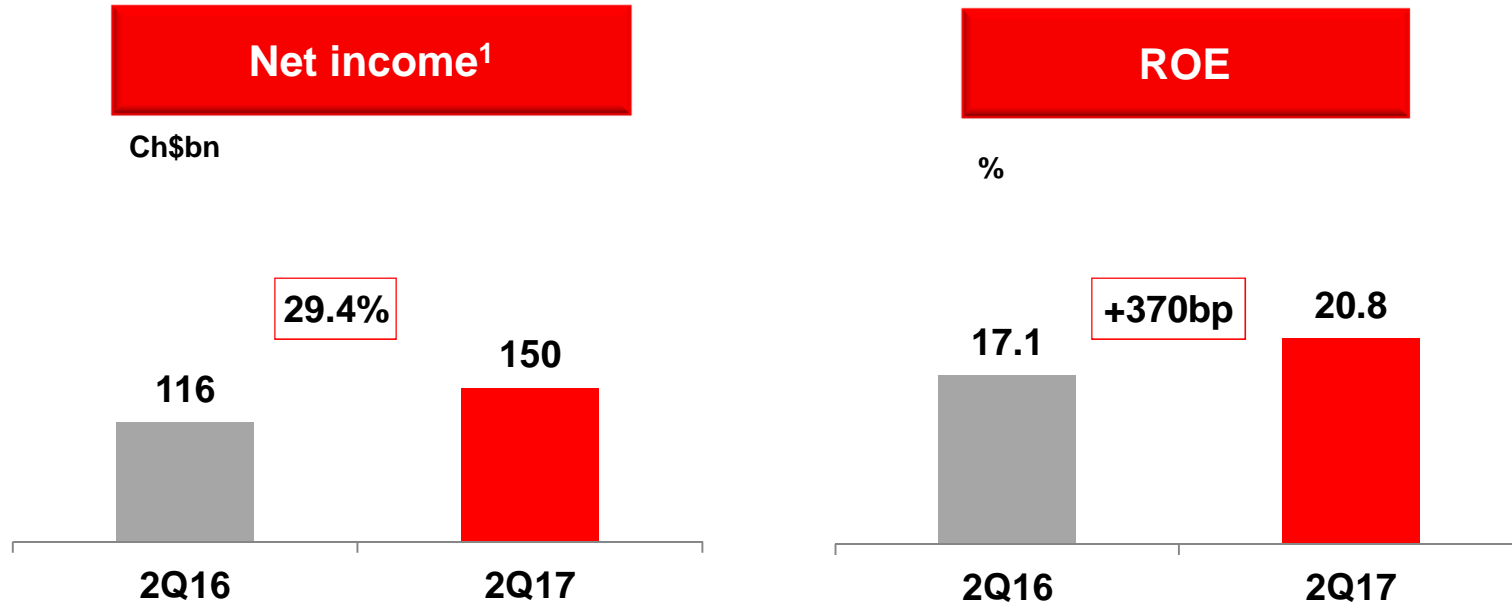
- **Macro-economic environment and financial system**

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## Positive results in 2Q17

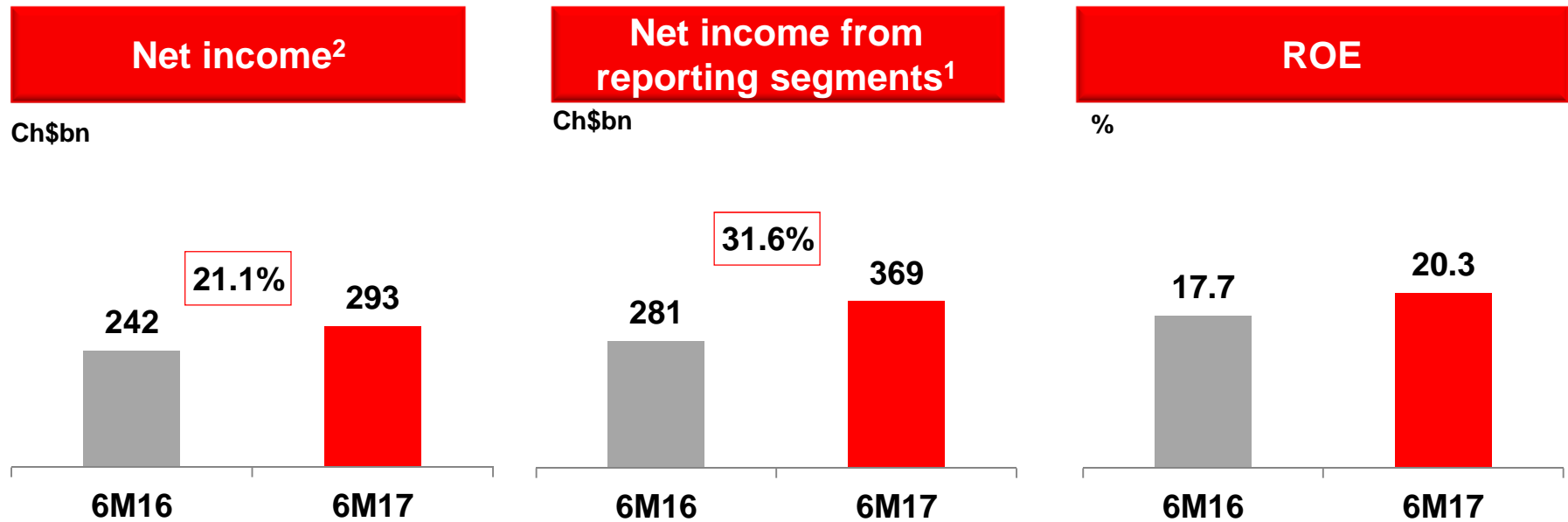
**ROE reached 20.8% in 2Q17**



**Strong quarterly results driven by successful management of margins, fees, cost of credit and costs**

## Positive results in 2Q17

**ROE reached 20.3% in 6M17**



**Strong results from most business segments despite low growth environment**



## Strategy and results

### 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**

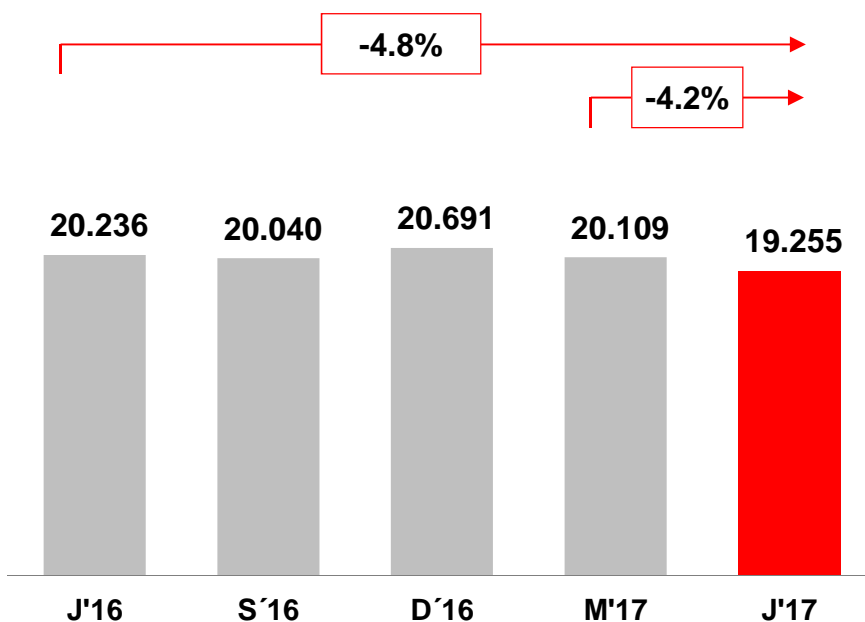


Strategy: I. Growth focused on segments with highest contribution, net of risk

## Mutual funds brokered increase 14.0% YoY

### Total Deposits

Ch\$bn



Ch\$bn

Demand

Time

**Total deposits**

**Mutual funds<sup>1</sup>**

**Customer funds**

**Loan to deposit<sup>2</sup>**

**6M'17** **YoY(%)** **QoQ(%)**

7,196 (0.6) (2.9)

12,059 (7.2) (5.0)

**19,255 (4.8) (4.2)**

**5,563 14.0 1.3**

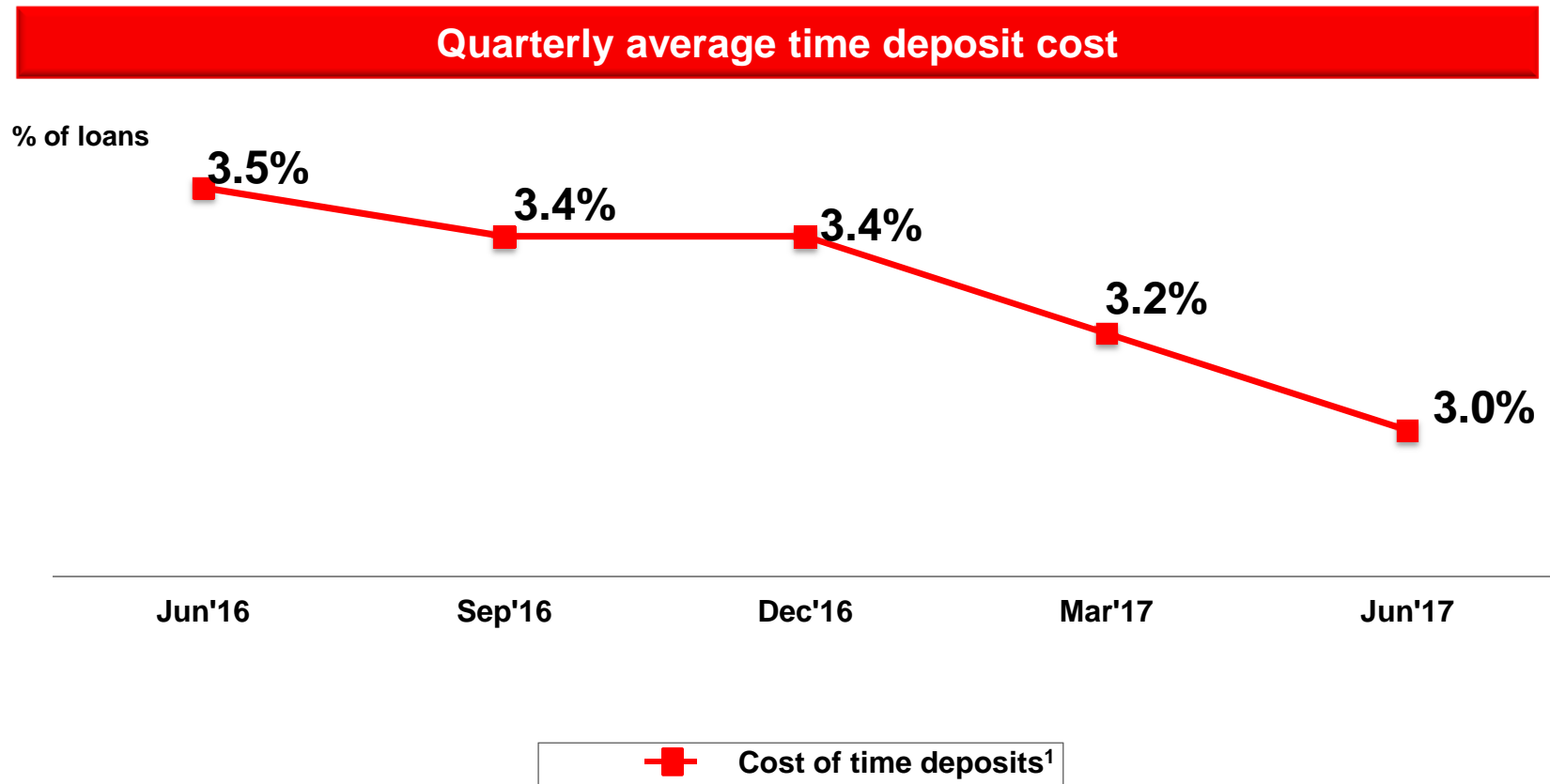
**24,818 (1.2) (3.0)**

**100.3%**

1. Banco Santander Chile is the exclusive broker of mutual funds managed by Santander Asset Management, a subsidiary of SAM Investment Holdings Limited.
2. (Net Loans – portion of mortgages funded with long-term bonds) / (Time deposits + demand deposits).

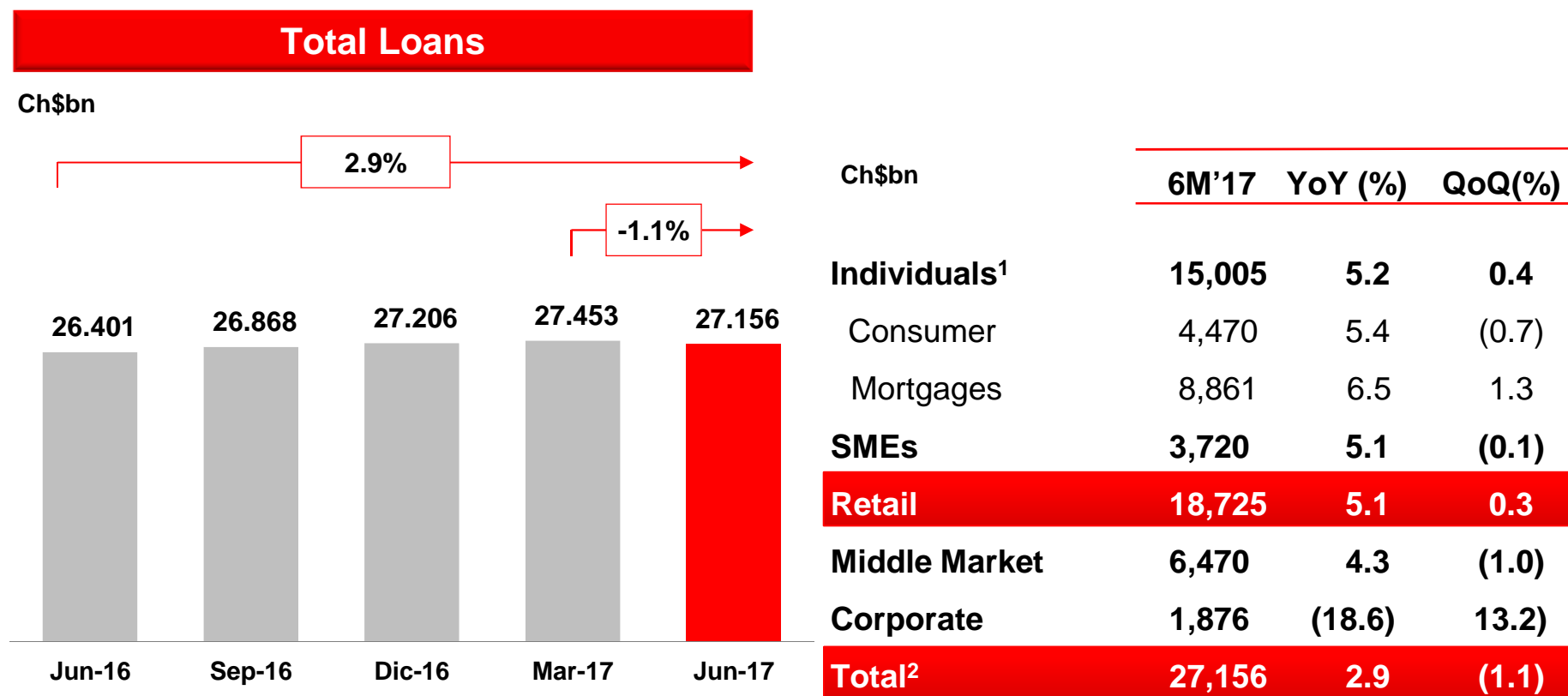
## Strategy: IV. Optimizing profitability and capital

### Lower funding costs



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

**Loans grow 2.9% YoY, with individual loans expanding 5.2%**



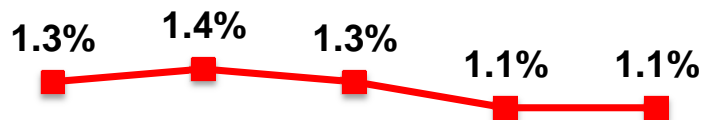
**Continued focus on profitability and slower economic growth affects lending in 2Q**

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

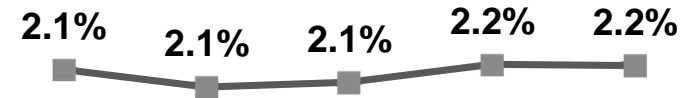
% of loans



Jun'16 Sep'16 Dec'16 Mar'17 Jun'17

■ Cost of Credit<sup>1</sup>

### NPL and coverage ratio



Jun'16 Sep'16 Dec'16 Mar'17 Jun'17

■ NPL<sup>2</sup>

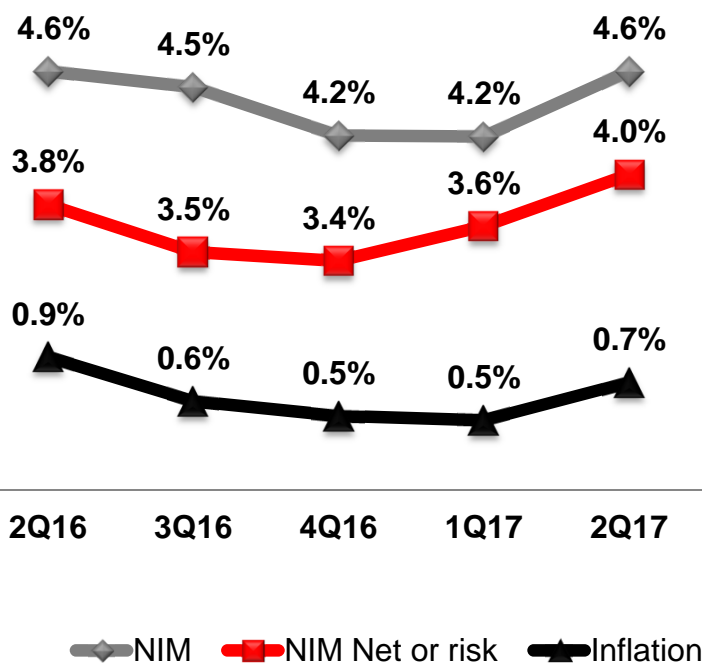
■ Coverage<sup>3</sup>

We continue to envision a cost of credit of 1.1%-1.2% in 2017

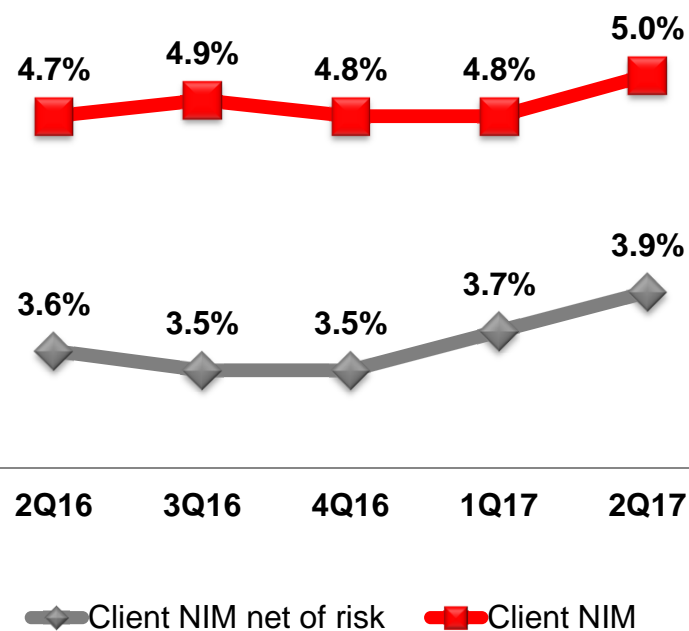
Strategy: I. Growth focused on segments with highest contribution, net of risk

**Positive evolution of NIMs, net of risk driven by strong Client NIMs and a lower cost of credit**

**NIM<sup>1</sup>, NIM Net of Risk & Inflation**



**Client NIM<sup>2</sup> & Client NIM Net of Risk**



**Lower YoY inflation offset by cheaper cost of funds and higher level of equity**

1. Annualized Net interest income divided by average interest earning assets.  
 2. Annualized Net interest income from business segments divided by average interest earning loans.

## Strategy and results

### 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



## Strategy: II. Increasing client loyalty

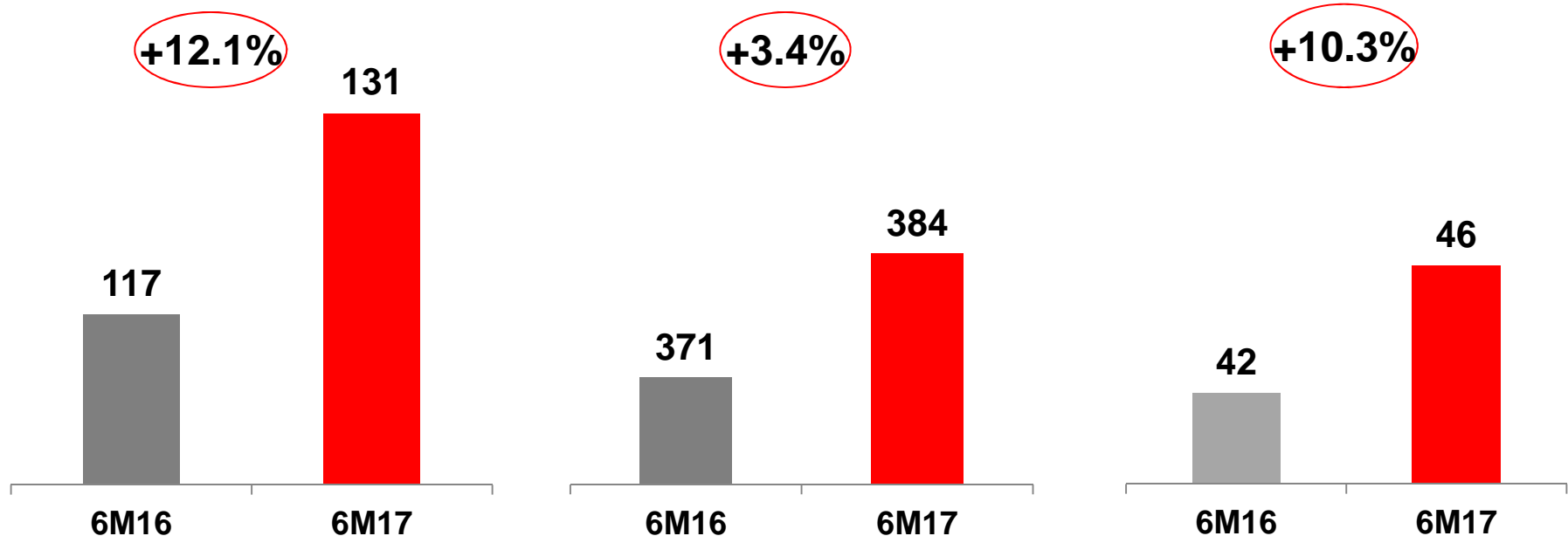
### Customer loyalty in targeted segments continues to grow

Loyal High income customers<sup>1</sup>

Loyal Middle income customers<sup>1</sup>

Loyal SME + Middle market customers<sup>2</sup>

Loyal customers, thousands



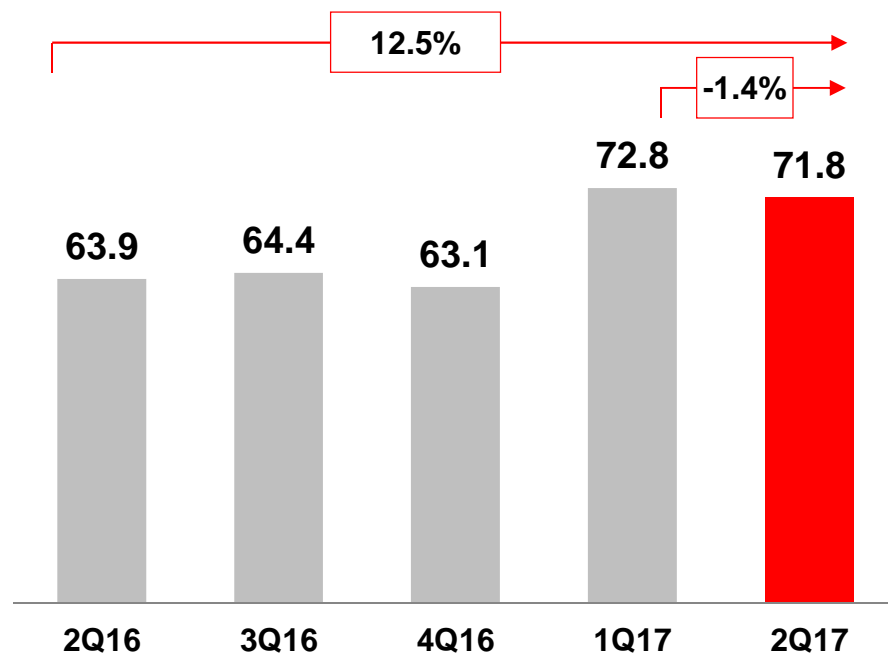


## Strategy: II. Increasing client loyalty

**This leads to a 14.0% YoY growth in fee income in 6M17**

### Net fee income

Ch\$bn



### Fee income from business segments

Ch\$bn

	6M'17	YoY (%)	QoQ(%)
Retail	105.3	11.0	1.7
Middle Market	18.2	(4.4)	(0.3)
Corporate	16.5	23.4	(7.6)
<b>Subtotal</b>	<b>140.1</b>	<b>10.0</b>	<b>(5.6)</b>
Others	4.6	--%	--%
<b>Total</b>	<b>144.7</b>	<b>14.0%</b>	<b>(1.4)</b>

**Fees from Corporate are driven by greater financial advisory services**

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

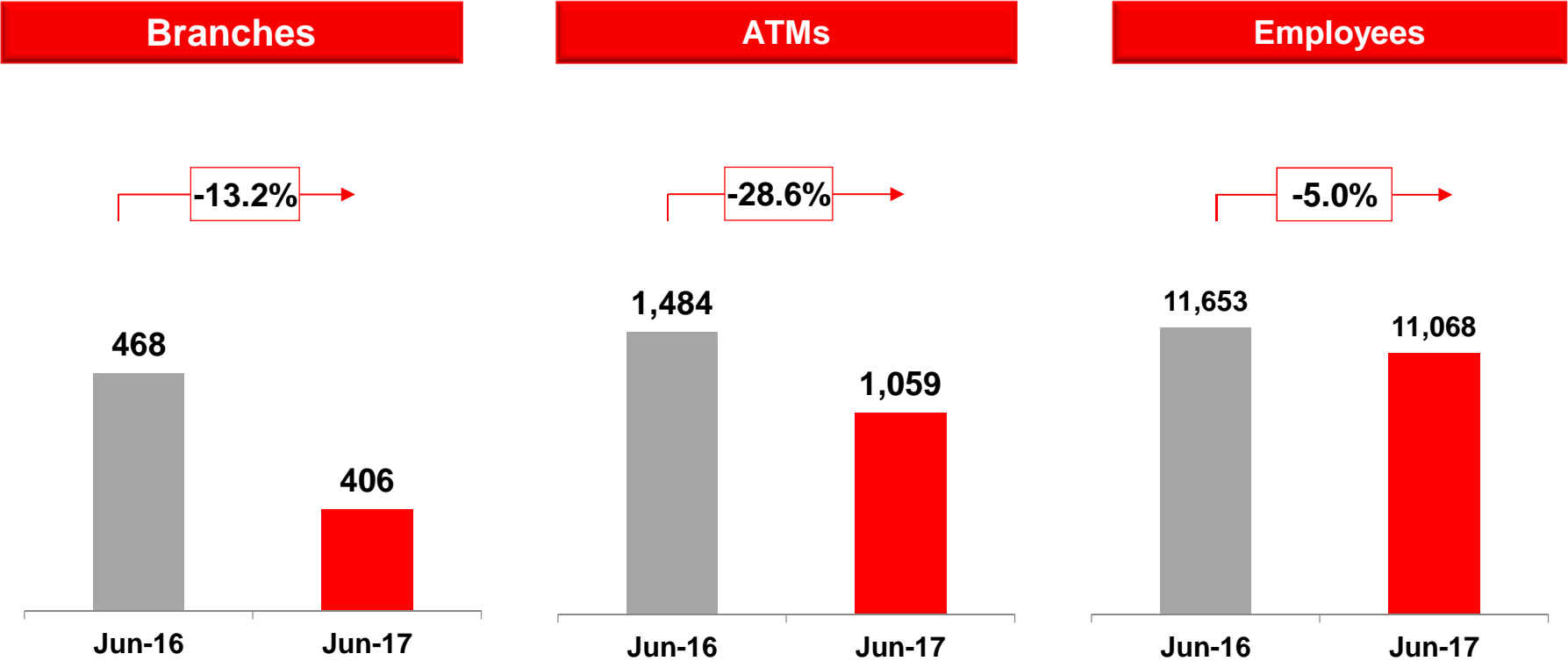


IV. Optimizing profitability and capital use to increase shareholder value in time



Strategy III: Digital transformation

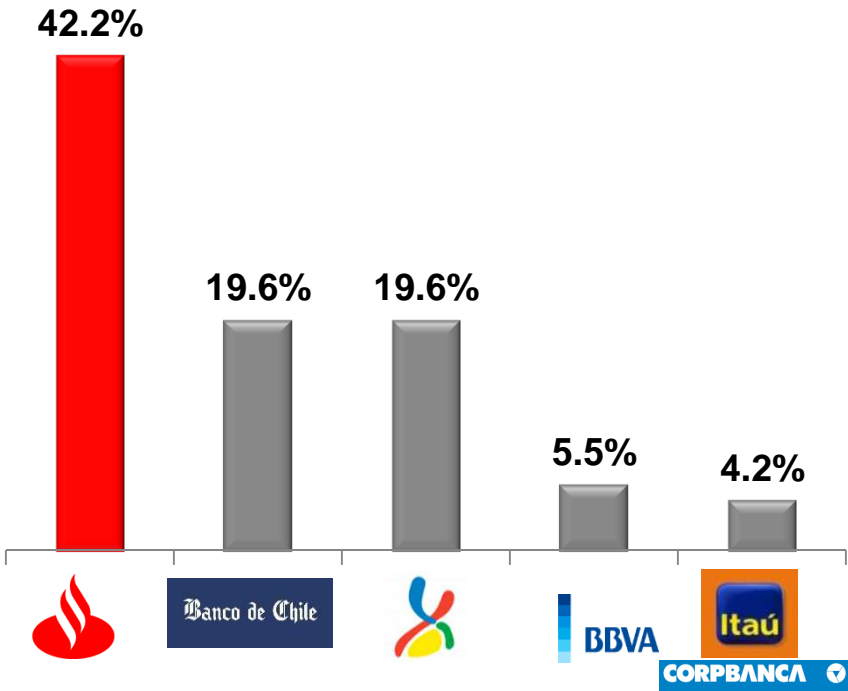
Improving and reducing the physical distribution network...



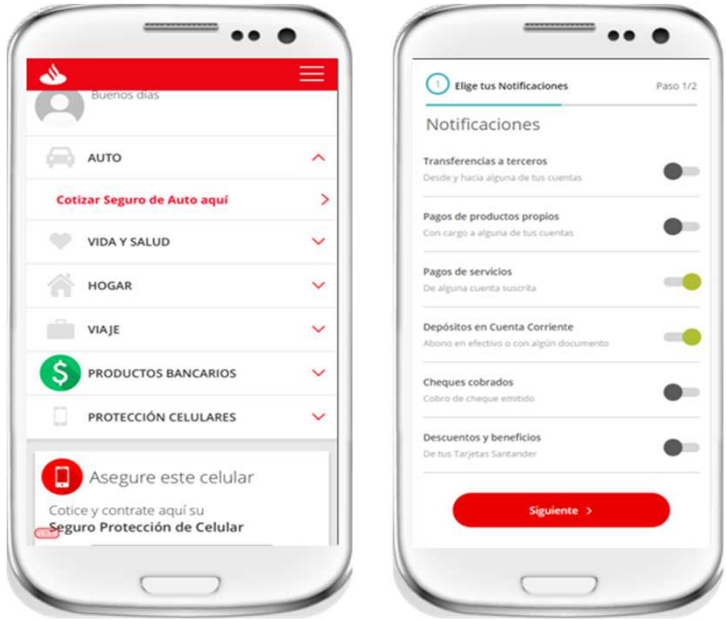
# Strategy III: Digital transformation

... expanding the use of digital banking...

## Internet usage market share<sup>1</sup>



## Innovations in the APP



Insurance APP- offers products and assistance

Clients select notifications they want to receive

## 30% of consumer loans are now sold digitally

1. Market share over clients that enter a website with a passkey. Excludes Banco de Estado. Source: Superintendency of Banks of Chile. Yearly average.

## Strategy III: Digital transformation

### ... and creating friendlier and more productive multi-segment business centers



- 20 Work Cafes by year-end
- 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



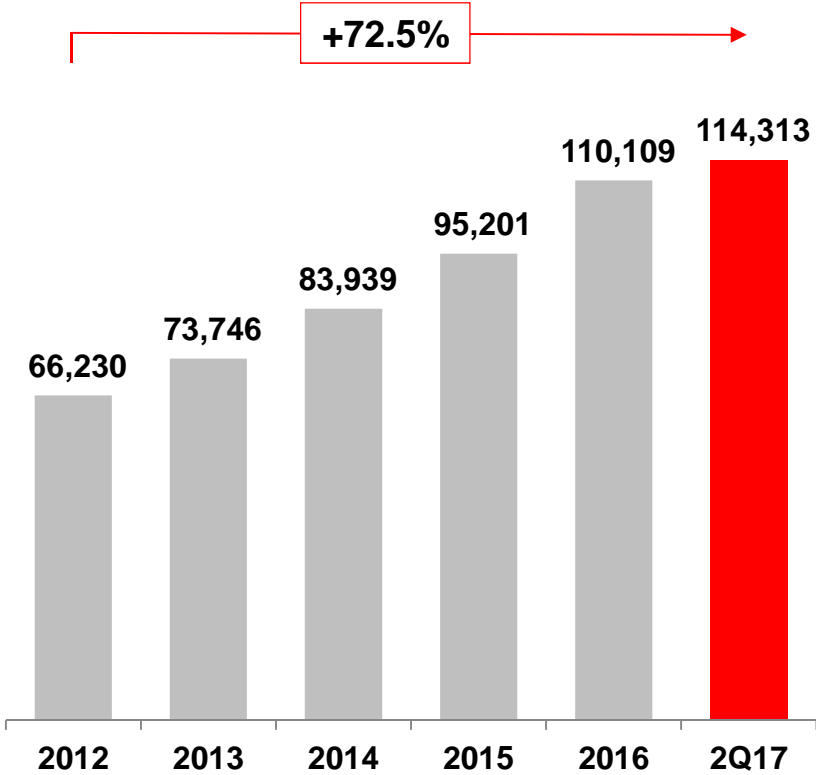
La mejor tecnología de autoservicio

# Strategy III: Digital transformation

## Increasing our productivity...

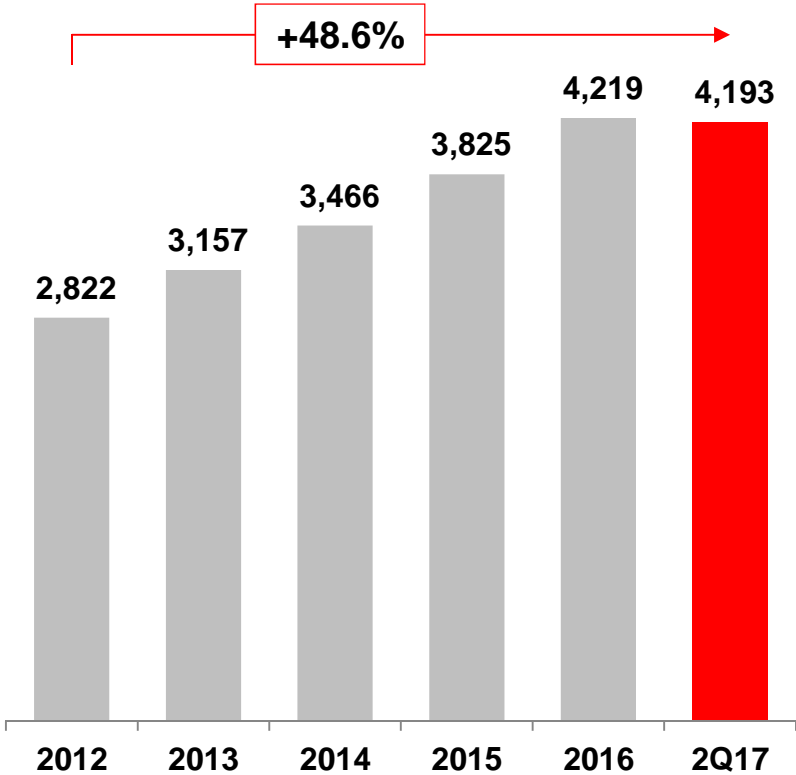
### Productivity per Branch

Volume\* per branch (Ch\$ Million)



### Productivity per employee

Volume\* per employee (Ch\$ million)



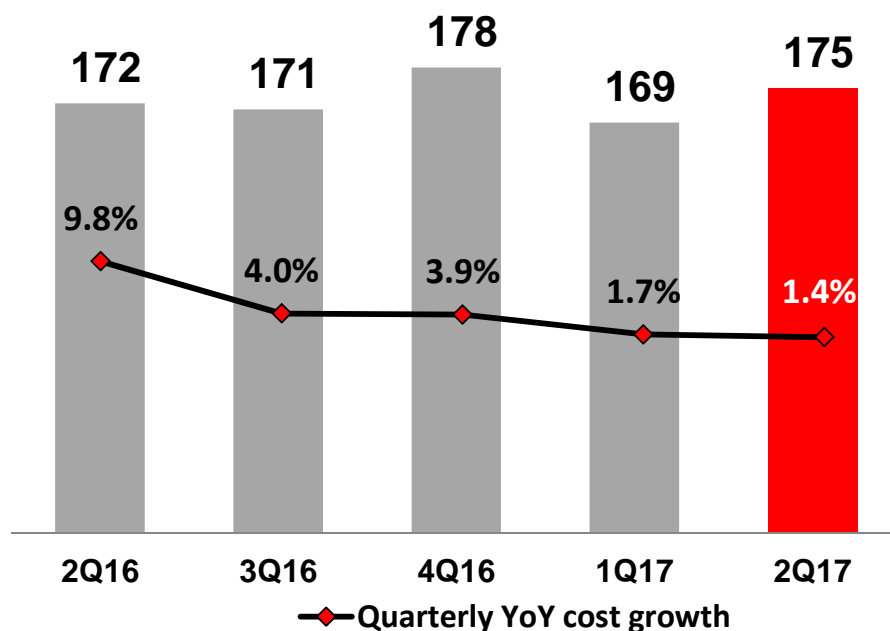
\* Loans + deposits

## Strategy III: Digital transformation

..and improving our efficiency

### Operating expenses

Ch\$bn



	6M17	YoY%	QoQ%
Personal exp.	194	(0.1)	9.4
Adm. exp.	113	(0.7)	(7.0)
Depreciation	36	20.6	6.6
<b>Op. expenses</b>	<b>343</b>	<b>1.5</b>	<b>3.4</b>
Efficiency Ratio <sup>1</sup>	40.2%	-251bp	+21bp
Cost / Assets	1.9%	-3bp	+5bp

**In 2Q17 the Bank recognized a one time charge of Ch\$12bn for severance pay in Other operating expenses**

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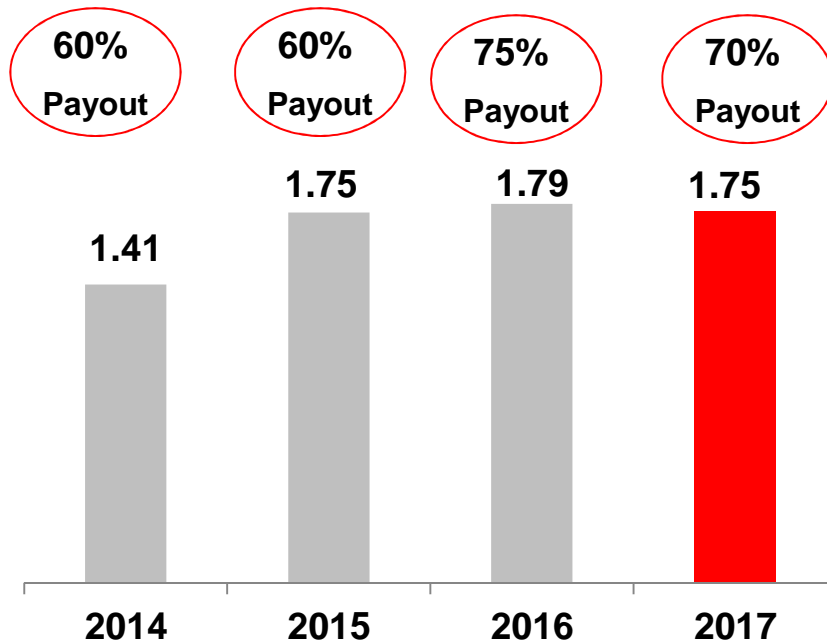


## Strategy: IV. Optimizing profitability and capital

### Core capital ratio increases / Attractive dividend paid in 2Q17

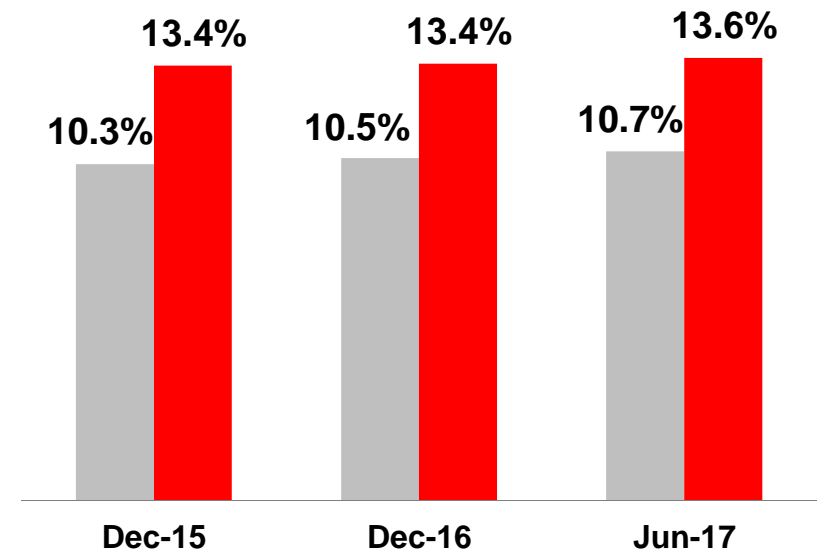
#### Dividend per share

Ch\$ per share



#### Core Capital ratio<sup>1</sup>

%



A higher and more sustainable ROE is resulting in better capital ratios and greater dividend yields

## Strategy: IV. Optimizing profitability and capital

### New banking law submitted to Congress

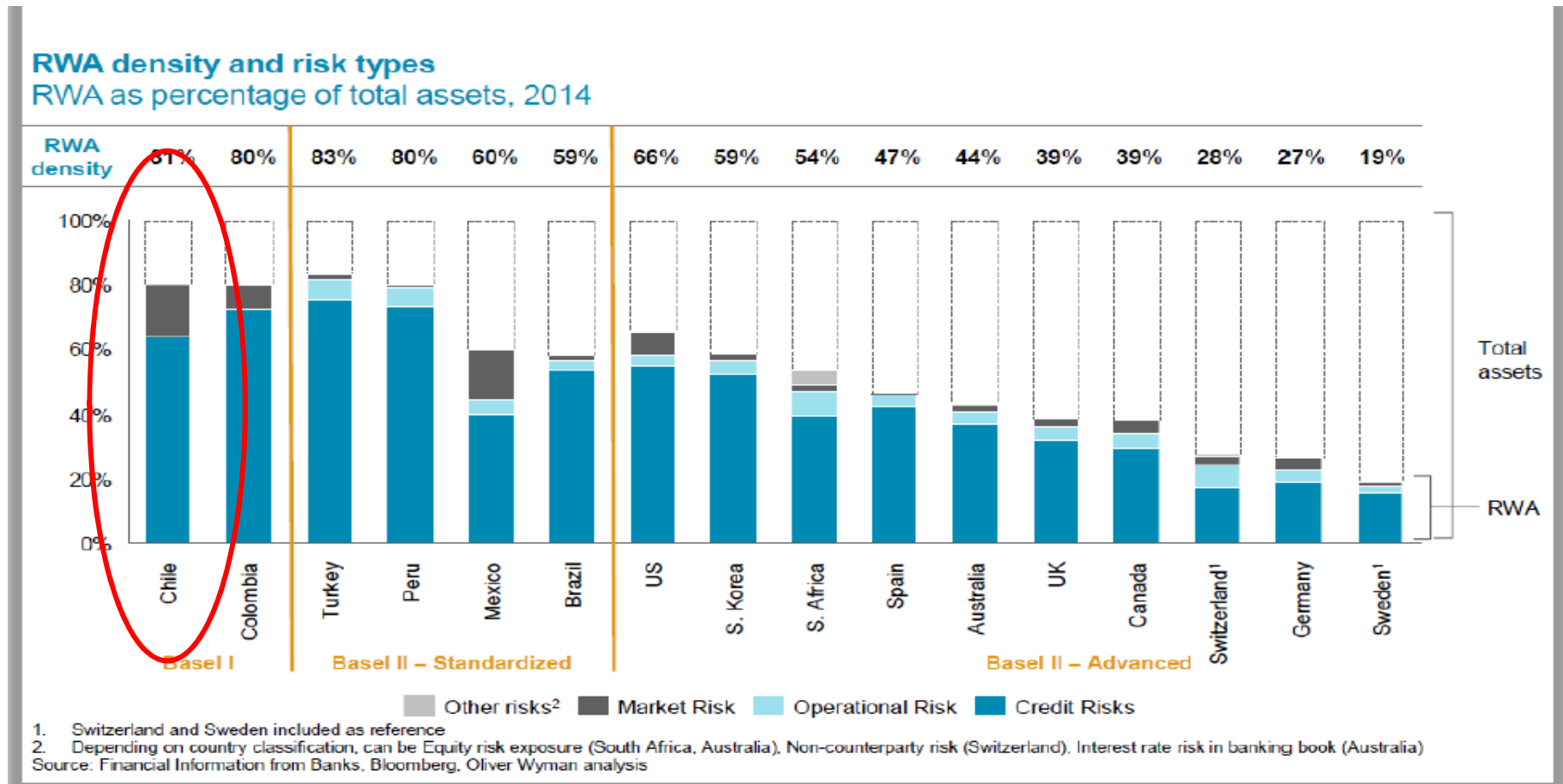
#### Capital requirements: Basel III, current GBL and new proposed requirements

(% over risk weighted assets)

Capital categories	BIS III	Current Law	Proposed Bill
<b>(1) Total Tier 1 Capital (2+3)</b>	<b>6</b>	<b>4.5</b>	<b>6</b>
<i>(2) Basic Capital</i>	4.5	4.5	4.5
<i>(3) Additional Tier 1 Capital (AT1)</i>	1.5	-	1.5
<b>(4) Tier 2 Capital</b>	<b>2</b>	<b>3.5</b>	<b>2</b>
<b>(5) Total Regulatory Capital (1+4)</b>	<b>8</b>	<b>8</b>	<b>8</b>
<b>(6) Conservation Buffer</b>	<b>2.5</b>	2% over effective equity in order to be classified in Category A solvency.	<b>2.5</b>
<b>(7) Total Equity Requirement (5+6)</b>	<b>10.5</b>	<b>8</b>	<b>10.5</b>
<b>(8) Counter Cyclical Buffer</b>	up to 2.5	-	up to 2.5
<b>(9) SIB* Requirement</b>	Between 1 - 3.5	Up to 6% in case of a merger	Between 1 - 3.5

## Strategy: IV. Optimizing profitability and capital

**Implementation of BIS III should not lead to a need to increase the Bank's capital due to a high RWA density**



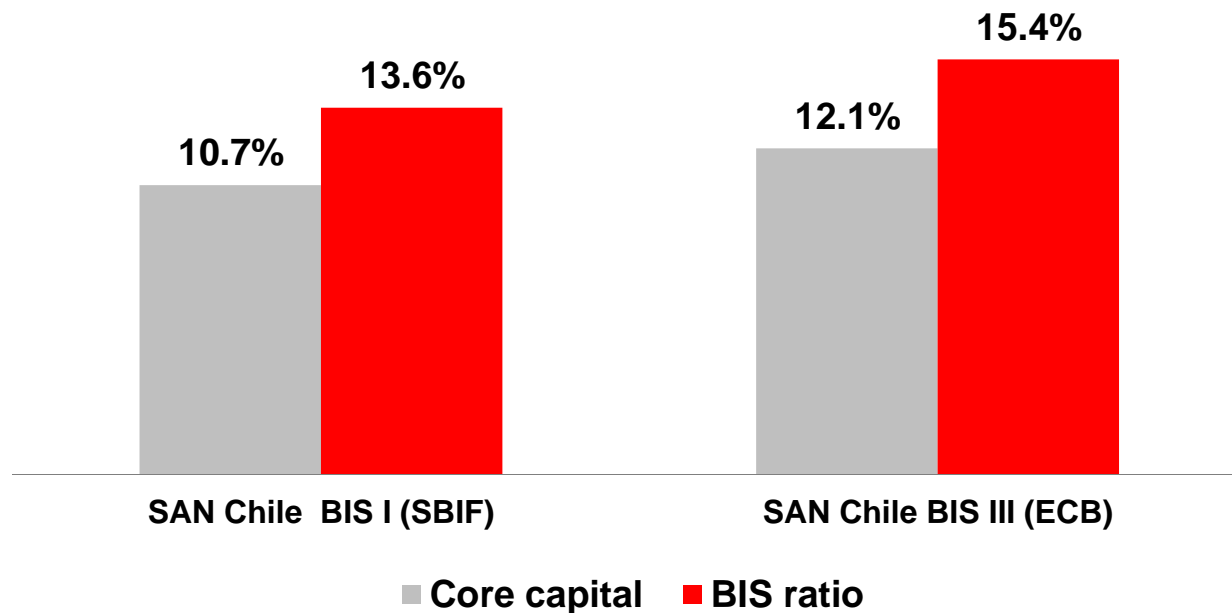
**RWA density<sup>3</sup> of 77% should fall under BIS III. Under Chilean BIS I mortgage loans weigh 60% and other loans weigh 100%**

## Strategy: IV. Optimizing profitability and capital

**Under BIS III (ECB model) our core capital ratio is 140bp higher**

**Capital ratio higher under BIS III<sup>1,2</sup>**

%



**New risk weightings under Chilean regulations will be known after law is approved**

1. BIS I according to the SBIF. 2. According to ECB regulation and headquarters.

# Agenda

- **Macro-economic environment and financial system**
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- **Outlook**

# Outlook

## Sound outlook for Santander Chile

- **BSAC: stronger Client contribution driving profitability in 2017, in line with strategy**
  - Business segment contribution up 21.6% YoY in 6M17
  - Loan growth at 2.9%, led by segments with highest contribution, net of risk, with retail loans growing 5.1%
  - Demand deposits grow 4.8 % YoY with improving funding costs
  - Client NII grew 11.5% YoY in 6M17
  - Customer loyalty and satisfaction continue to improve
  - Stable asset quality: coverage lowers to 136% / NPLs at 2.2% / cost of credit decreases to 1.1% with a favorable outlook
  - Cost growth under control: up 1.4% YoY in 6M17. Branch optimization plans underway
  - ROE reached 20.8% in the second quarter.
- **In 2017 we expect these sound business trends to continue**

**ROE guidance increased to 19%-19.5% for 2017**