

# ***Banco Santander Chile:***

***Solid commercial and client profitability trends.***

***Positive medium-term outlook***

***June 2016***

**Chile**



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 2014 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.

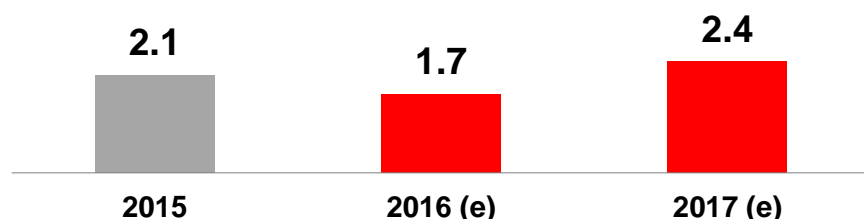
# Agenda

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

## Growth expected to accelerate in 2017...

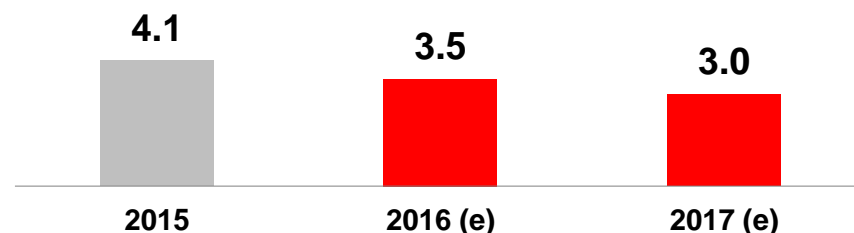
### GDP

YoY real growth, %



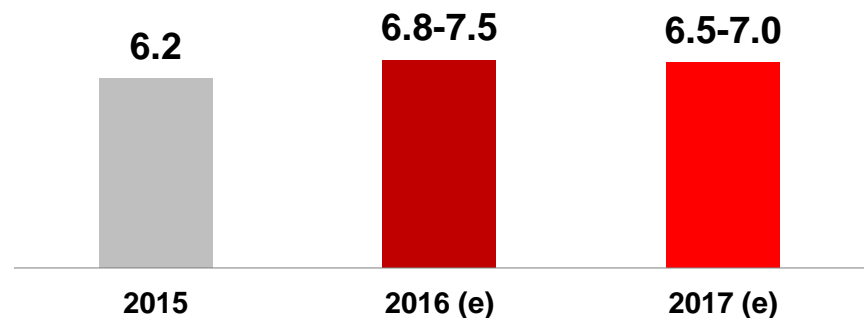
### Inflation

Annual change in UF inflation, %



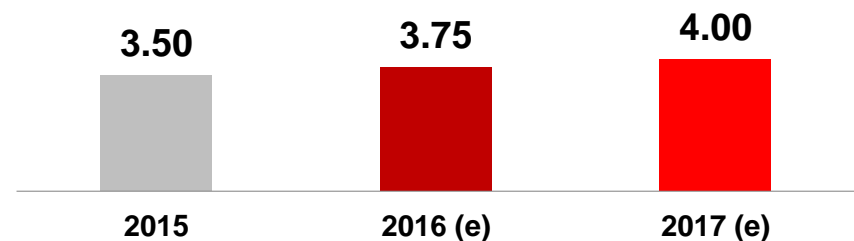
### Unemployment

% of workforce



### Central Bank ST Reference Rate

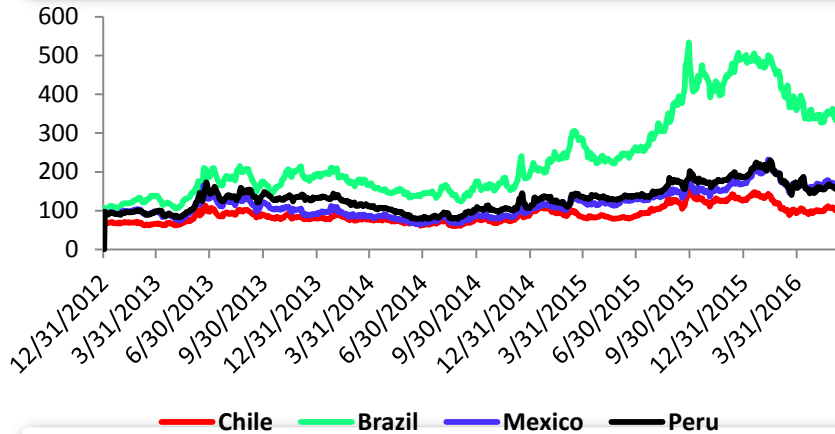
%



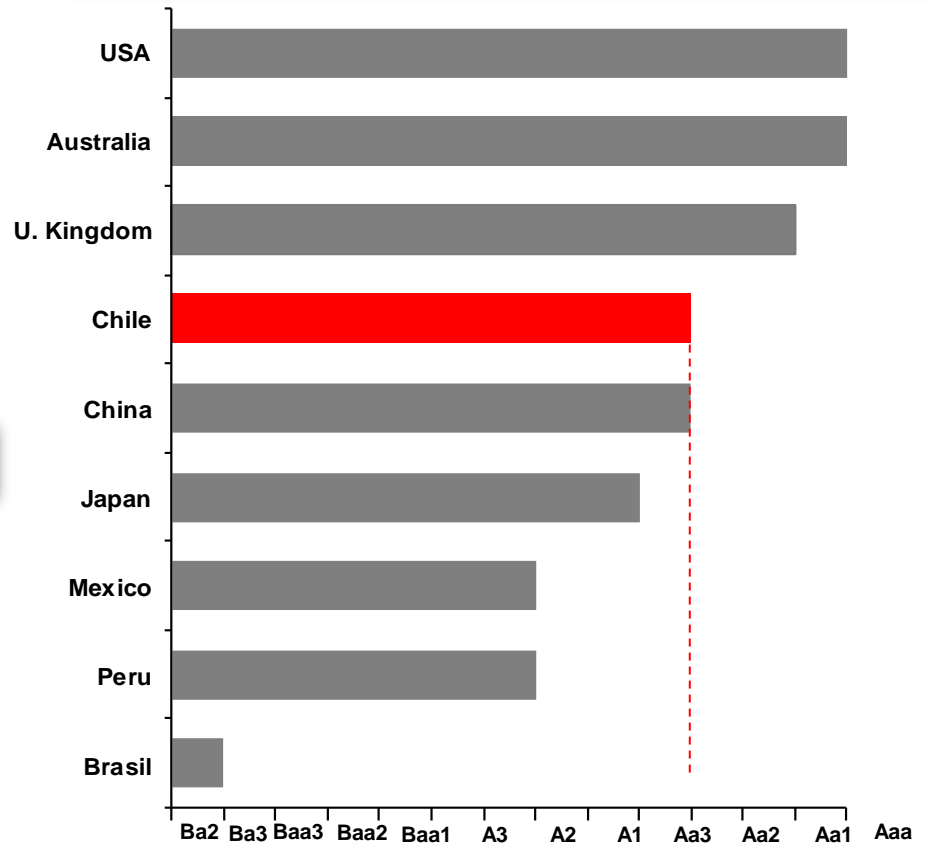
Source: Banco Central de Chile latest Economic Survey and estimates Santander Chile

... in a relatively low-risk environment

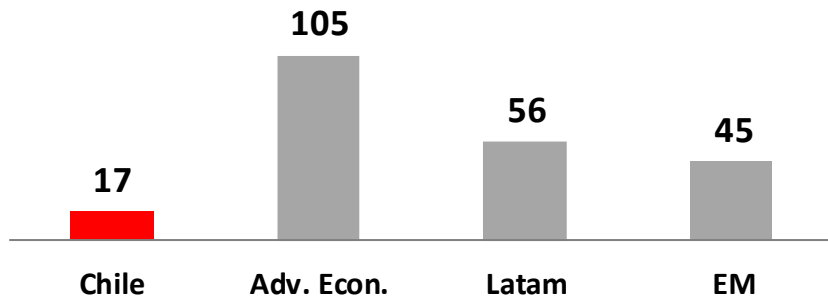
Stable CDS spreads...(1)



... and high Sovereign rating(2)



Low gross public debt (% of GDP)<sup>3</sup>

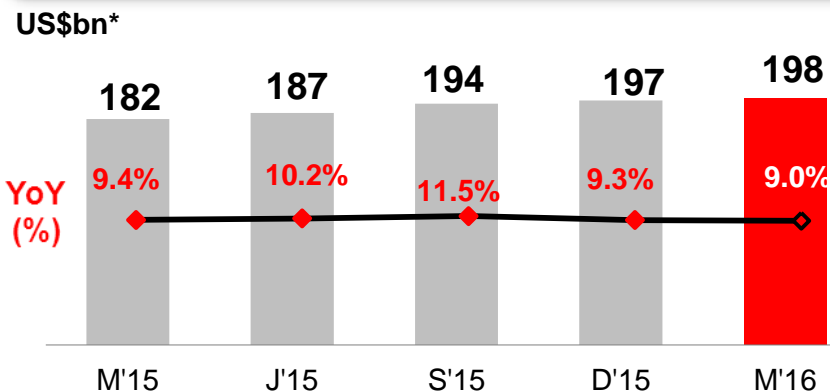


Including the sovereign wealth fund, Chile's net public debt is -3.5% of GDP

1. Basis points. Source: Bloomberg. 2. Source: Moody's, latest ratings. 3. Source: IMF, figures for 2015

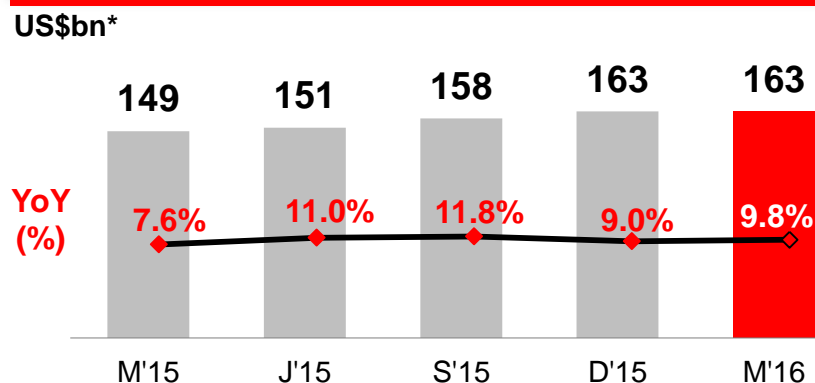
## Financial System with relatively stable growth trends...

### Total Loans



- Positive growth of most non-mining exports boosts commercial loan growth
- Relative stability of employment and wages has kept good momentum in the medium-high segment of banking

### Deposits\*



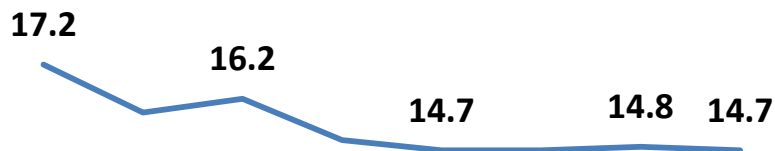
- Positive deposit growth, Demand deposits up 10.8%
- High liquidity in the system to fund business growth

\* Demand and time deposits. Source: Superintendency of Banks of Chile. Excludes Chilean assets held abroad

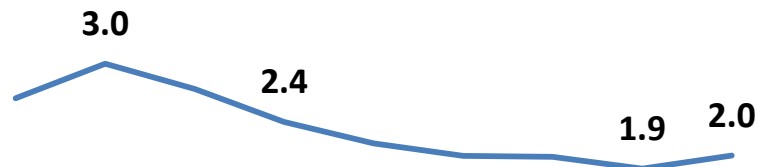
... and an improving risk profile

Aggregate figures

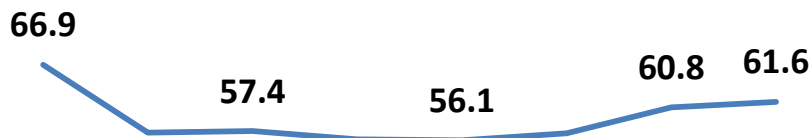
Household Debt Servicing Ratio, DSR (%)<sup>1</sup>



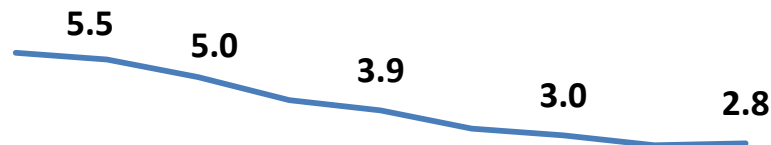
Non-performing loan ratio (%)<sup>2</sup>



Household leverage (%)<sup>3</sup>



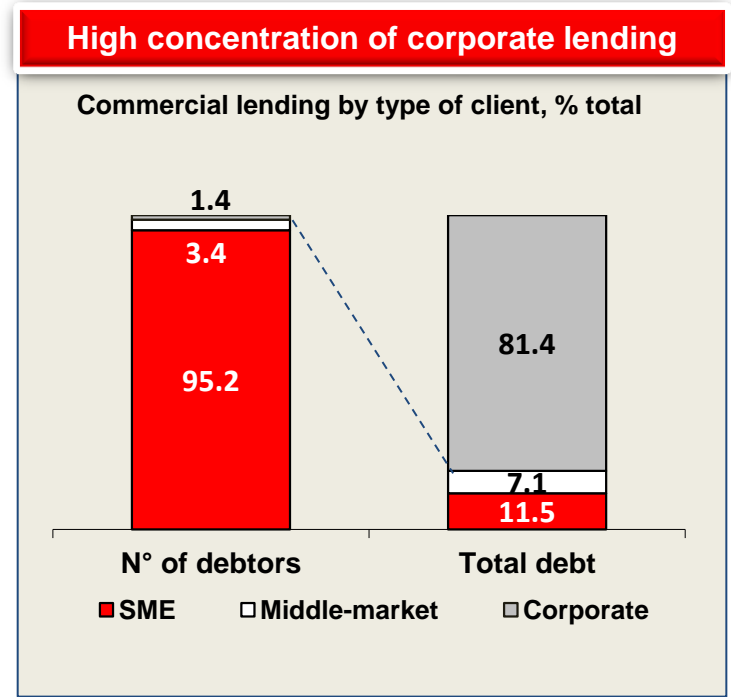
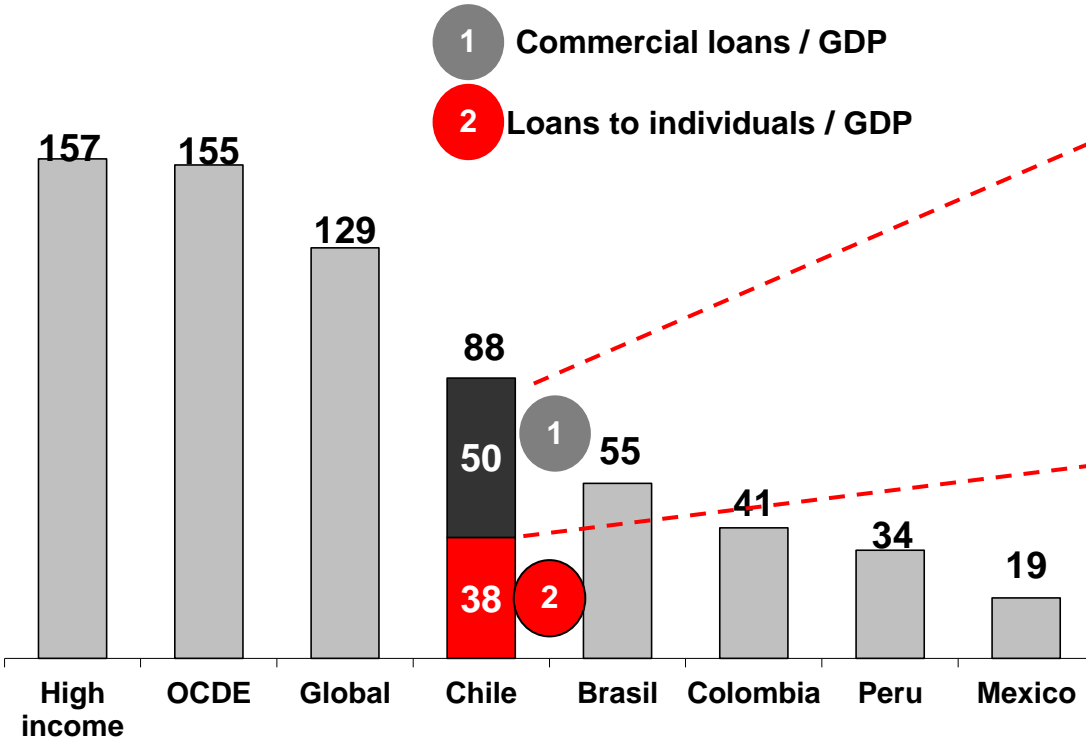
Mortgage NPL Ratio(%)



1. Total debt payments including amortization and interest / Disposable income. 2. Loans with at least one installment 90 days or more overdue / Average loans.  
3. Total household debt / Disposable income. Source: Central Bank of Chile and Superintendency of Banks of Chile

The market has good growth potential in **1** mid-sized companies...

Loans / GDP as of December 2015\*, %



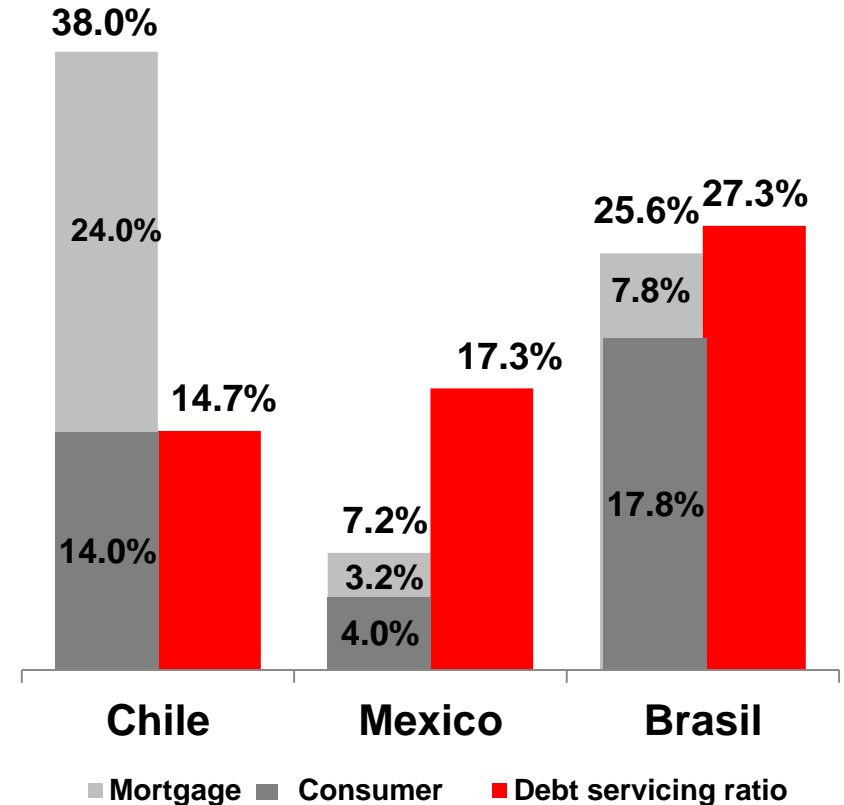
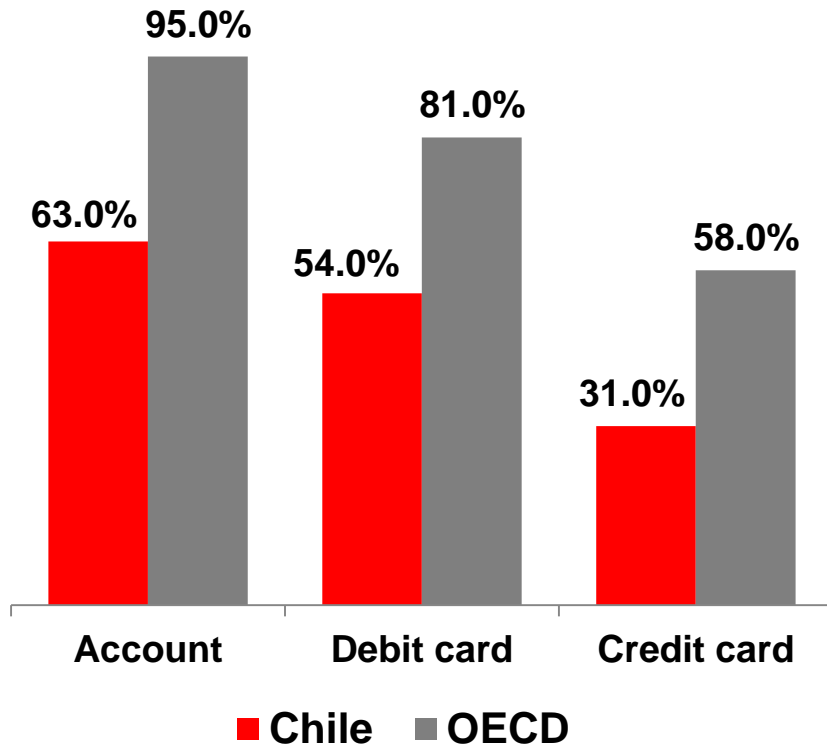
\* Or latest available information. Source: World Bank, weighted by size of world economies. Source Chile: Santander Chile based on information from Superintendency of Banks of Chile, SVS, Central Bank of Chile and www.cajasdechile.cl



2 ...and individuals, especially mid-high income segments

Chile: Low penetration of bank products<sup>1</sup>

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



1. % of adults >25 yrs. with product. 2. DSR: Total debt payments including amortization and interest / Disposable income.

Sources: for Chile: SVS, Superintendency of Banks of Chile, Central Bank of Chile; for Brazil and Mexico: JP Morgan, Scotiabank and Felaban

# Agenda

- **Growth expected to accelerate in 2017. Financial system with stable growth and risk trends**
- **Santander Chile has adjusted its medium-term strategy to sustain profitable growth in a more challenging environment...**
- **... 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\$ <b>Business and Results</b>	3M'16	Var. YoY
Gross Loans	38.4bn	9.0%
Deposits	29.7bn	12.1%
Equity	4.2bn	7.1%
Net income	188mn	31.4%

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<b>Network and Customers</b>	3M'16	Mkt. share <sup>1</sup>
Clients	3.6 mn.	22.7% <sup>2</sup>
Branches	470	20.6%
ATMs	1,574	19.7%

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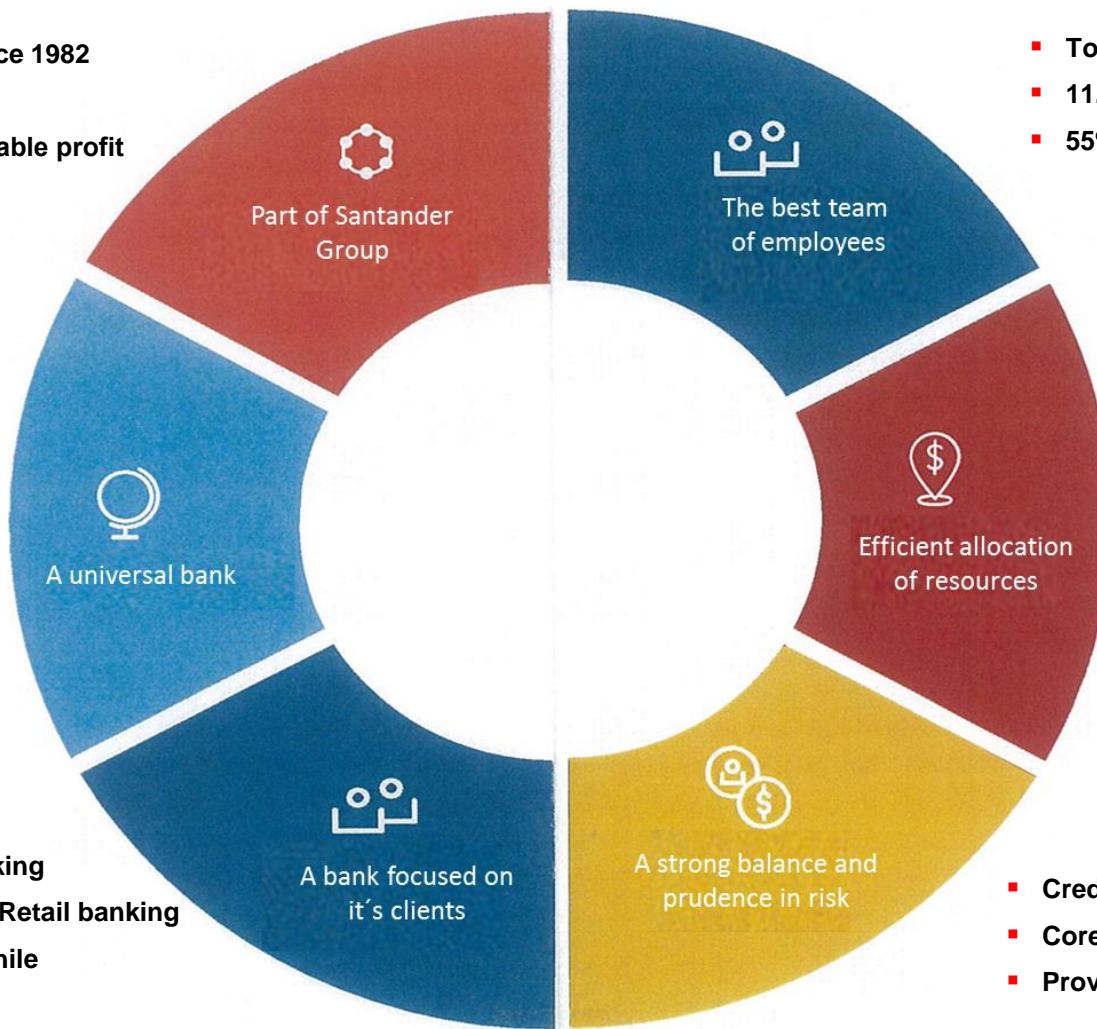
	Market Share <sup>1</sup>	Rank
Loans	19.3%	1
Deposits	18.7%	1
Checking accounts	22.3%	1
Bank credit cards <sup>3</sup>	22.9%	1

1. As of March 2016 or latest available figures using the period-end exchange rate. Excludes Chilean bank's offshore activity. 2. Market share of clients with checking accounts. Source: Superintendency of Banks of Chile. 3. Market share in terms of credit card purchases

... with a solid business model

- Part of Santander since 1982
- 3.5% of Group assets
- 5.0% Group's attributable profit

- Top 5 Best Place to Work\*
- 11.800 employees
- 55% women



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

- Simple organization
- Cost / Income: 41.6 %
- Cost / Assets: 2.2%

- 92% loans in Retail banking
- 80% of Net Op. Profit in Retail banking
- Largest client base in Chile

- Credit rating: Aa3
- Core Capital BIS I: 10.6%\*\*
- Provisions / NPLs: 123%

Latest figures or as of March 2016. \* Among companies with more than 5,000 employees. \*\* Core capital (e) under BIS III: 12.3%

## 3 objectives for healthy growth / higher profitability

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

II. ...by improving customer loyalty, quality of service and distribution...

III. ... while managing risks and capital conservatively

Transformation  
Project

Optimizing the  
risk return  
relation



## 3 objectives for healthy growth / higher profitability

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

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

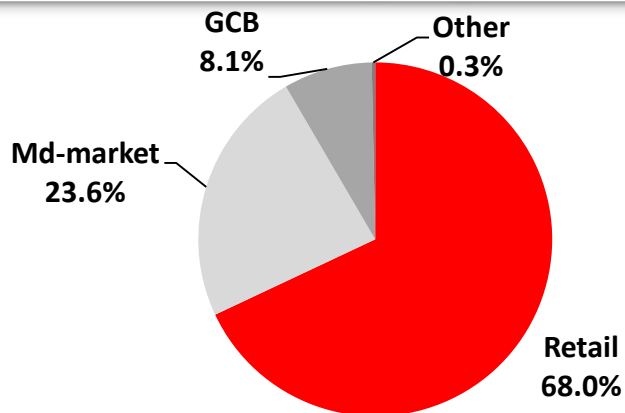
III. ... while managing risks and capital conservatively

- **Individuals:** Focus on growing in the mid-high income segments
- **SMEs:** Focus on larger SMEs with lending and non-lending opportunities for growth
- **Middle-market:** Aiming to be #1 in this segment by expanding the lending and non-lending businesses, replicating success in Corporate banking
- **Corporate:** Strong focus on non-lending activities

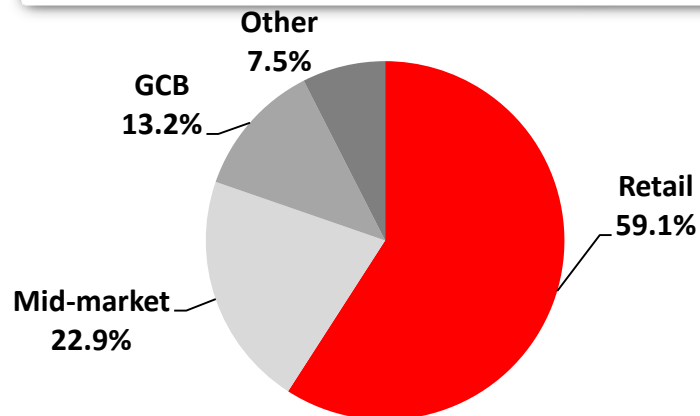
## A client-driven bank

Figures as of March 2016

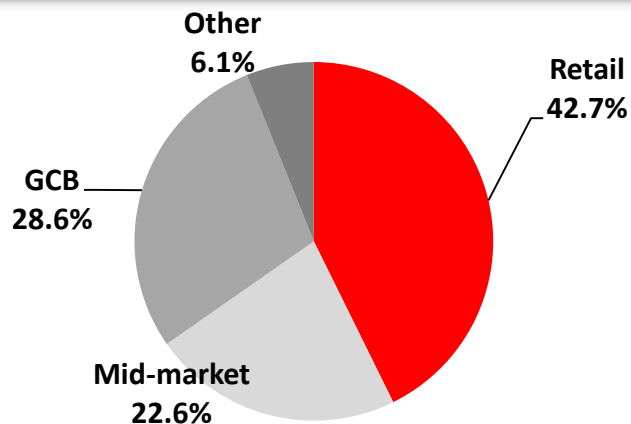
Loans by segment\*



Net Op. Profit from segments\*\*



Deposits by segment

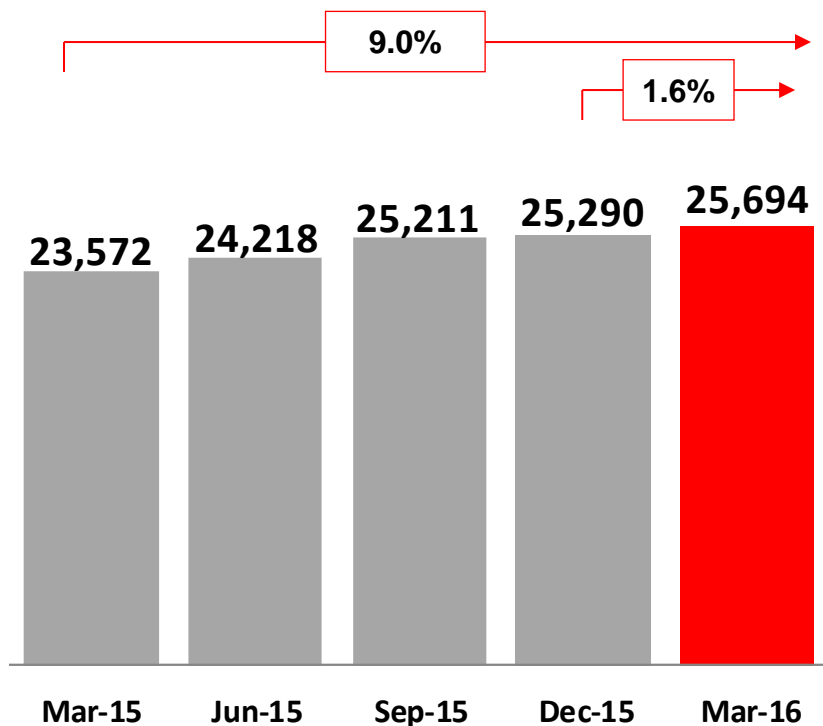


\* Retail includes Individuals + SMEs. GCB: Global Corporate Banking, large corporates unit. 2. Net operating profit from business segments: Net interest income + fee income + financial transactions, net - provision expense

## Total loans up 9.0% YoY

### Total Loans

Ch\$bn



Ch\$bn

	1Q'16	YoY (%)	QoQ(%)
<b>Individuals<sup>1</sup></b>	<b>13,894</b>	<b>13.6</b>	<b>2.8</b>
Consumer	4,142	4.7	-0.2
Mortgages	8,099	18.4	3.7
<b>SMEs</b>	<b>3,590</b>	<b>10.4</b>	<b>2.2</b>
<b>Middle Market</b>	<b>6,065</b>	<b>8.1</b>	<b>1.0</b>
<b>Corporate</b>	<b>2,096</b>	<b>-14.7</b>	<b>-3.8</b>
<b>Total<sup>2</sup></b>	<b>25,694</b>	<b>9.0</b>	<b>1.6</b>

1. Includes other non-segmented loans.

**QoQ loan growth decelerates in corporates due to unattractive lending spreads**

1. Includes other commercial loans to individuals. 2. Includes other non-segmented loans



## Growth focused in segments with a higher risk-adjusted profitability

High Income

Middle Income

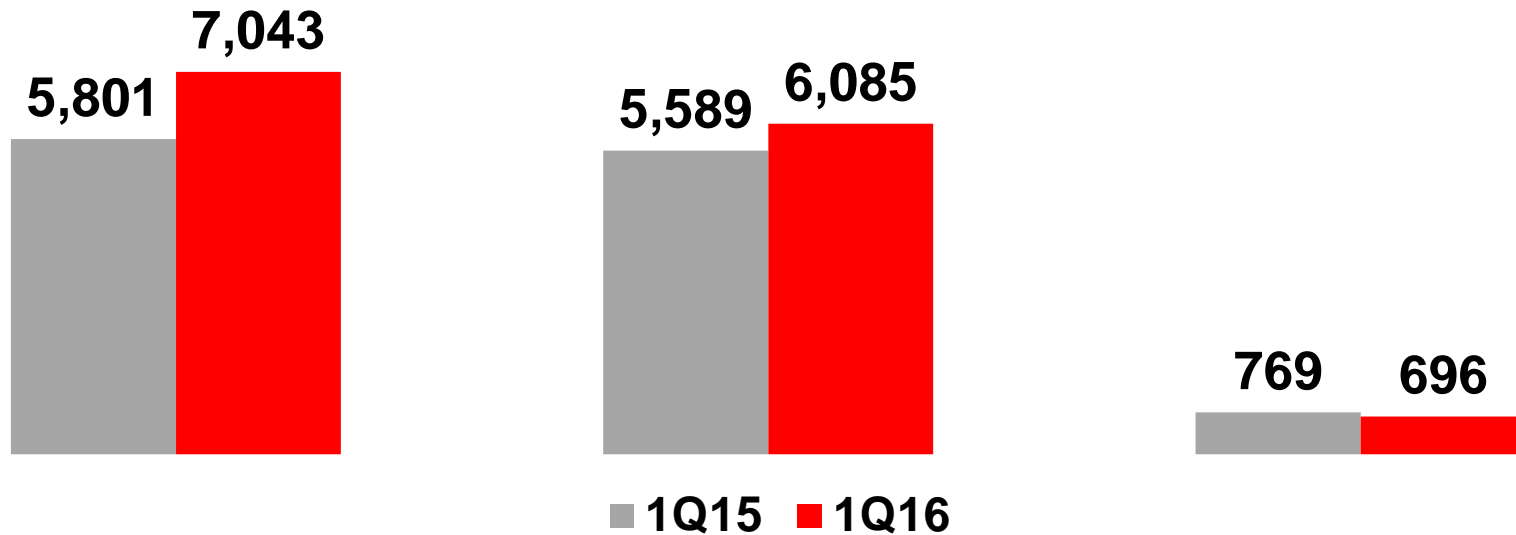
Low Income

Total loans by segment in Individual\*, Ch\$bn. YoY growth, %

+21.4%

+8.9%

-9.4%



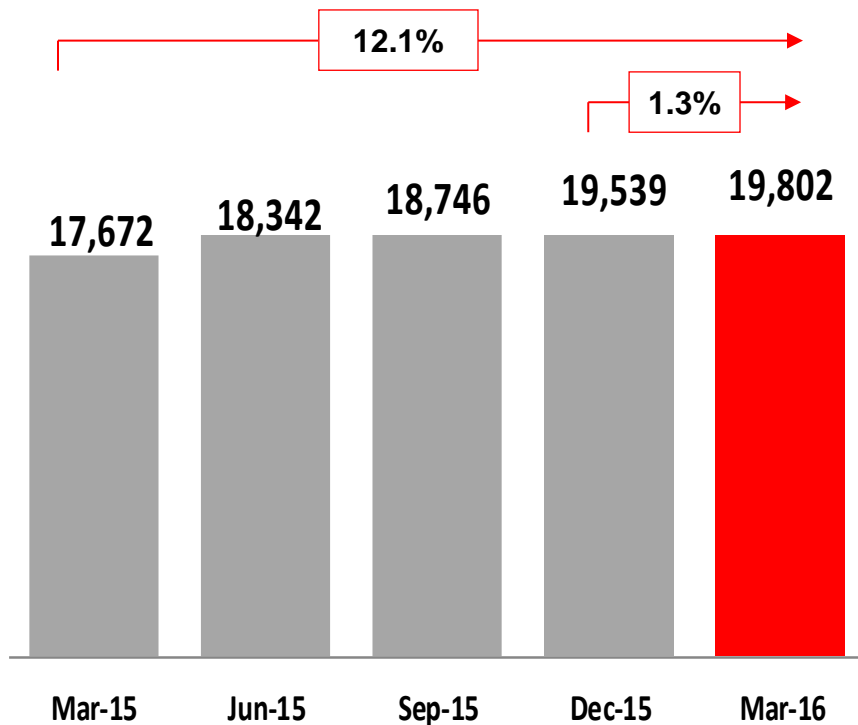
The Bank is developing a strategy to strengthen growth in the Middle income segment

\* Includes consumer, mortgage and other commercial loans to individuals

## Total deposits increased 12.1% YoY

### Total Deposits

Ch\$bn



Ch\$bn

Demand

Time

**Total deposits**

1Q'16

YoY(%)

QoQ(%)

7,079

9.9

-3.8

12,723

13.3

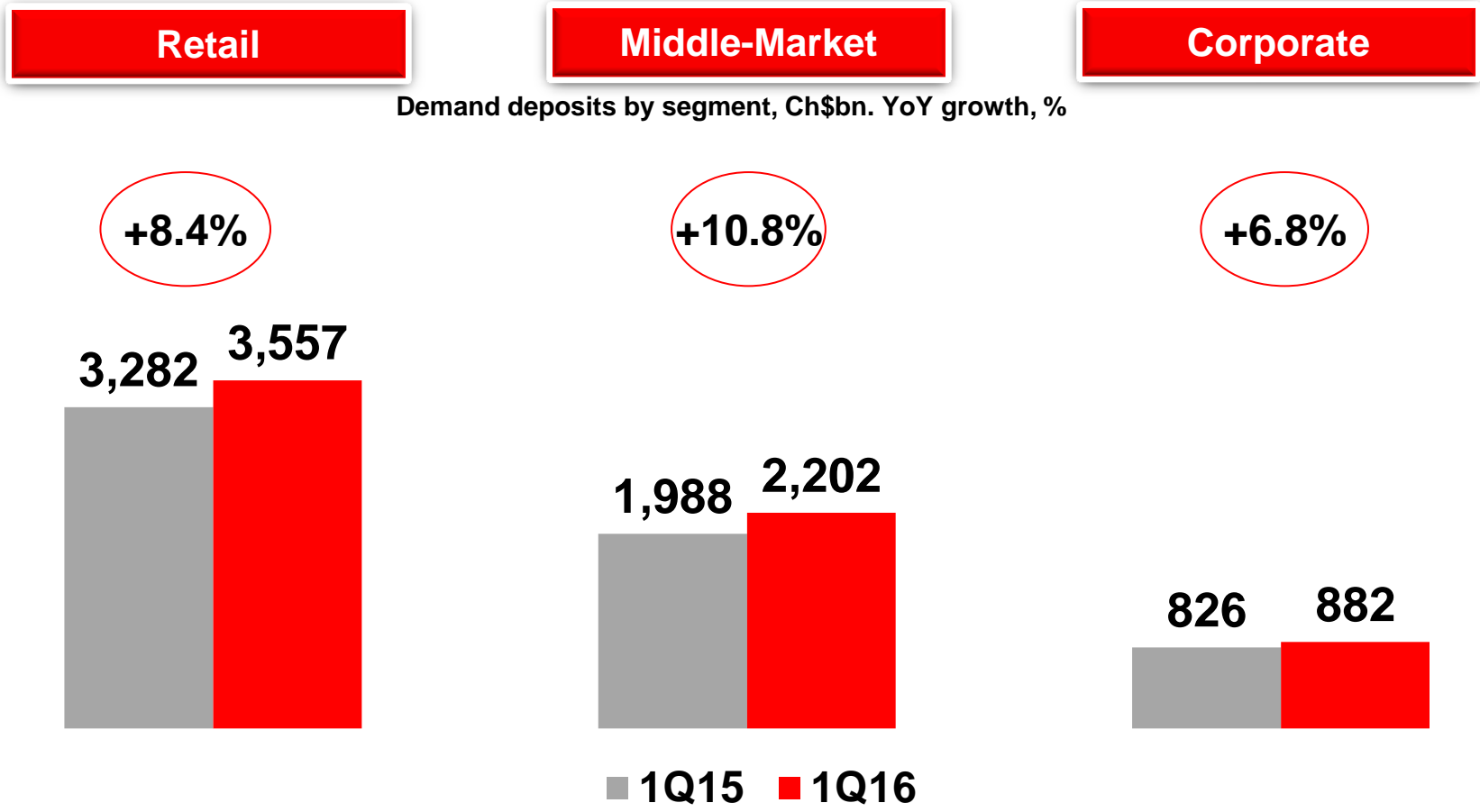
4.4

**19,802**

**12.1**

**1.3**

## Funding improves. Steady growth of demand deposits



Solid growth of demand deposits supports steady growth of non-lending revenues

## 3 objectives for healthy growth / higher profitability

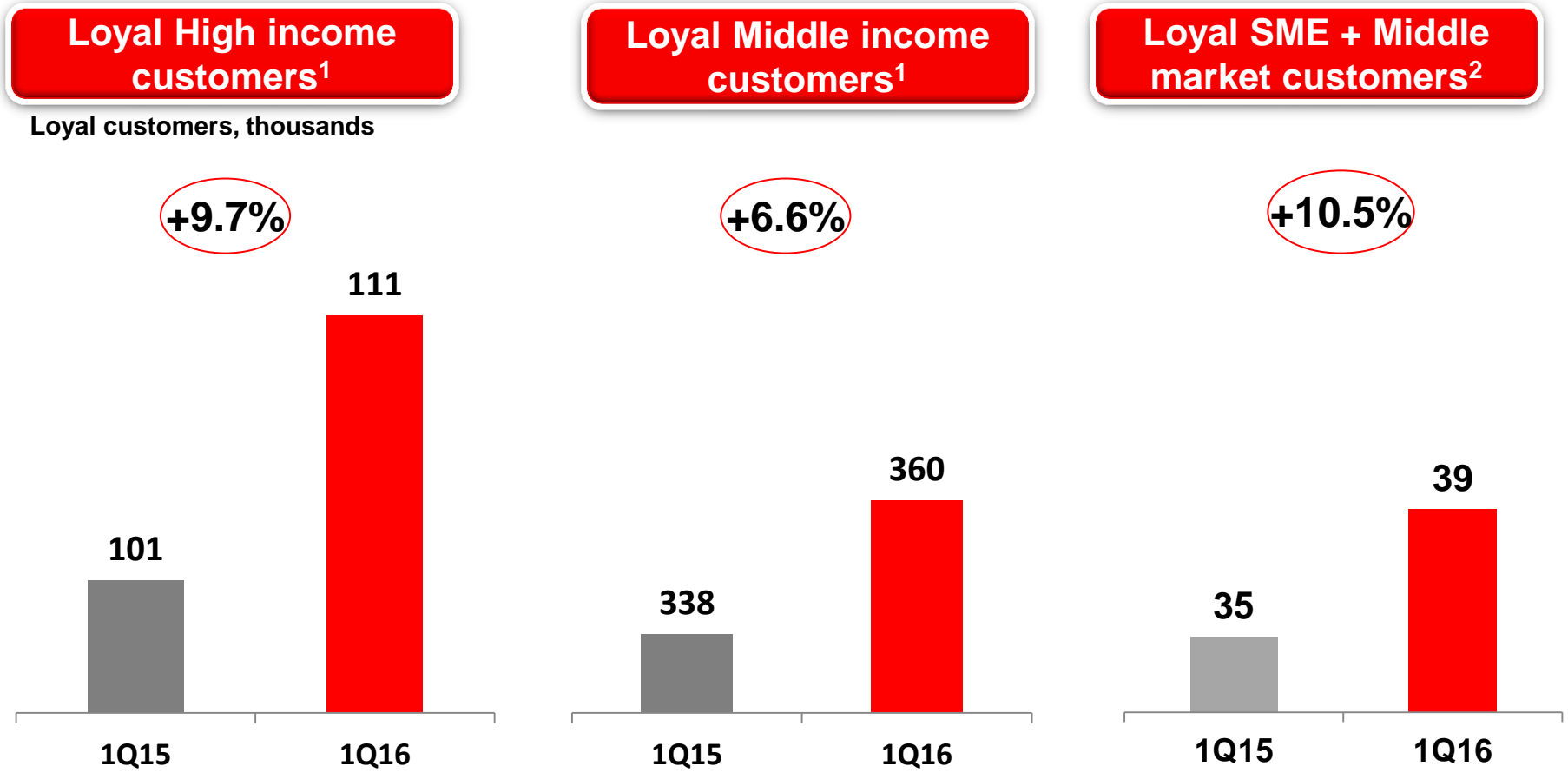
I. Growth focused on segments with highest net contribution...

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

III. ... while managing risks and capital conservatively

- Focus on **improving our processes**
- Priority is to increasing **client loyalty** and **quality of service**
- Focus on **integrated multi-channel networks** and **digital banking services**

## Customer loyalty keeps growing in targeted segments...

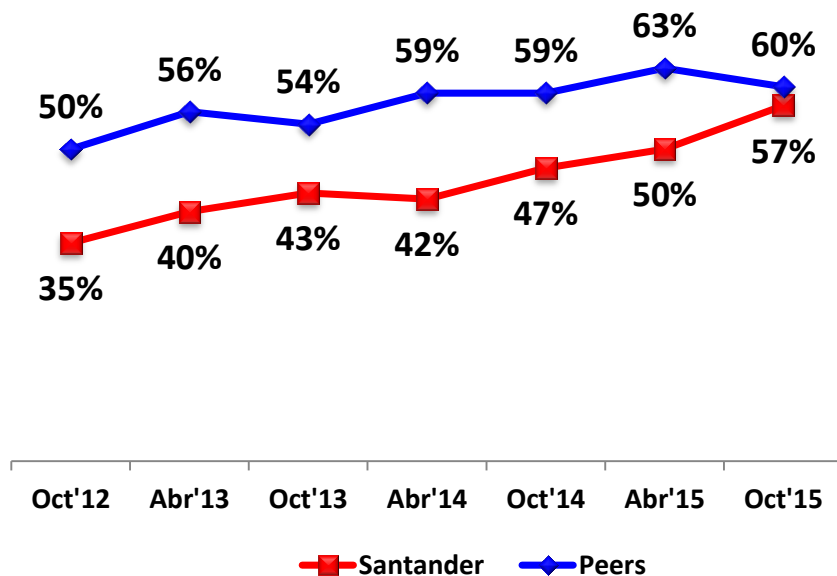


1. Customers with 4 products plus a minimum profitability level and a minimum usage indicator all differentiated by segment. 2. Mid-market & SMEs cross-selling differentiated by client size using a point system that depends on number of products, usage of products and income net of risks.

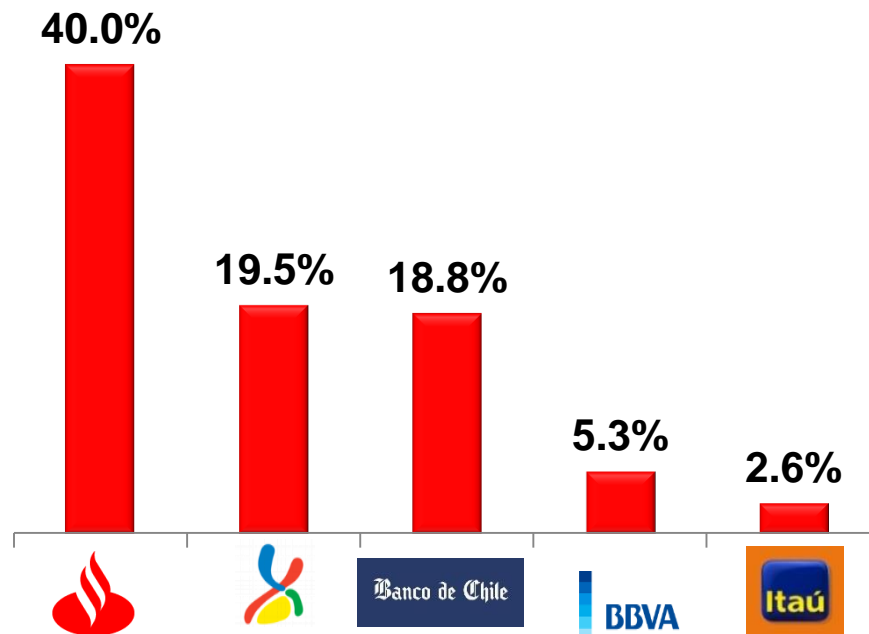
... fueled by improved customer satisfaction / digital banking capabilities

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

% of net satisfied clients



Internet usage (private banks)<sup>2</sup>

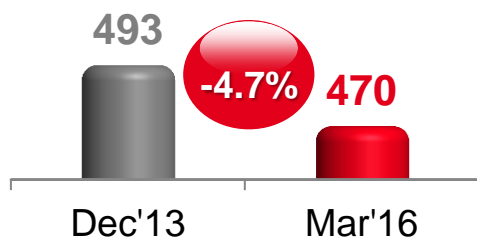


1. % of clients that rate the Bank's customer service 6-7 minus those that rate is 1-4 on a scale from 1-7, 7 being best. Source: Adimark GfK

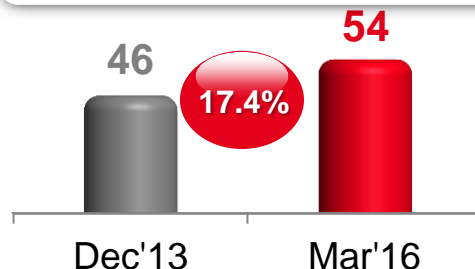
2. Market share over clients that enter a website with a passkey. Excludes Banco del Estado. Source: Superintendency of Banks of Chile, latest figures

## Transforming our branch network: leaner / more segmented

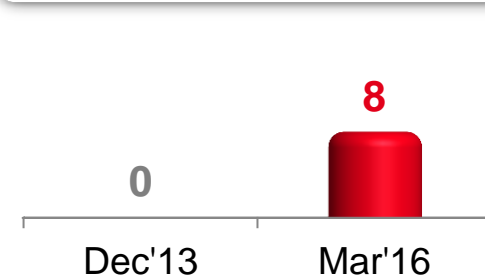
### Total branches



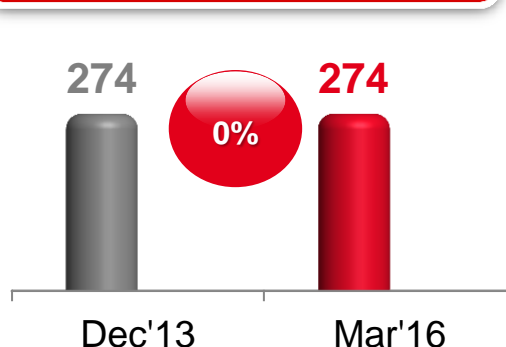
### Select branches<sup>1</sup>



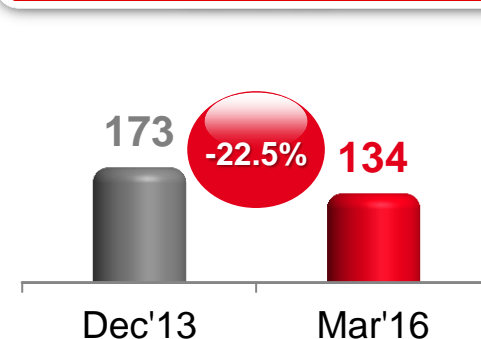
### Middle-market centres



### Standard branches



### Banefe<sup>2</sup> & payment centres



Greater focus on restructuring our traditional branches, opening Middle-market Centers, expanding our Select branches and introducing the Banefe corners concept

1. Branches targeting affluent customers. 2. Branches targeting mass market.

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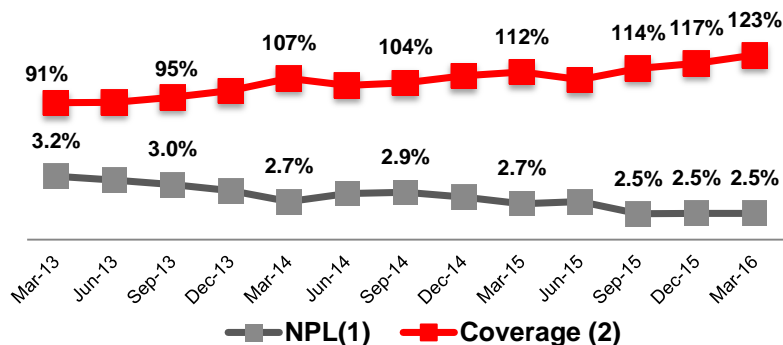
- Important improvements in retail banking **asset quality**
- **Coverage ratios** are increasing
- **Client NIMs, net of provisions** are rising or stable in most segments
- The highest **Core Capital ratio** among our peers



## Improved asset quality metrics. Coverage reached 123%

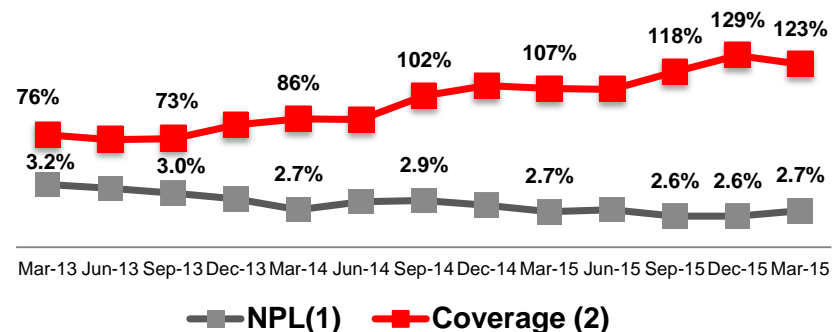
### Total loans

% of loans



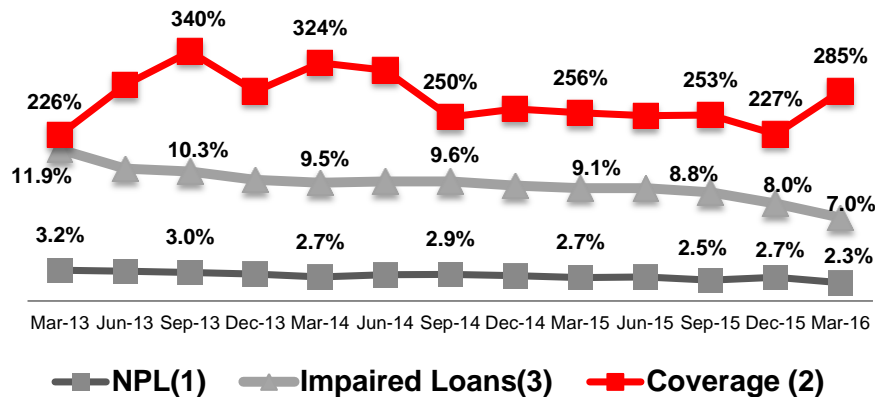
### Commercial loans

% of loans



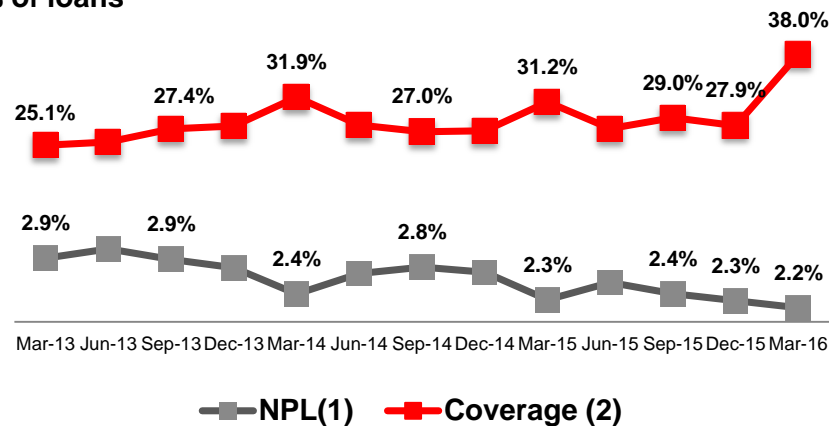
### Consumer loans

% of loans



### Mortgage loans

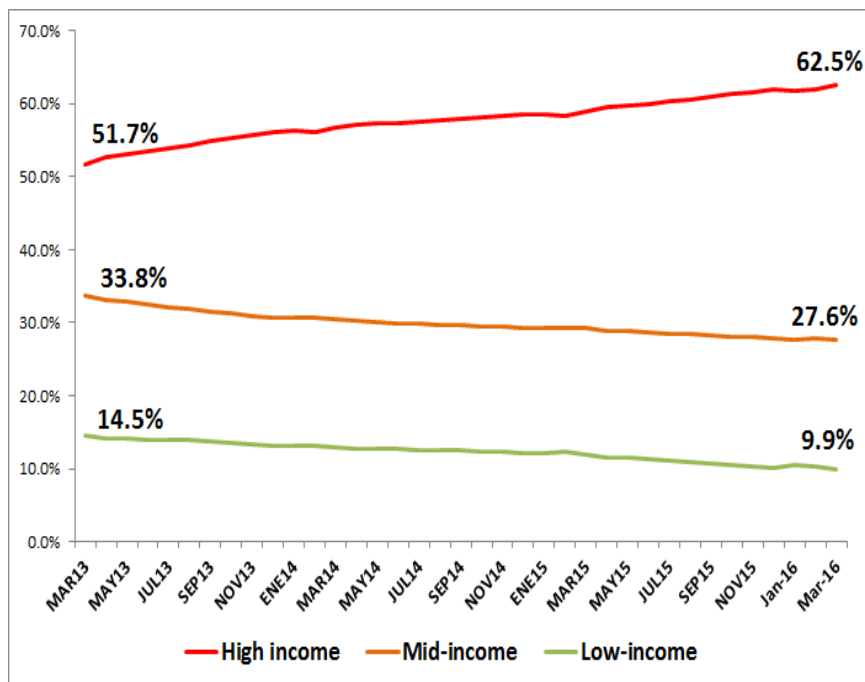
% of loans



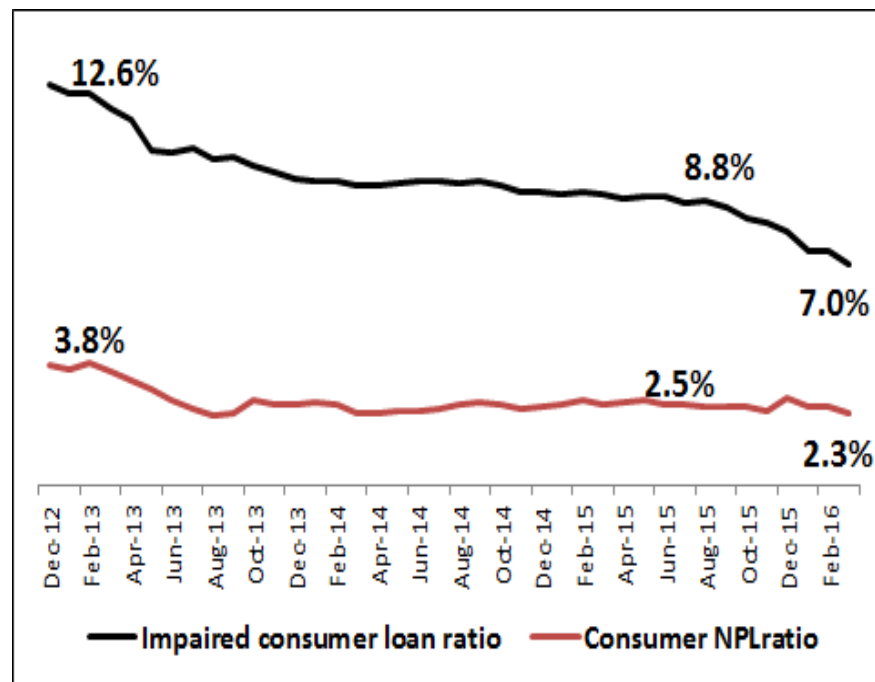
1. 90 days or more NPLs. 2. Loan loss reserves over NPLs 3. Impaired: NPL+ restructured loans

## Better consumer loan mix should lower the cost of credit in 2016

**Consumer loan breakdown**



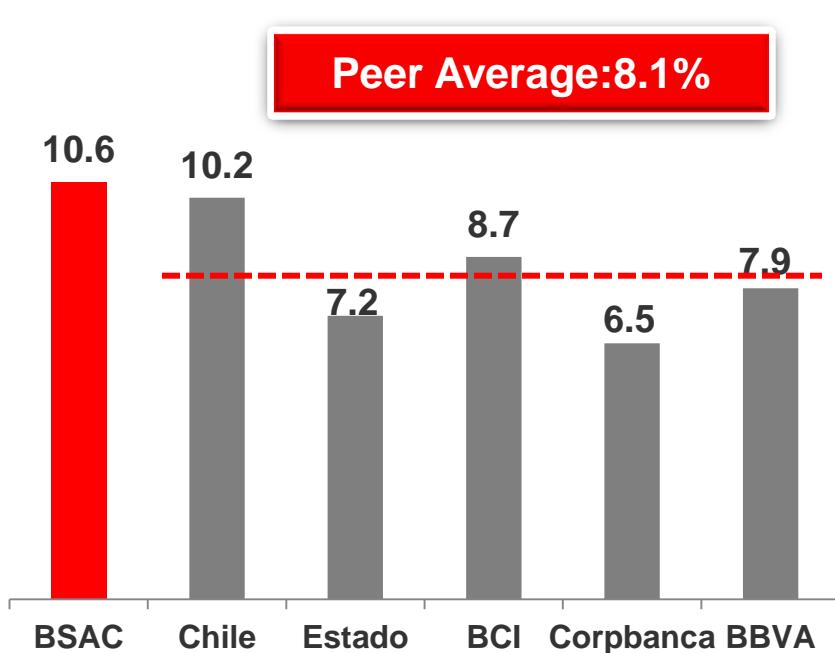
**Consumer impaired and NPL ratios<sup>1,2</sup>**



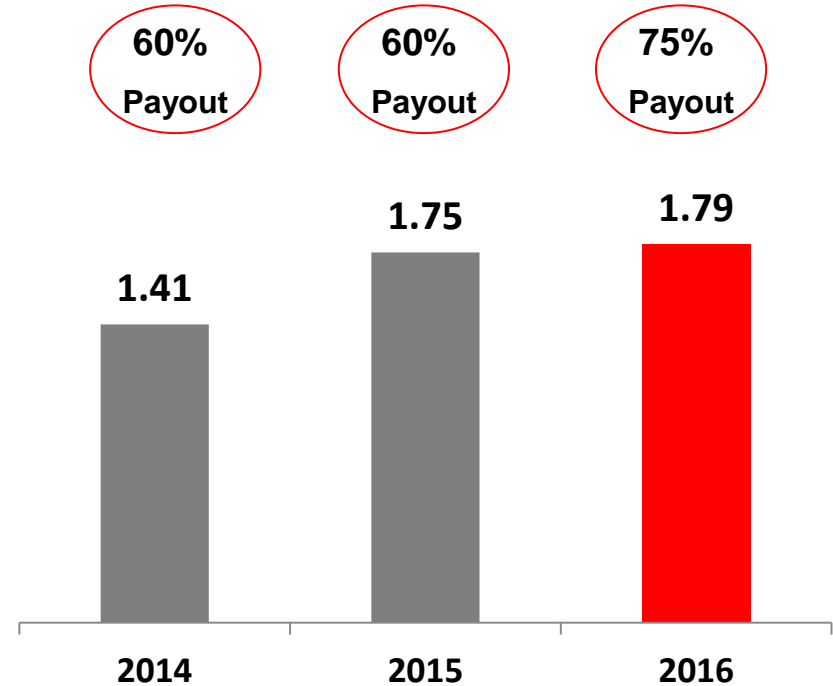
1. 90 days or more NPLs. 2. Impaired: NPL+ restructured loans

## Solid capital levels for further growth

### Core capital (%)<sup>1</sup>



### Santander: Dividend per share (Ch\$)

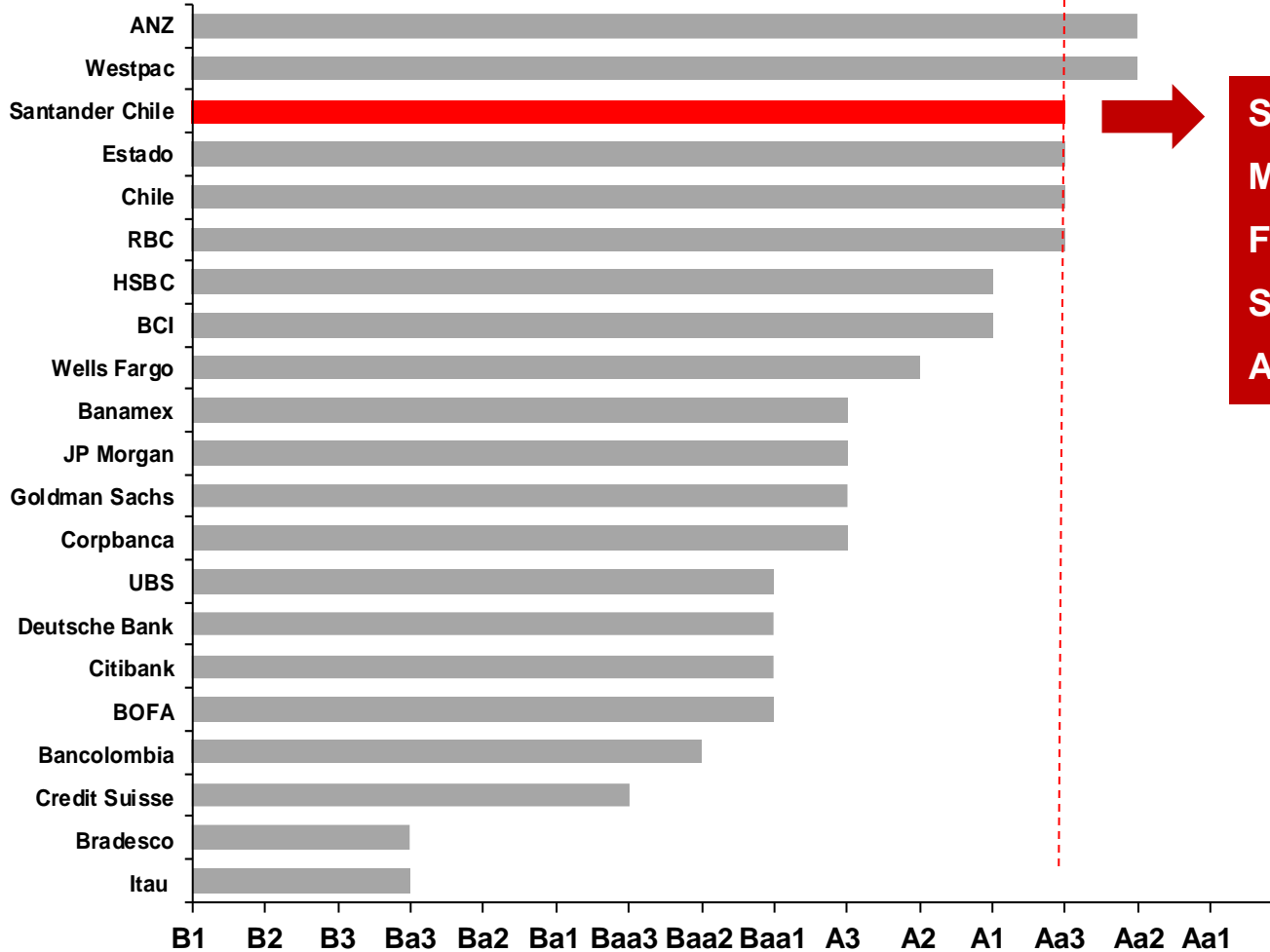


### Advanced preparation for the transition into Basel III

1. According to Superintendency of Banks BIS I definitions. Figures are as of Mar. 2016, or the latest date available

Among banks with best international rating

Risk rating: Moody's scale



**Santander-Chile:**

Moody's	Aa3
Fitch	A+
S&P	A
All "Outlooks" are "Stable"	

Source: Moody's via Bloomberg

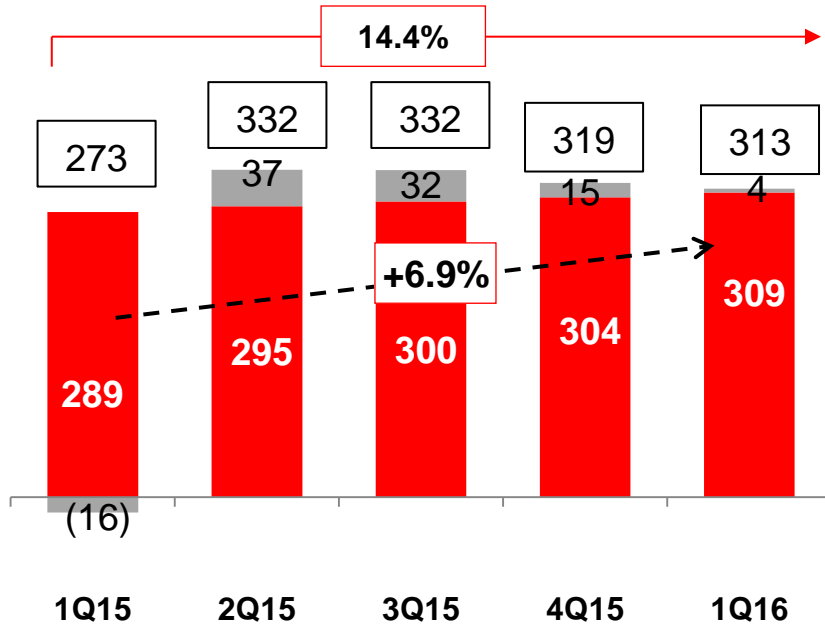
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- **Santander Chile has adjusted its medium-term strategy to sustain profitable growth in a more challenging environment...**
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# Stable Client NIMs due to stable loan spreads / improved funding mix

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

Ch\$bn



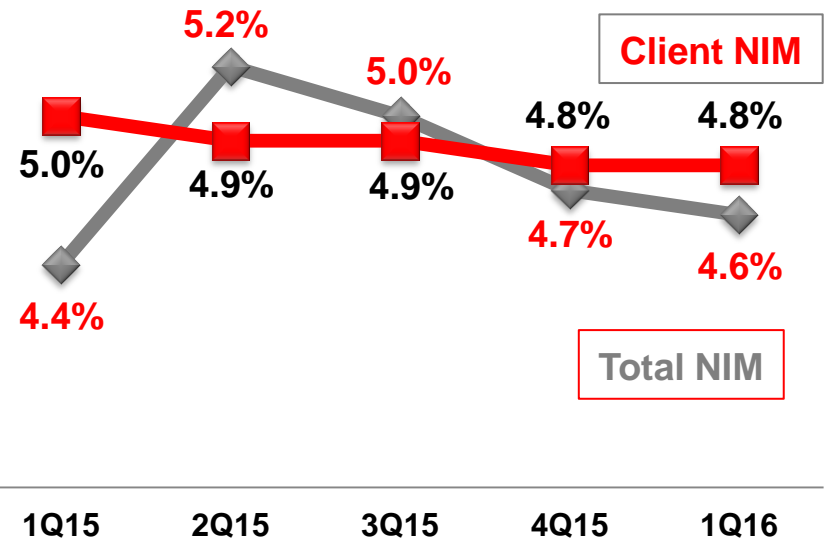
Total ■ Client NII ■ Non-client NII

### Inflation UF

-0.02% 1.5% 1.5% 1.1% 0.7%

## NIM & Client NIM

Net Interest Margin (NIM), %

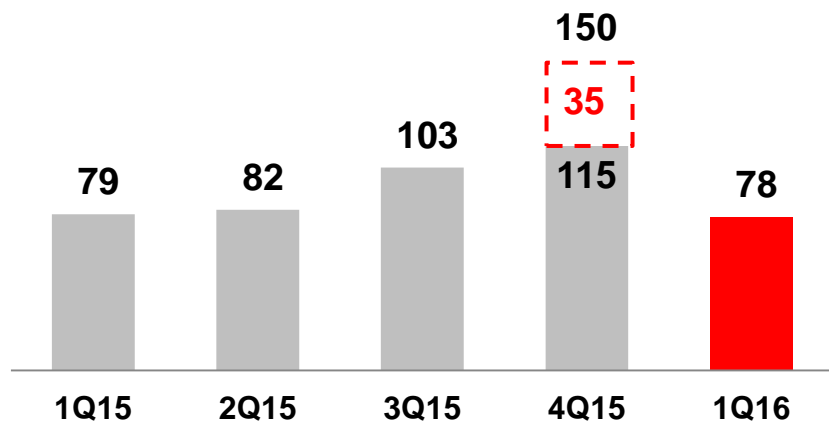
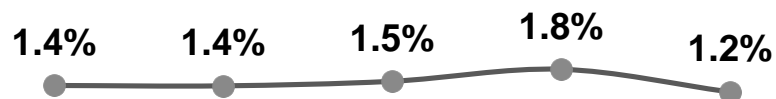


1. Client net interest income (NII) is mainly NII from the from all client activities such as loans and deposits minus the internal transfer rate. Non-client NII is NII mainly from the Bank's ALCO positions and includes the effects of inflation on the Bank's NII

## Improved asset quality metrics. Cost of credit falls to 1.2%

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

Ch\$bn

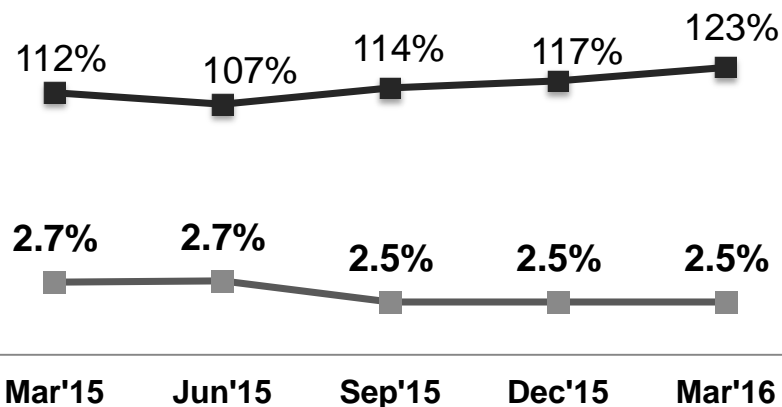


■ Ch\$bn      ● Cost of credit (%)

□ One time Provision expense

### NPL and coverage ratio

% of loans



■ NPL<sup>2</sup>      ■ Coverage<sup>3</sup>

### New asset mix / credit models allow for a better risk-return relationship

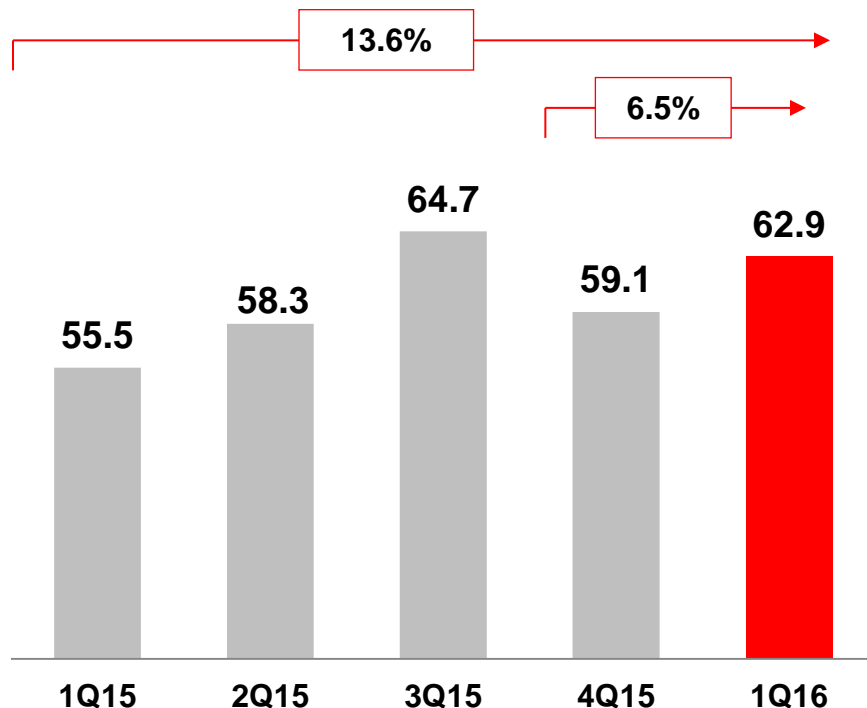
1. Annualized quarterly provision expense / total loans. 4Q15 excludes the one-time provision of Ch\$35bn. 2. 90 days or more NPLs.

3. Loan loss reserves over NPLs.

## Fee income increases 13.6% YoY as Client loyalty expands

### Net fee income

Ch\$bn



### Fee income from business segments

Ch\$bn

	1Q'16	YoY (%)	QoQ (%)
Retail	49.0	13.7	2.0
Middle Market	7.7	11.2	8.7
Corporate	6.6	51.5	95.1
<b>Subtotal</b>	<b>63.4</b>	<b>14.9</b>	<b>8.2</b>
Others	-0.4		
<b>Total fees</b>	<b>63.0</b>	<b>13.6</b>	<b>6.5</b>

**New CRM and other client initiatives is delivering recurrent growth of fee income**



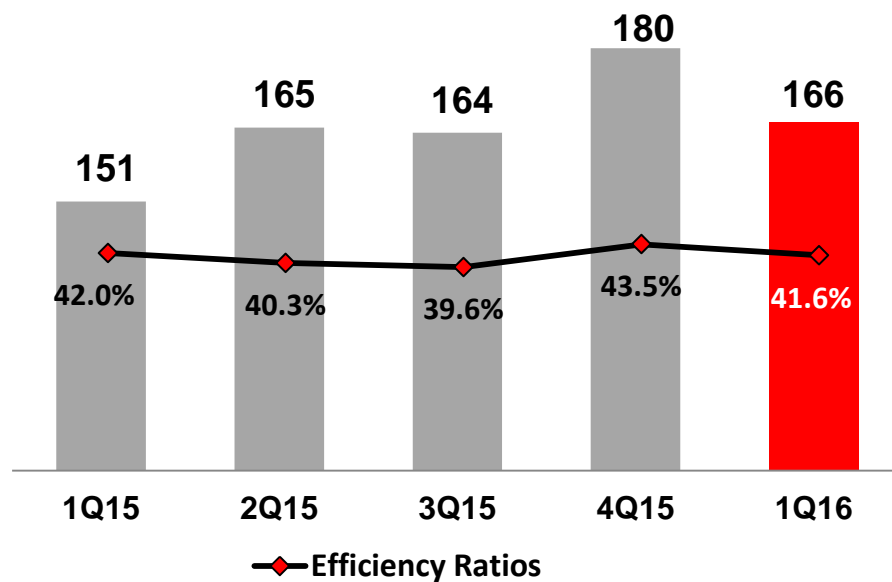
## Efficiency ratio reached 41.6% in 1Q16

### Operating expenses

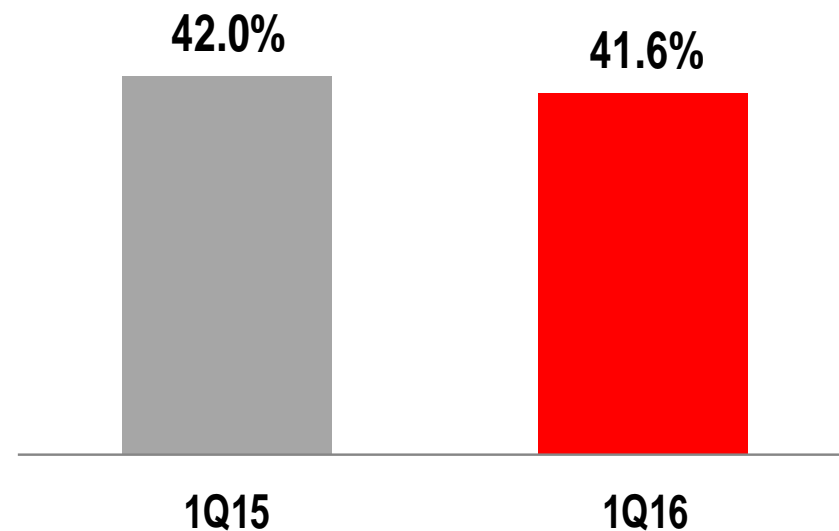
Ch\$bn

9.9%

-7.8%



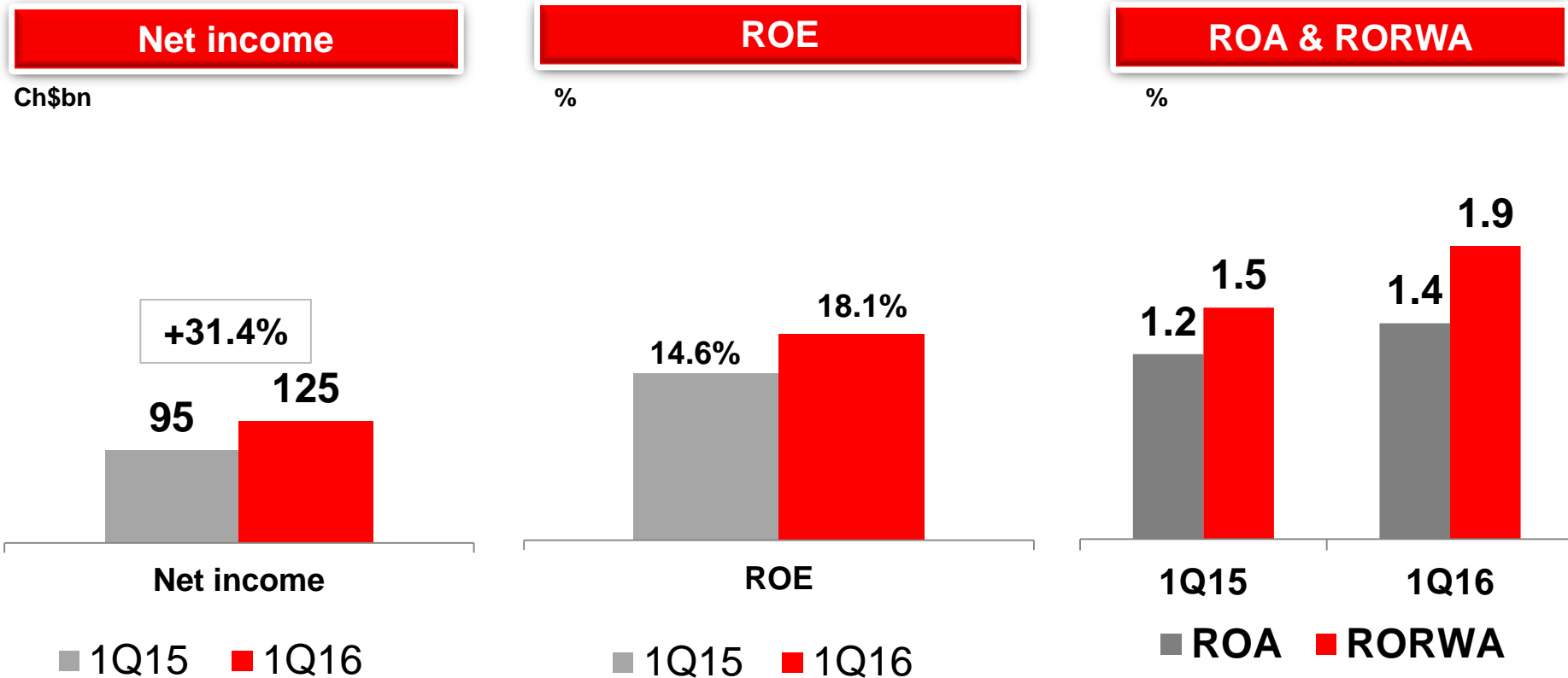
### Efficiency ratio<sup>1</sup>



Targeting productivity gains through leaner distribution, simpler organization and better use of technology

1. Efficiency ratio: oper. expenses excluding impairment / Net interest income + Fee income + Financial transactions, net and Other operating income, net

**Net income up 31.4%, ROE reached 18.1% in 1Q16**



\* Return on Risk-weighted Asstes, as defined by the Superintendency of Banks of Chile

# Agenda

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

## Outlook & summary

- **Chile: economy is expected to grow 1.7% in 2016 and 2.4% in 2017**
- **Financial system with good growth potential and stable growth and risk trends**
- **Santander Chile: positive business and client profitability trends sustained in 1Q16**
  - **Loan growth up 9.0% YoY, especially in segments with higher risk-adjusted profitability**
  - **Deposits increase 12.1% YoY. Steady growth of demand deposits in all segments**
  - **Core capital stood at 10.6%, the highest among main peers**
  - **Net interest income up 14.4% YoY. Stable client spreads**
  - **Coverage ratio rises to 123% / NPLs stable at 2.5% / Cost of credit falls to 1.2%**
  - **Fee income up 13.6% YoY in line with higher customer loyalty**
  - **Efficiency ratio reached 41.6%. Cost control and branch optimization plans launched**
  - **Net income up 31.4% YoY. ROE reached 18.1%**
  - **For the rest of 2016 & 2017, we expect these sound business trends to continue**



**Santander Chile: sound medium-term outlook**

