

# Banco Santander Chile

*Preparing for sound growth &  
sustained profitability*

November 2012

Chile



# 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. 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. Historical figures have been restated in accordance with the new accounting standards adopted by Chilean banks in 2009. 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.

# Highlights



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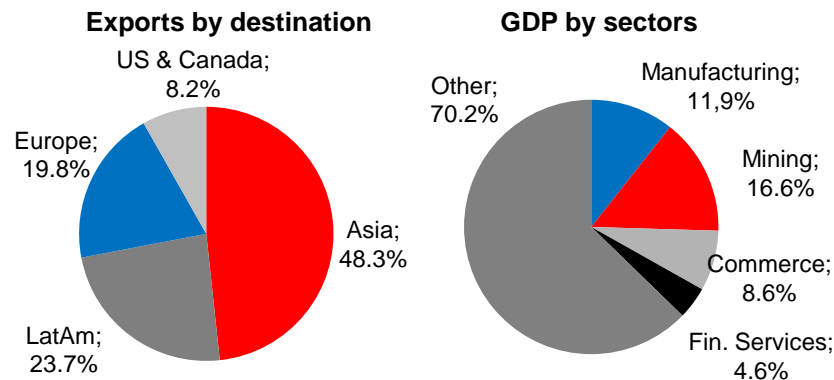


## Chile: a strong and diversified economy...

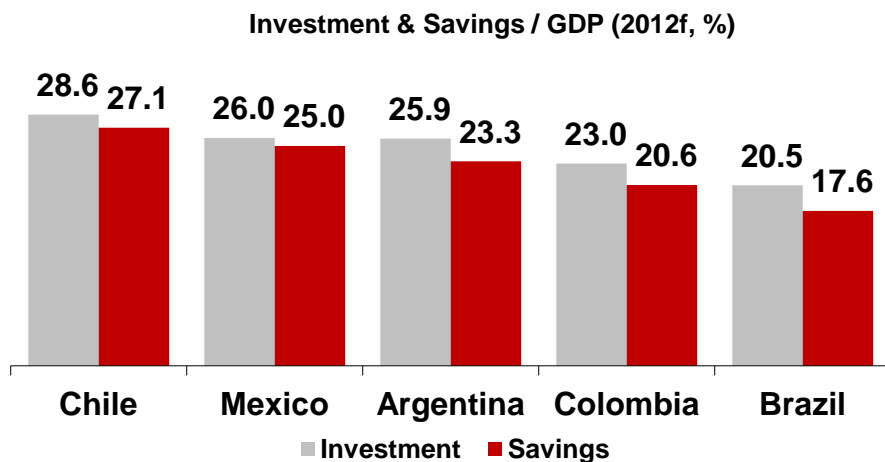
### Chile's key economic highlights<sup>(1)</sup>

Population:	16.6 mn
GDP:	US\$248bn
GDP Per Capita (PPP):	US\$17,974
Exports / GDP:	32.7%
Savings / GDP:	27%
Net Public Debt / GDP:	- 9.2%
Current Ratings:	A+/A+/Aa3

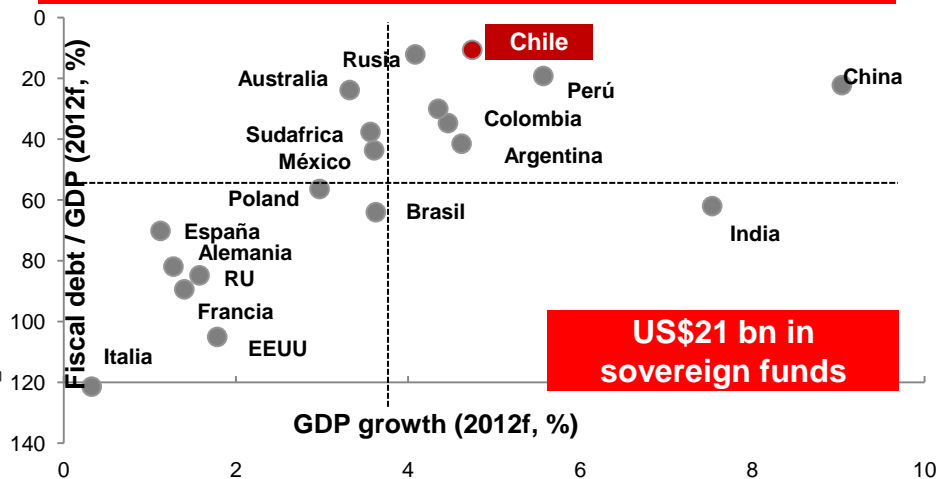
### A diversified economy<sup>(1)</sup>



### High investment & savings rates<sup>(2)</sup>



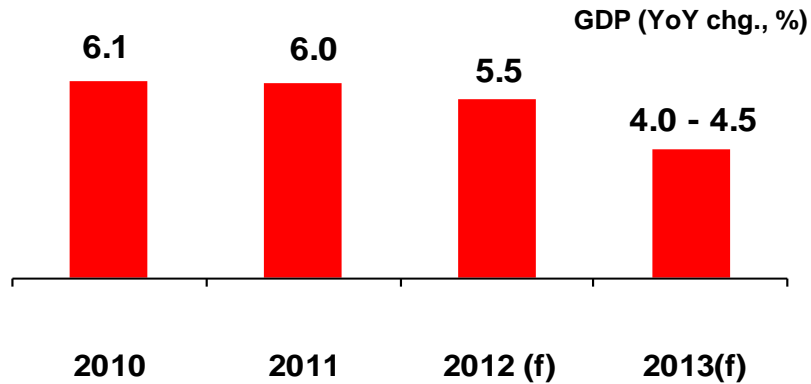
### Solid fiscal position<sup>(3)</sup>



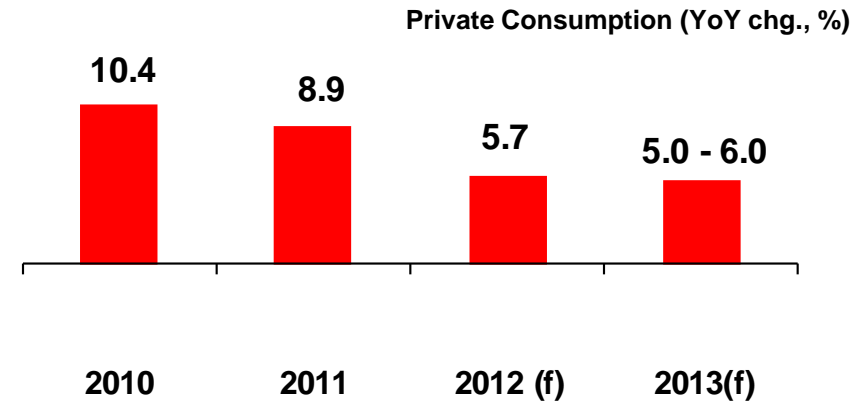
(1) Figures for 2011 or latest available data. Source: Central Bank of Chile. (2) Source: IMF. (3) Source: CIA World Factbook

**Our outlook for 2013 is positive**

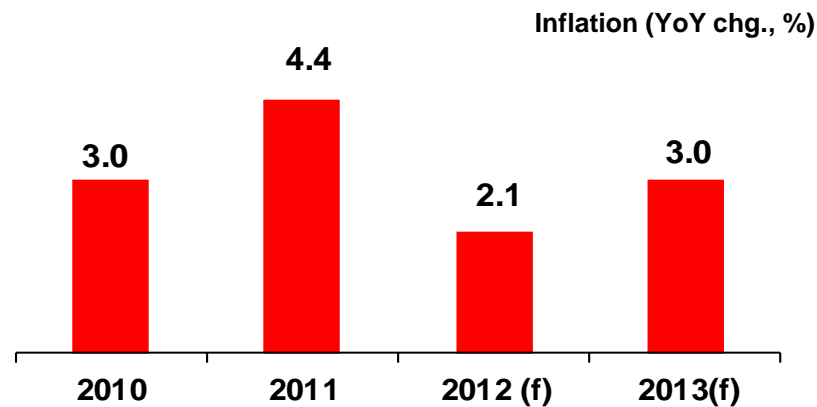
**Solid GDP growth...**



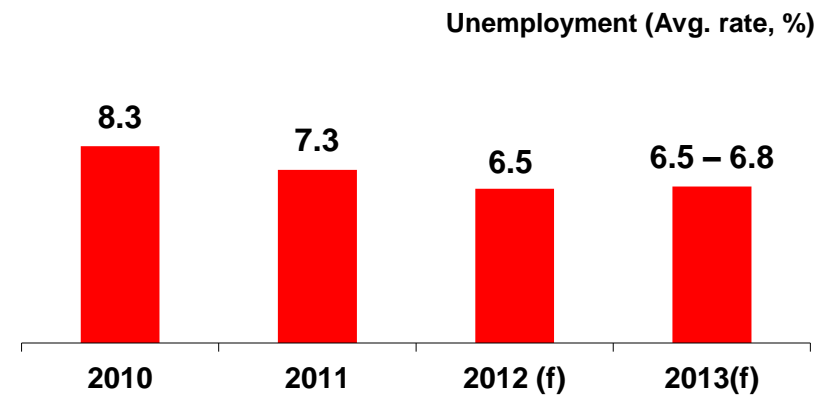
**... fueled by Private Consumption**



**Lower inflation...**



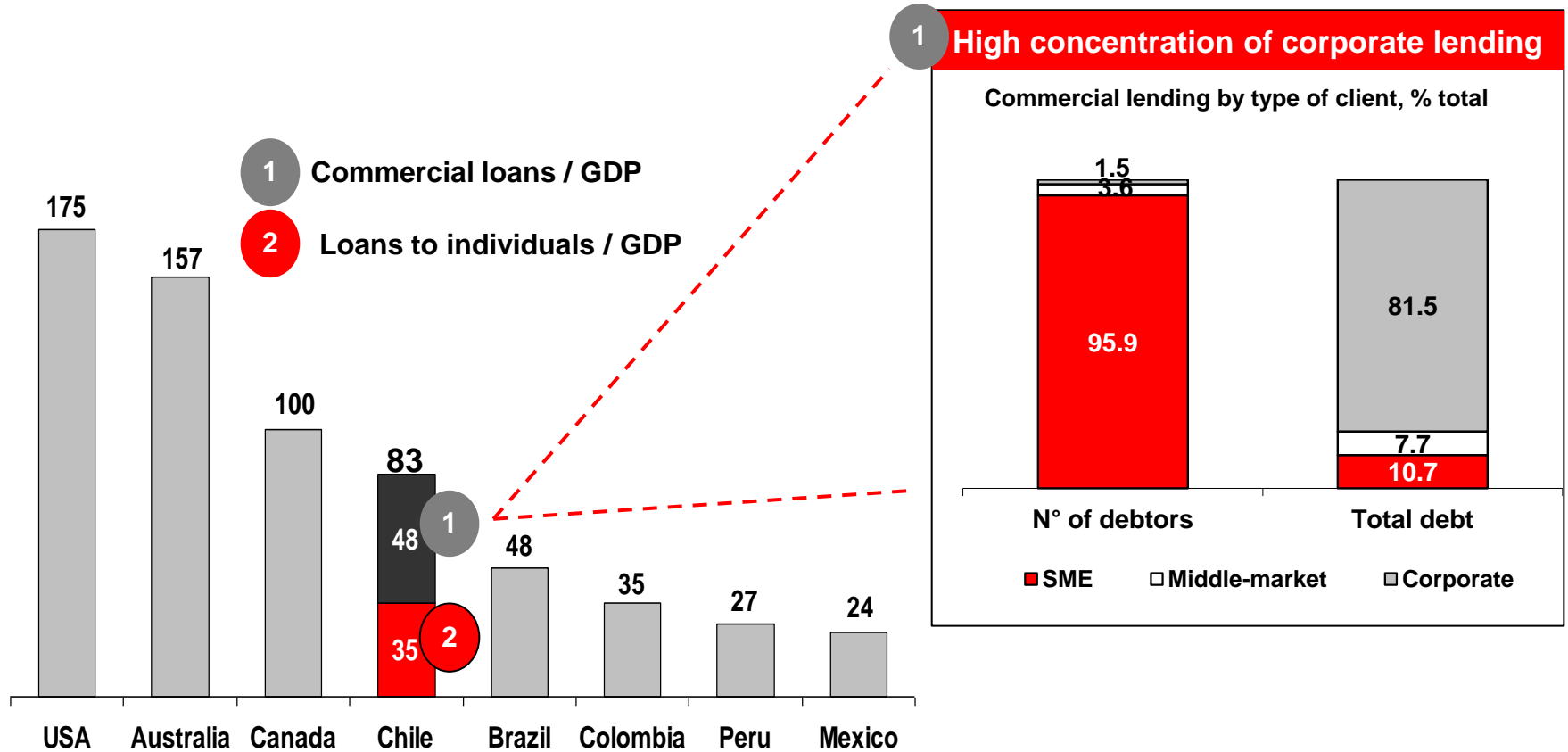
**... and stable unemployment**



Source: Central Bank of Chile. (f): Santander Chile's forecasts

# A market with good growth potential in SMEs...

Loans / GDP as of Dec. 2011\*, %

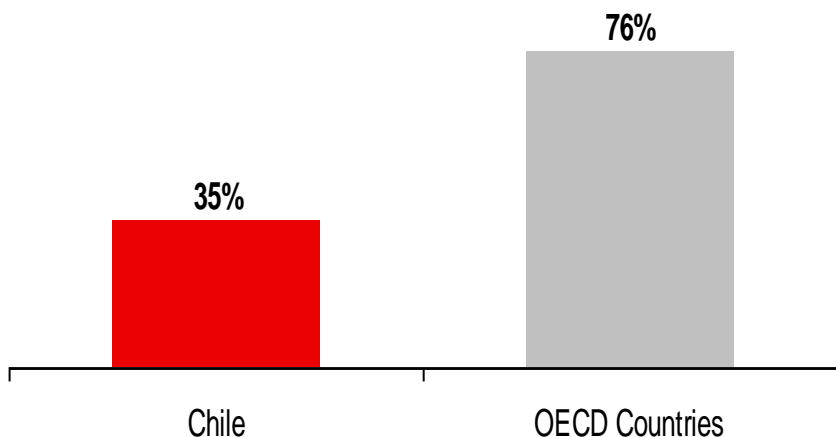


\* Or latest data available. Source: Barclays Capital, Deutsche Bank, and Superintendency of Banks of Chile

### 2 ... and individuals

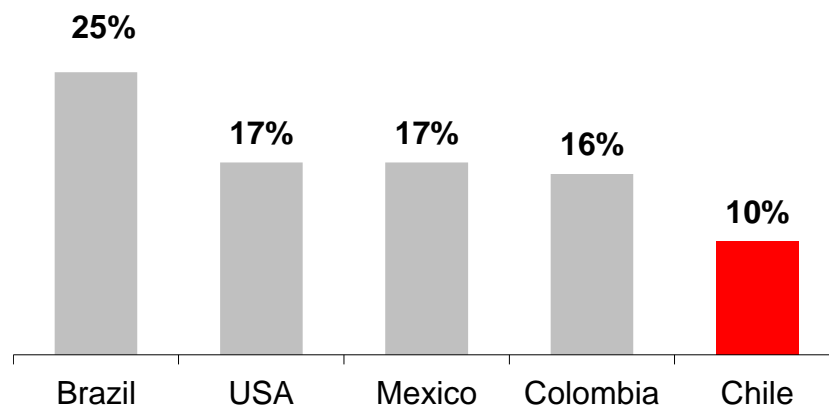
Relatively low leverage...

Household debt / GDP <sup>(1)</sup>



...leads to lower servicing efforts

LT debt servicing cost <sup>(2),(3)</sup>



57% of loans are mortgage: lower rates / longer terms reduce financial burden in Chile

(1) Data as of 2008, except Chile: 2011. Includes: Poland, Italy, France, Germany, Sweden, USA, Australia, Denmark, Korea, & Taiwan. Source: Chile CB, OECD, McKinsey and IMF.

(2) As of Dec-10, except Chile which is as of Dec. 11.

(3) Calculated as Interests + amortizations over total disposable income.

Source: Barclays Capital, Deutsche Bank, Superintendency of Banks and National Statistics Institute of Chile



**New forces are redefining the banking environment**

**Changing...**



**I. Regulations**



**II. Competition**



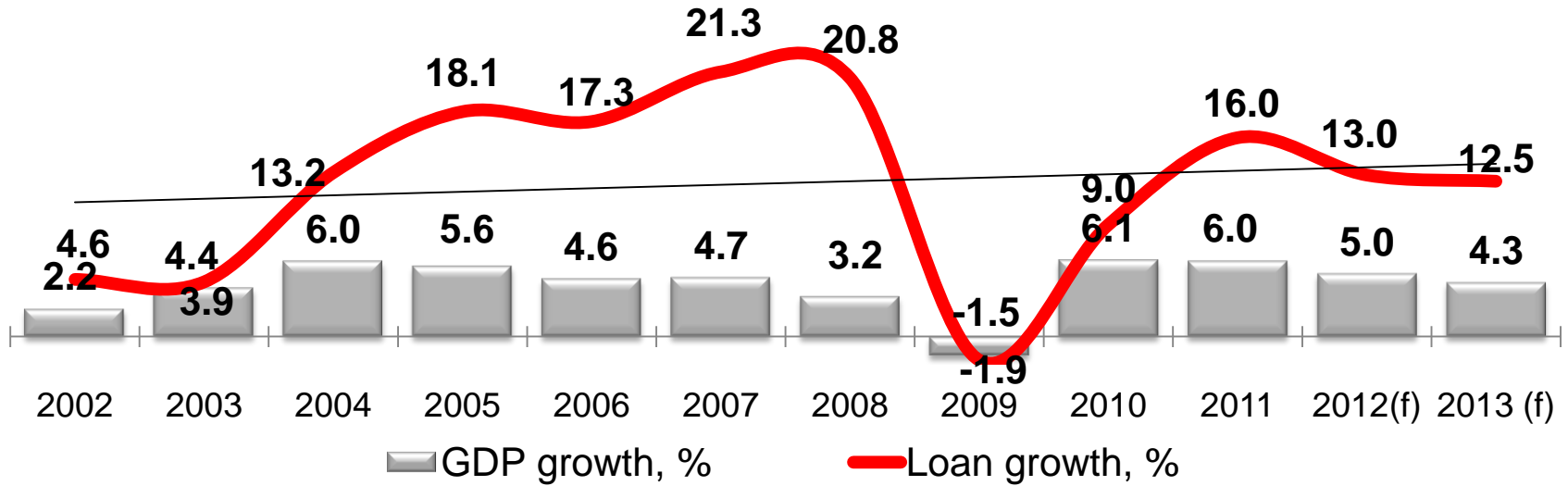
**III. Technology**



**IV. Consumer attitudes**

### Attractive industry drivers sustaining loan growth

Chile's GDP growth in real terms and the banking industry's loan growth in nominal terms, %



#### Three main industry drivers

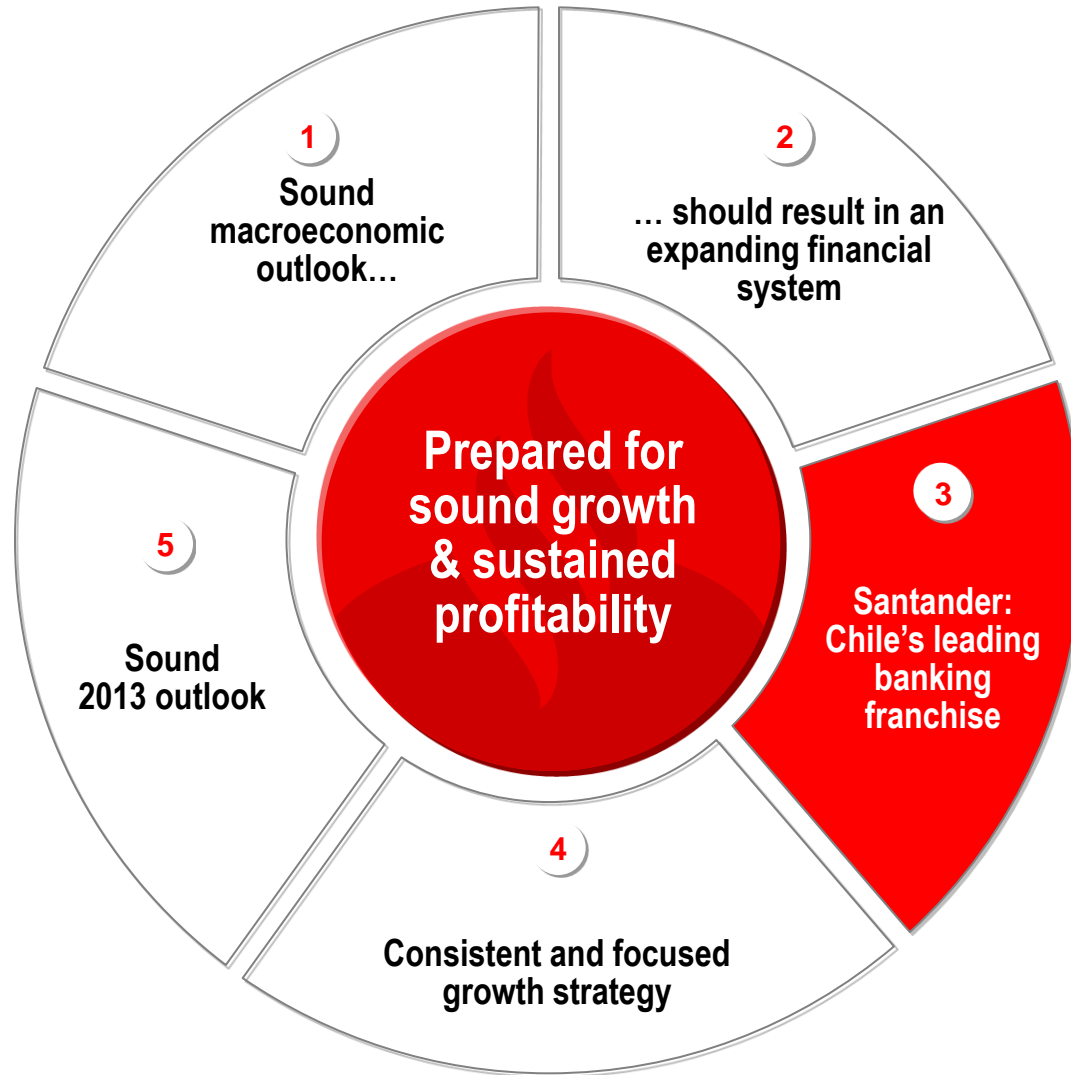
- #### 1 New clients

  - Higher income levels will increase the amount of bankable clients
  - GDP growth will increase amount of bankable SMEs
- #### 2 More cross-selling

  - Current clients demanding more financial products
  - Clients preferring banks vs. non-bank lenders
- #### 3 Greater product usage

  - Greater product usage will increase fee income revenues

Source: Central Bank of Chile and Superintendency of Banks of Chile and Santander Chile's forecasts (f)



## Santander Chile has the country's leading banking franchise

Figures as of Sept. 2012<sup>1</sup>

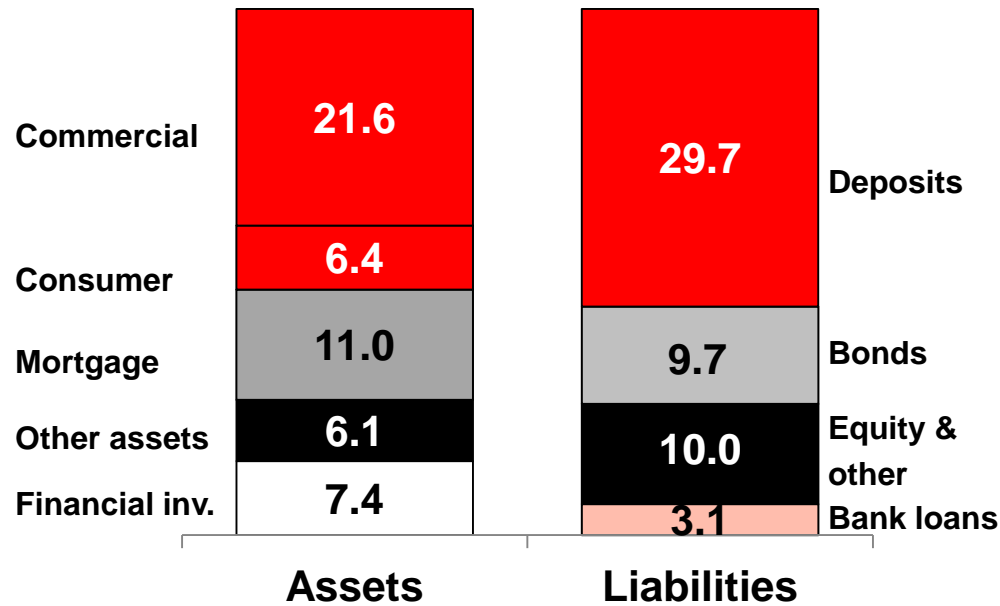
Figures			Clients & Network		
	US\$bn	Share			
Assets:	US\$52	19.5%	Clients	3.5mn	~39% <sup>2</sup>
Loans:	US\$39	19.1%	Internet clients	723ths.	19.3%
Individuals:	US\$20	22.9%	Checking acct.	729ths	24.8%
SMEs:	US\$6	~25%	Credit cards	1.9mn	20.4% <sup>3</sup>
Deposits:	US\$30	17.1%	Debit cards	3.0mn	22.2%
Equity:	US\$4	19.5%	Branches:	499	18.7%
Net income:	US\$578mn	24.9%	Employees:	11,621	16.1% <sup>4</sup>

1. Or latest available, figures using the period-end exchange rate. 2. Over total workforce. Source: INE. 3. Market share is over total monetary transactions using a credit card and includes department stores. 4. Employee market share is over employees at branches and head offices, excludes subsidiaries  
Source: Superintendency of Banks of Chile

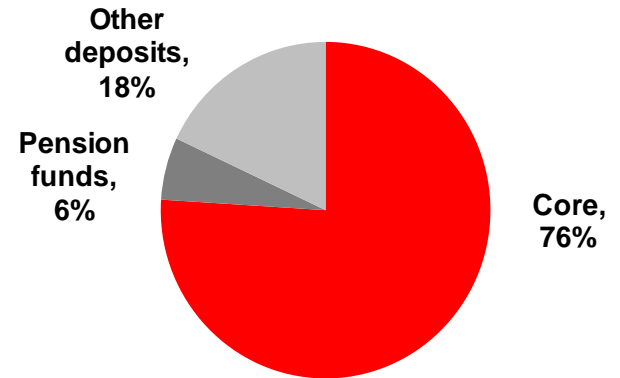
## A balanced assets and liabilities structure...

### A sound balance sheet...

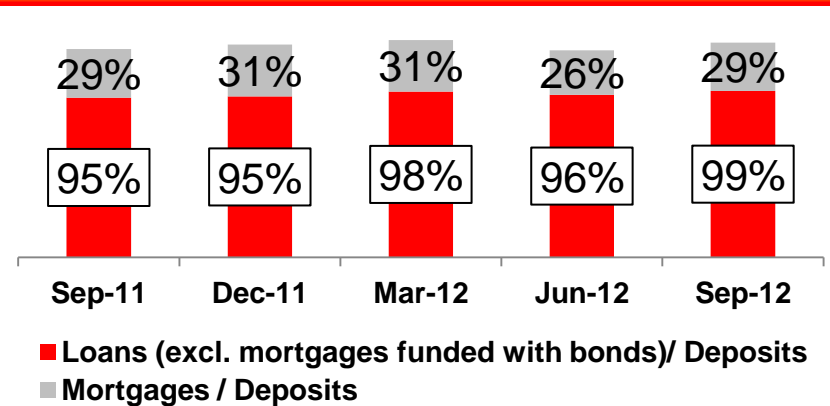
US\$ billion as of Sept. 2012



### ... and deposits structure, %



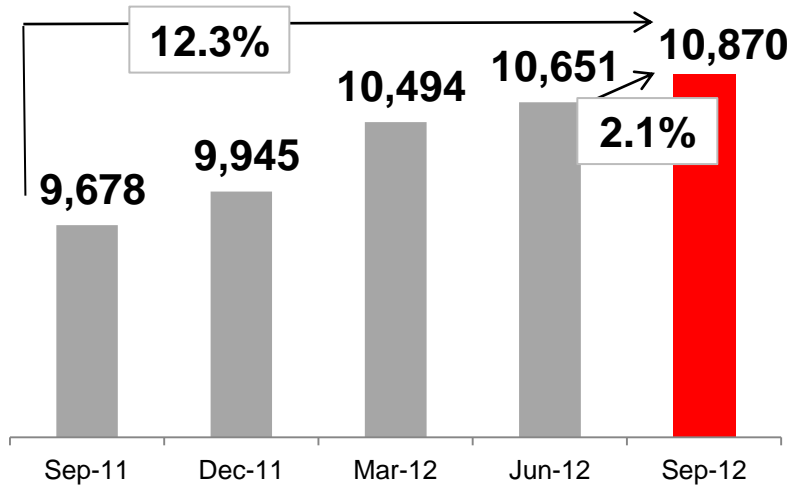
### Loan to Deposits Ratio, %



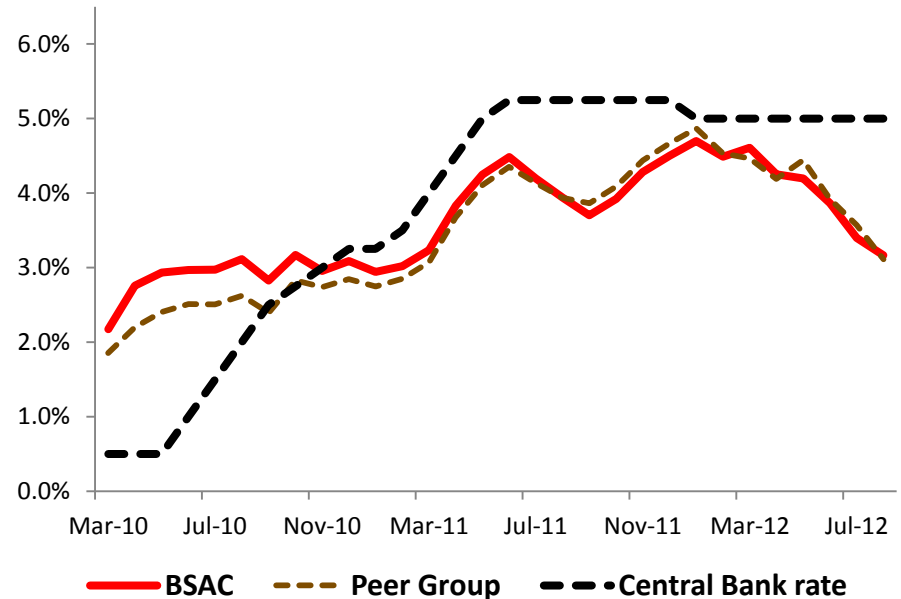
## ... and a sound evolution of core deposits and cost of funds

Core deposits, Ch\$ billion; and QoQ % YoY growth, % and Cost of funds, %

**Core Deposits<sup>1</sup> (US\$ billion)**



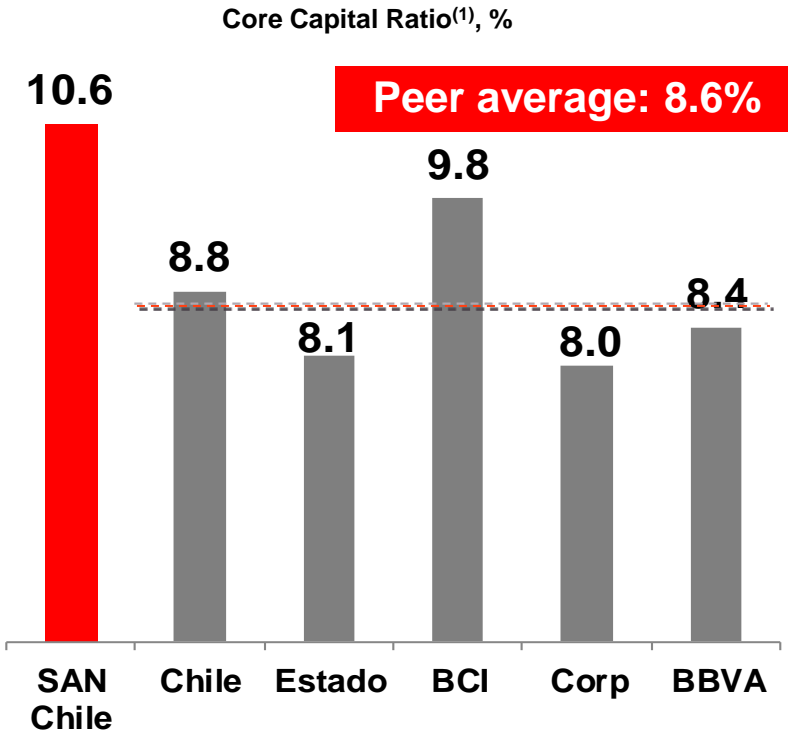
**Cost of funds<sup>2</sup> (%)**



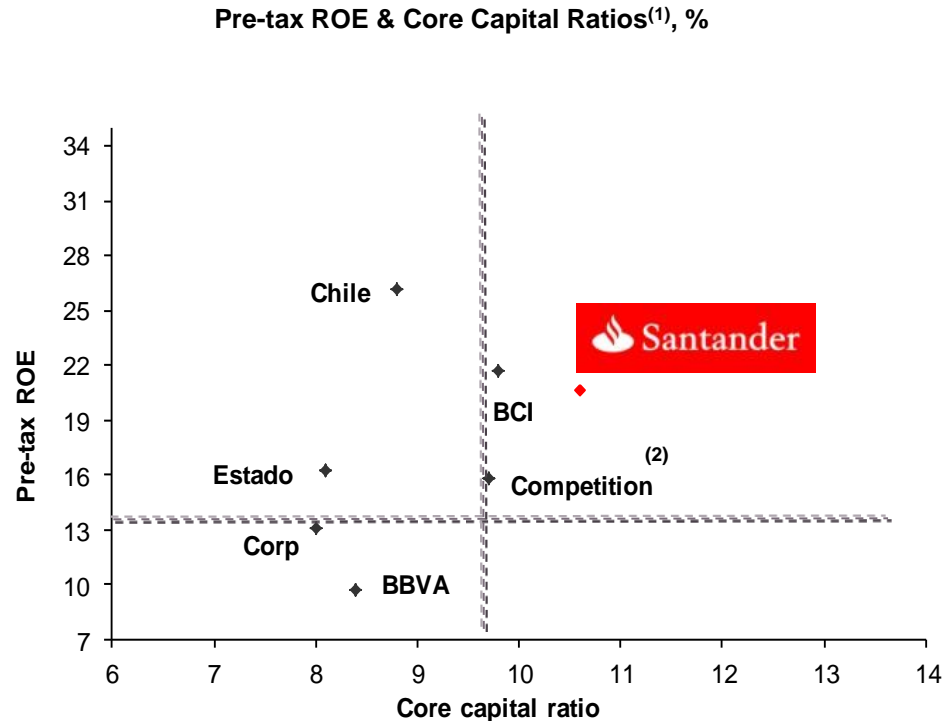
1. Core deposits: deposits from non-institutional sources. 2 Cost of funds = interest expense annualized divided by liabilities

## A high capital base and a balanced risk-return relation

### High Core Capital, %



### Best risk-return ratio in Chile



**Dividend policy stable for 3 years at 60%. No new shares issued since 2002**

(1) Capital / Risk-weighted assets as of July 2012. Pre-tax ROE as of September 2012

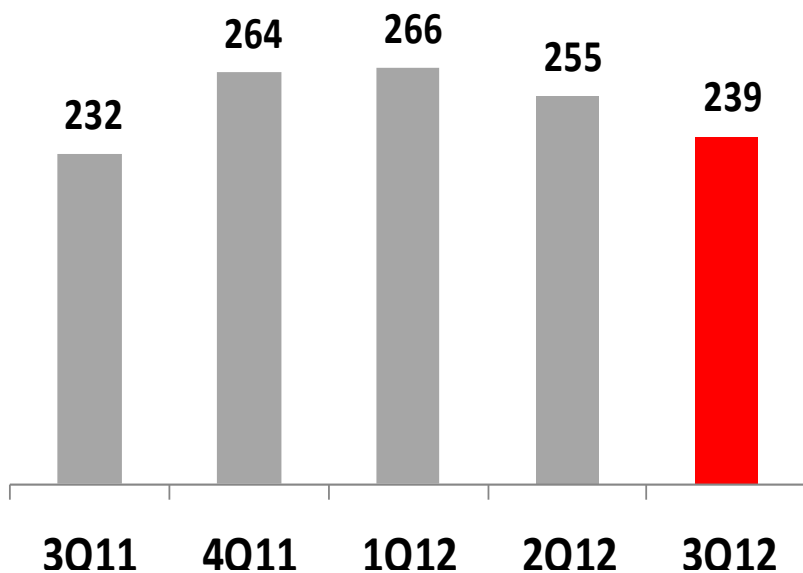
(2) Competition calculated as the average of selected companies ex-Santander Chile.

Source: Superintendency of Banks of Chile

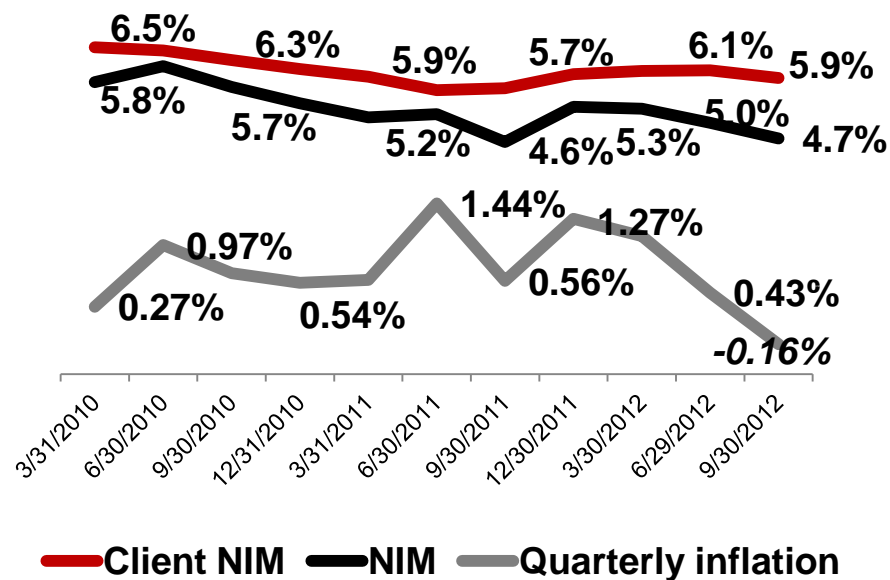
## Resilient client margins

Net interest income, Ch\$ billion; Net interest margin and client margin\*, %

Net Interest Income (Ch\$bn)



Quarterly NIM vs Inflation (%)\*



Recent drop in NIM should be short-lived as inflation rebounds

\* NIM= Net interest income annualized divided by interest earning assets. Client NIM = net interest income from client activities divided by average loans. Inflation measured as the quarterly variation of the Unidad de Fomento an inflation indexed currency. Source: Central Bank of Chile



## Solid governance standards

### Relationship with SAN Group

- Network of independent subsidiaries
- Each subsidiary is independent in terms of capital and liquidity
- Each unit finances its operations independent. No structural cross-financing among units
- Main relation is via share ownership

### Legal limits

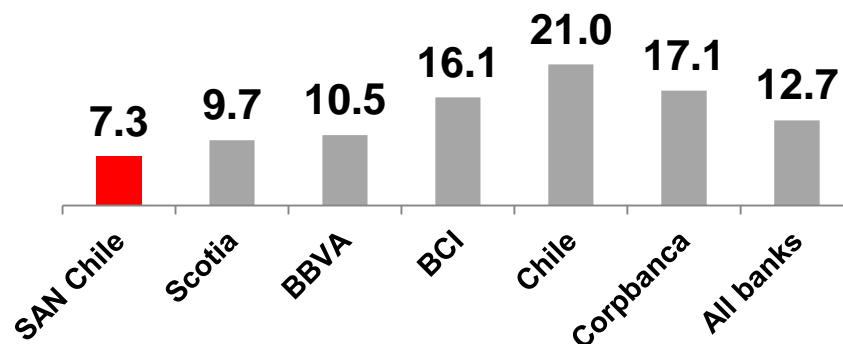
- Related company lending: Limited to 5% of total equity (unsecured) or 25% (w/ collateral);
- Deposits in related party entities abroad: limited to 25% of equity. Deposits in a single foreign bank: Limited to 5% of equity (New regulation under discussion)
- Too big to fail regulations
- Dividends paid once a year
- Strict liquidity limits

### Corporate Governance Standards

- 7 out of 11 board members are independent
- Active participation of Board members in main committees
  - ✓ Executive Credit Committee
  - ✓ ALCO
  - ✓ Audit Committee

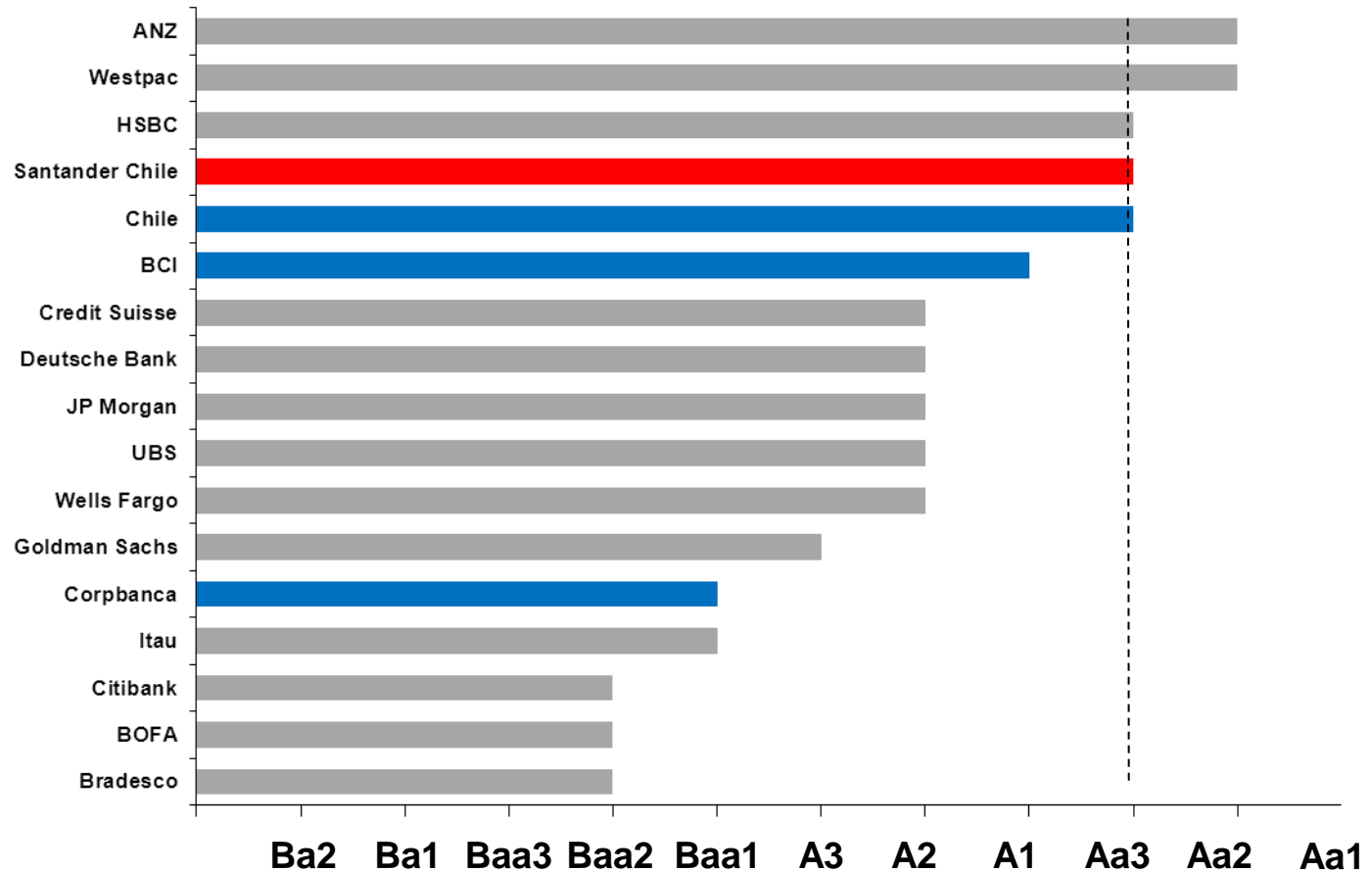
### Related party lending

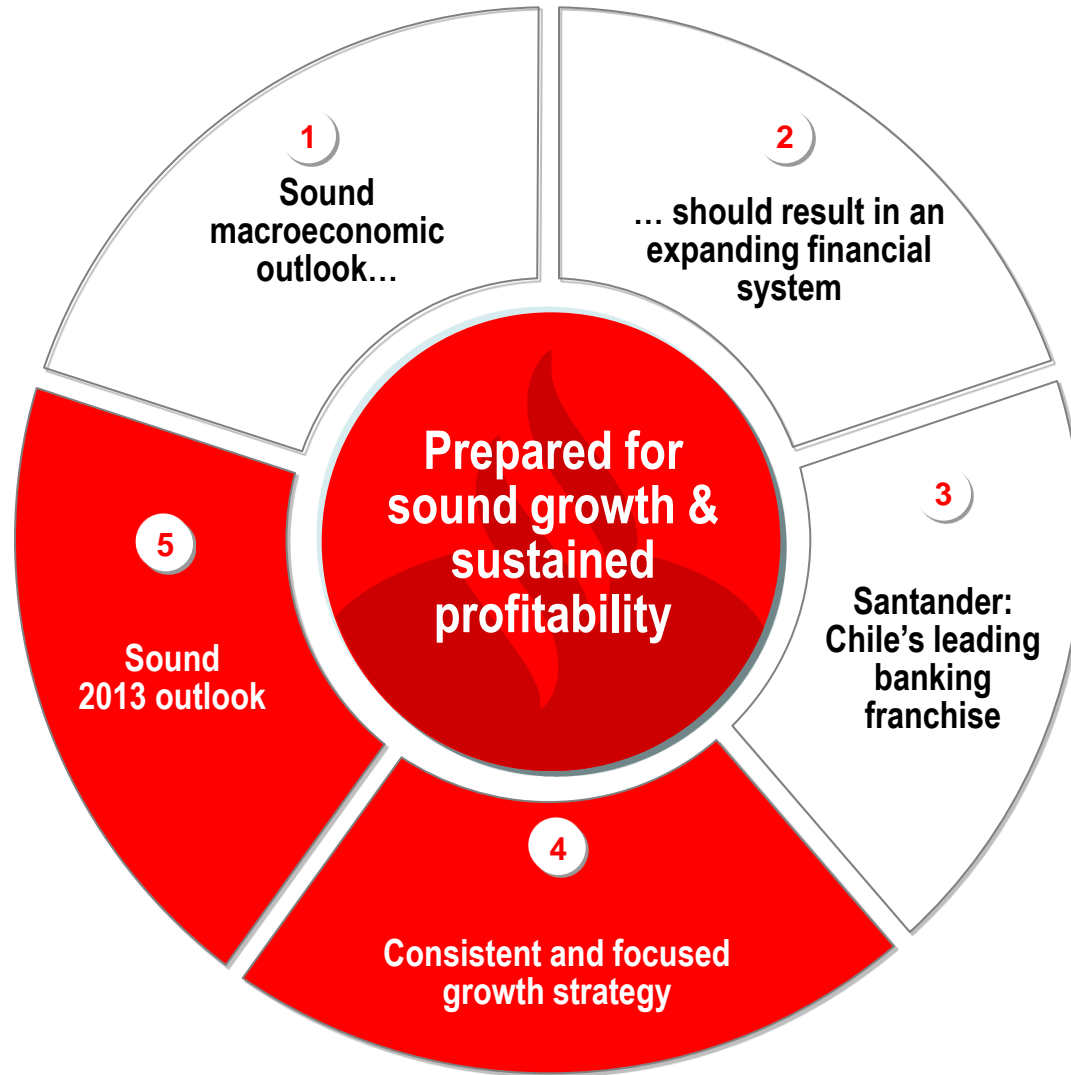
Related party lending (% of equity) as of 03/2012



## One of the highest credit ratings in the region

Risk Rating: Moody's scale





### 3 objectives to sustain solid profitability in this changing environment

I. Deepening our focus on retail banking while improving client relationship management ...

II. ...expanding efficiently

III. ... and managing risks conservatively

Initiative  
Transformation

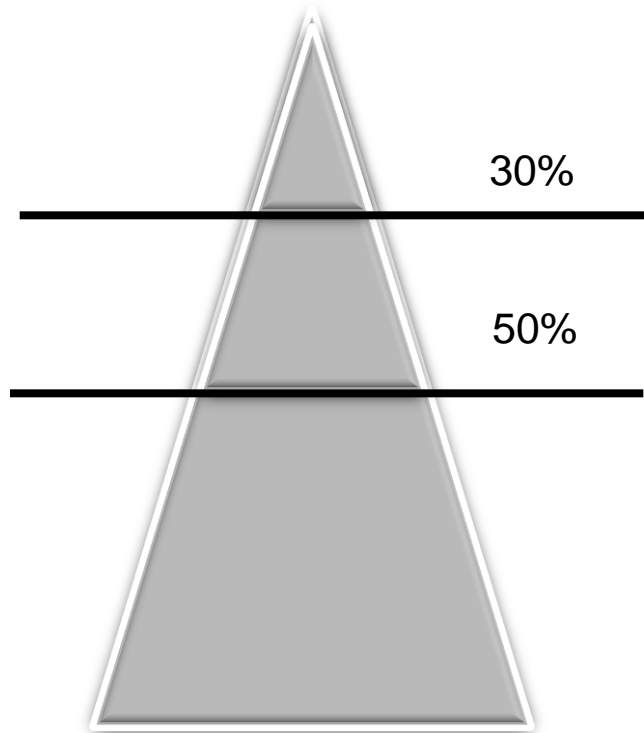
Solid growth  
& sustainable  
ROEs



## Re-thinking our retail strategy

### Target market in individuals

Structure of the workforce

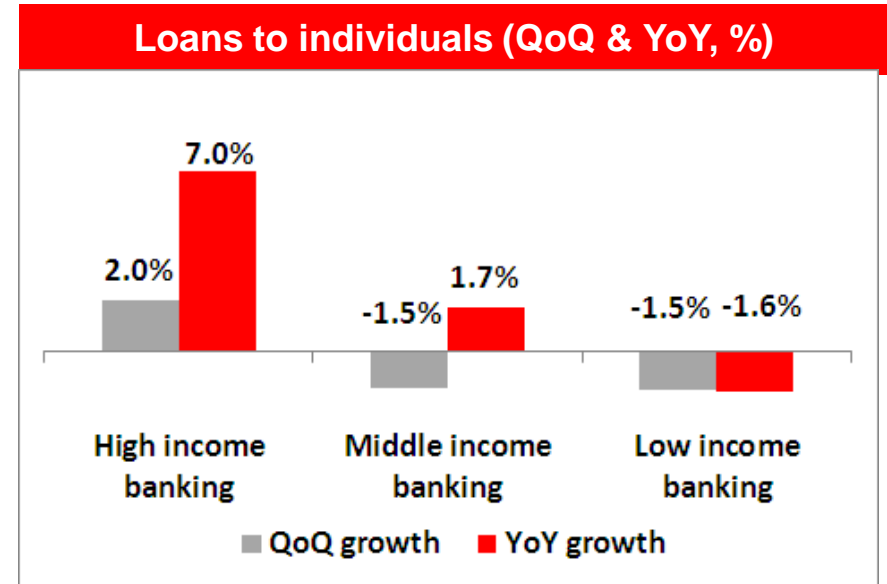
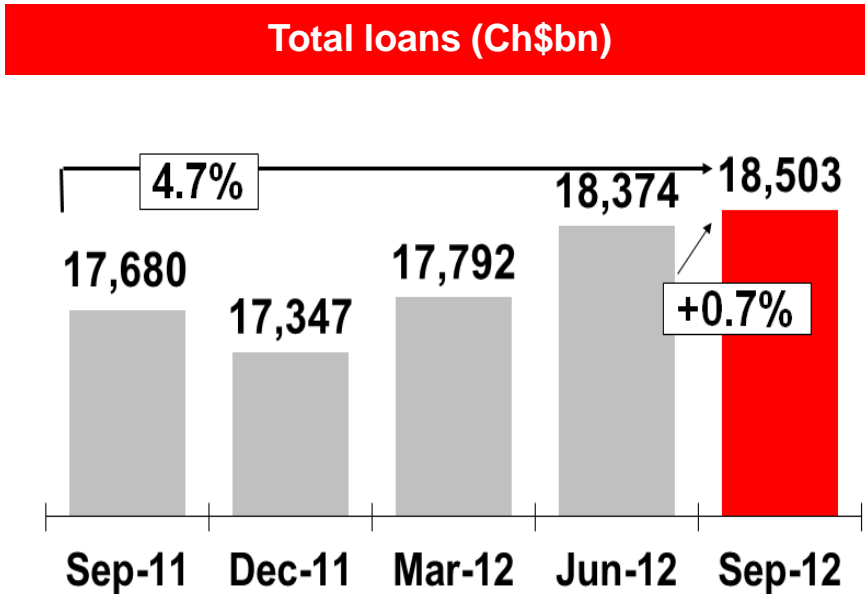


- We will maintain focus on retail banking
- In individuals, we will increase cross-selling of top 30% of the working population
- Down-market, between 30% - 50% of the workforce, focus will be in services and transactions with limited lending activity
- In SMEs the focus will be on increased lending, transactional services and simple treasury products

Objective is to grow in a healthy manner with our clients

## Selective loan growth









Total loans, Ch\$ billion; and QoQ % YoY growth, %



Selective loan growth strategy in 2012 while we redesign our strategy

**Ample opportunities for improvement exist in many areas**

**Business Transformation Model**

<p><i>Clients</i></p>  <p><b>Low differentiation by sub-segments</b></p>	<p><i>Products</i></p>  <p><b>Too many products</b></p>	<p><i>Channels</i></p>  <p><b>Poor integration</b></p>	<p><i>Results</i></p>  <p><b>Unsatisfactory commercial targets</b></p>
<p><b>Risks</b></p> 	<p><b>Low sales of pre-approved products</b></p>		
<p><b>Client service</b></p> 	<p><b>Low client satisfaction</b></p>		
<p><b>People</b></p> 	<p><b>High rotation at the branch level</b></p>		
<p><b>Processes</b></p> 	<p><b>50% of time dedicated to non-commercial activities</b></p>		

Implementing a profound transformation in retail banking...

From...

...To

“Many channels”

**Branches** with too many administrative tasks

**Account executive** at the center of client relations

**Centralized processing**

**CRM**

**Multi-channel** with focus in alternative channels and self-service

**Branches** focused on value-added interactions

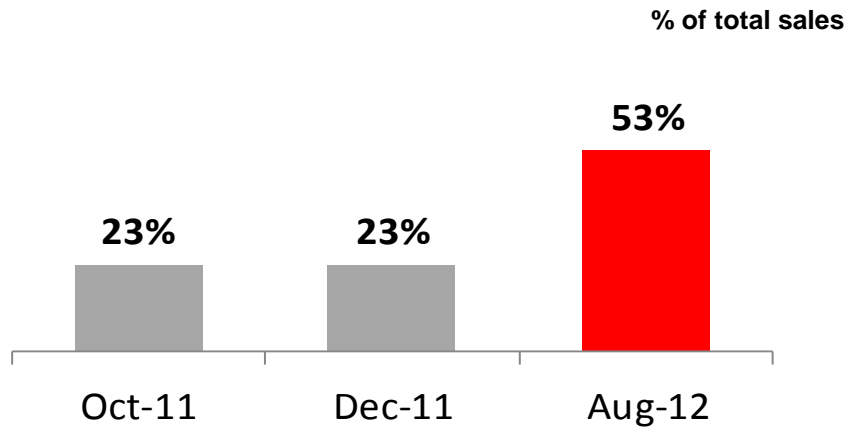
**The Bank** at the center of client relations driven by our new CRM

**Front-end** processes in all channels

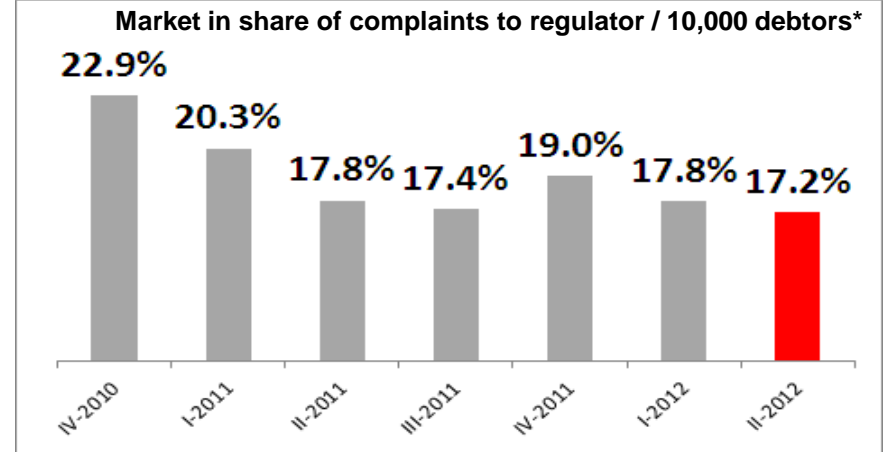


... that is starting to deliver encouraging results

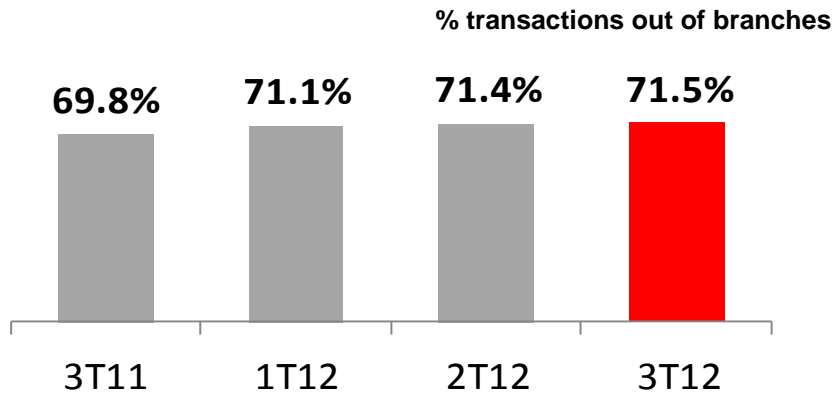
More pre-approved sales...



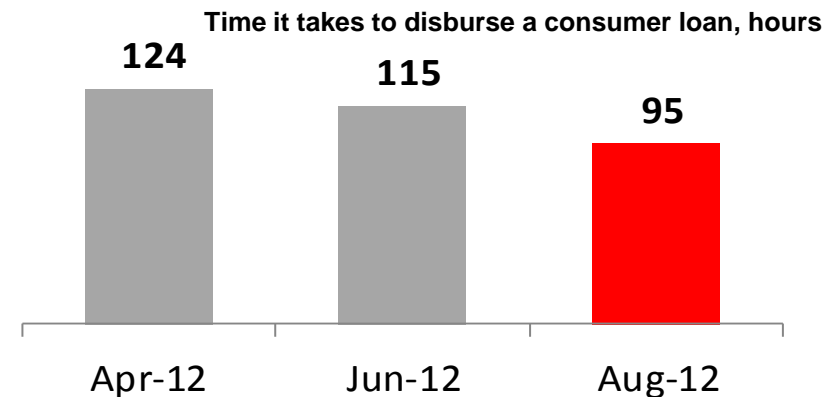
... with better quality of service



A more multi-channel bank...



... with simpler business processes



\* Source: SBIF as of June 2012. Competition = average between bancos de Chile and BCI

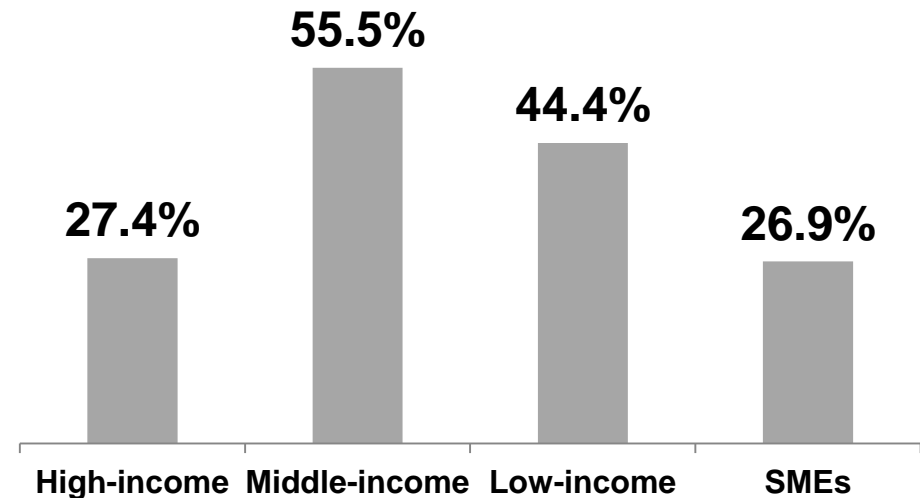
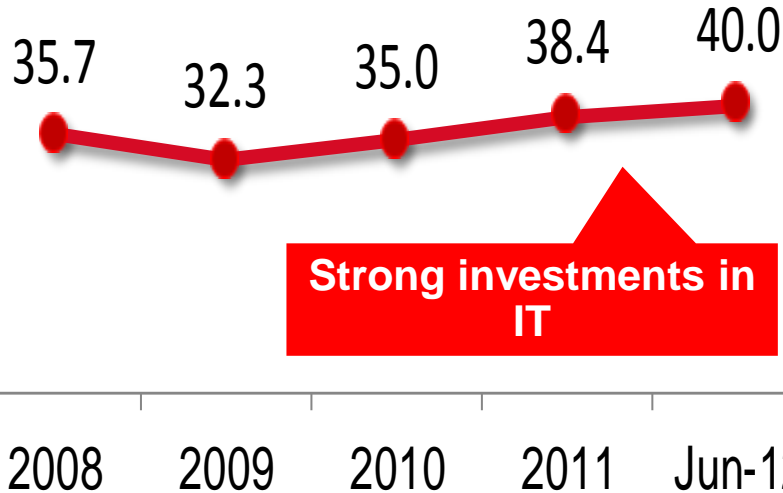
## Improving efficiency through productivity gains

as of Sept. 2012

Efficiency (%)

Improving productivity

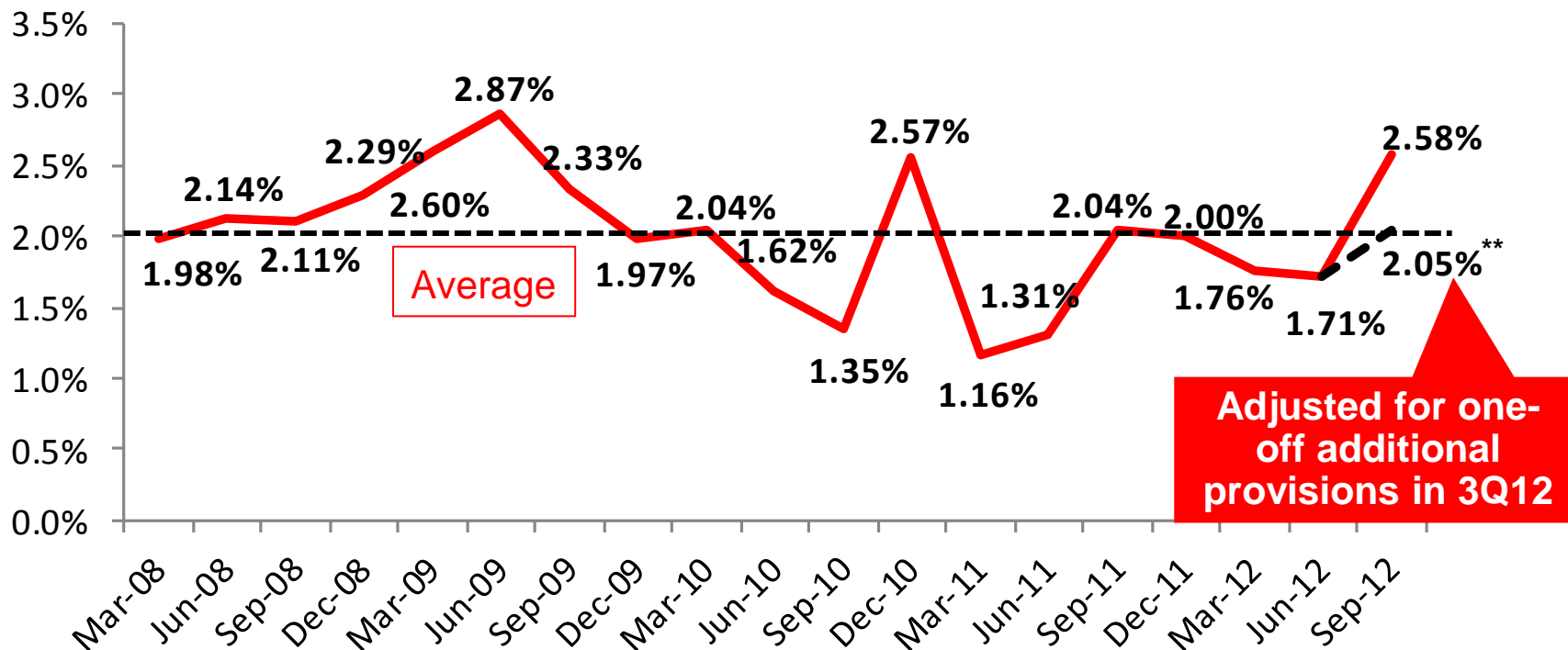
Efficiency ratio by retail segment, 1H 2012, %



Transformation project should lead to greater efficiencies in retail banking

**Cost of credit similar to historical levels**

Cost of credit\*, %

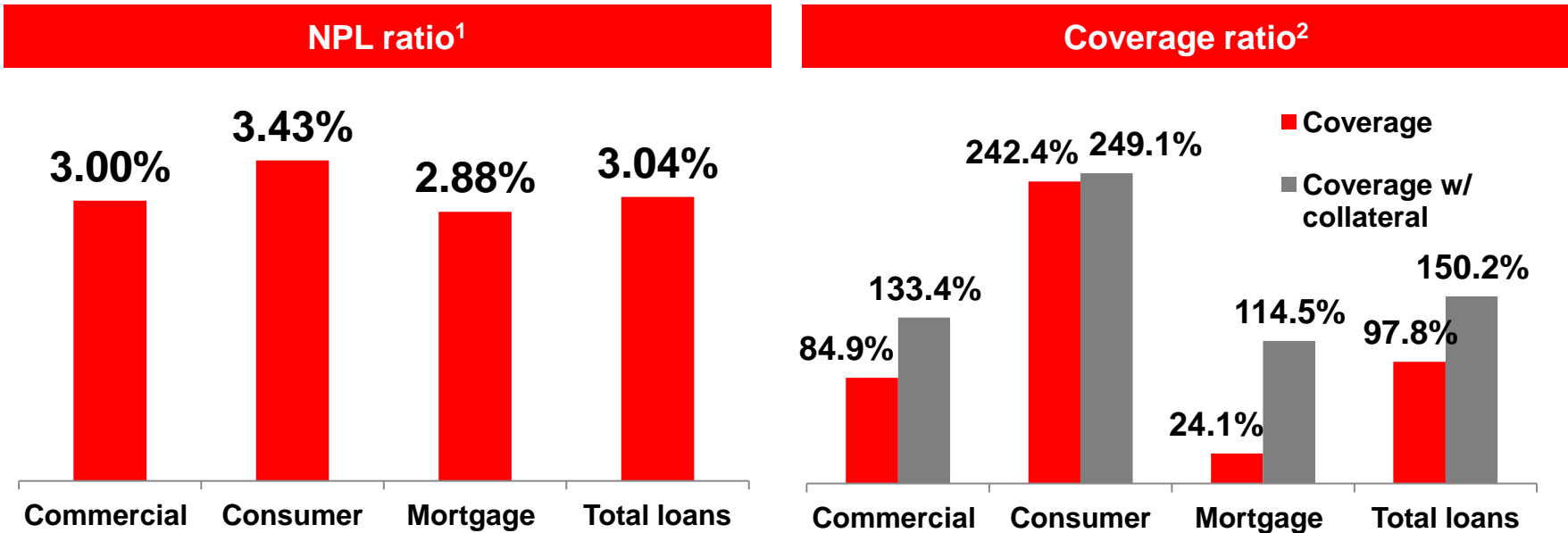


**More robust scoring models implemented in all retail segments**

\* Annualized quarterly provision expense / total loans. \*\* Adjusted for the Ch\$ 24.753 million in extraordinary provisions in 3Q12

## Comfortable coverage levels

NPL ratio and coverage (%) as of Sept. 2012



1. NPL: Non-performing loans, full balance of loans with one installment 90 days or more overdue. 2. Coverage ratio = Loan loss reserves over NPLs. 3. Coverage w/ collateral = loan loss reserves + collateral / NPLs

# Summary





Chile