

# Banco Santander Chile

## *Solid business and client profitability trends*

October 2016

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**

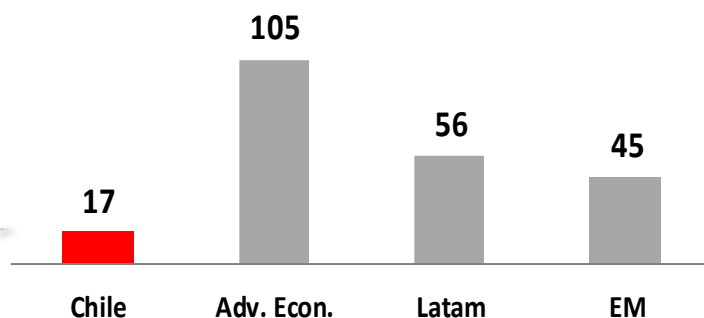
## Chile: a stable and diversified economy

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

Population:	18.0 mm
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

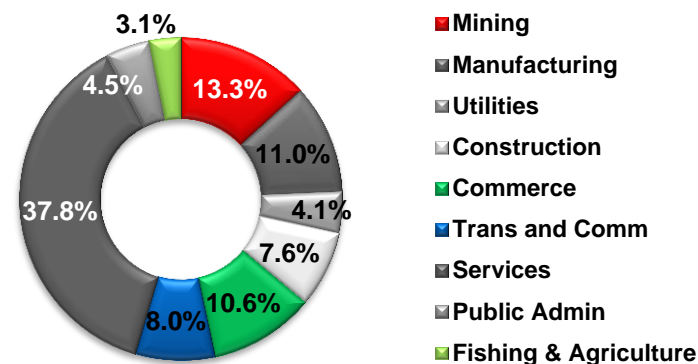
### Low public debt<sup>2</sup>

Gross public debt, % GDP

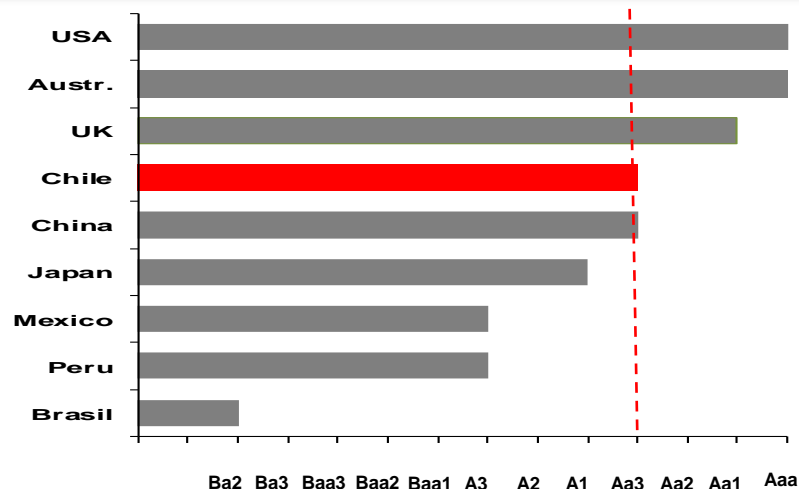


### Chile's economy is well diversified<sup>1</sup>

GDP by economic sector, %



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

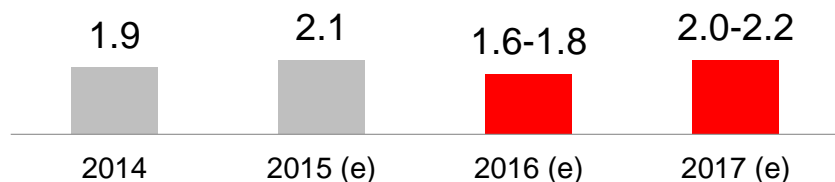


# Macroeconomic environment

## GDP growth expectations stabilize for 2016 and rise for 2017

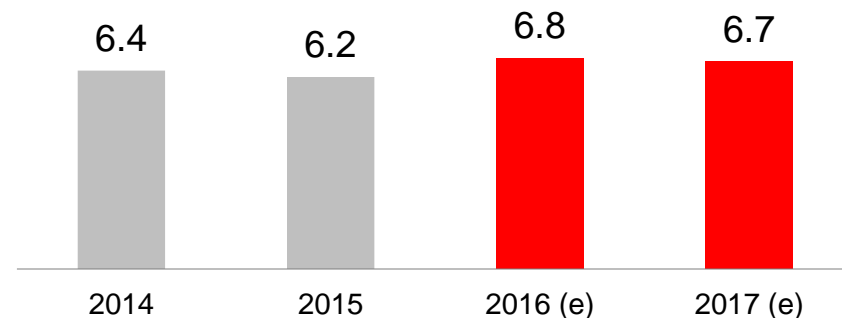
### GDP

YoY real growth, %



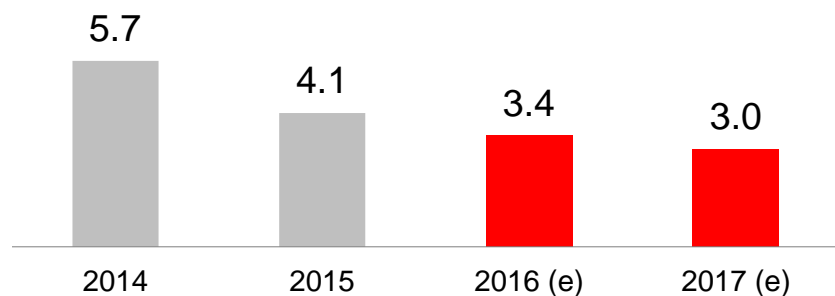
### Unemployment

% of workforce, %



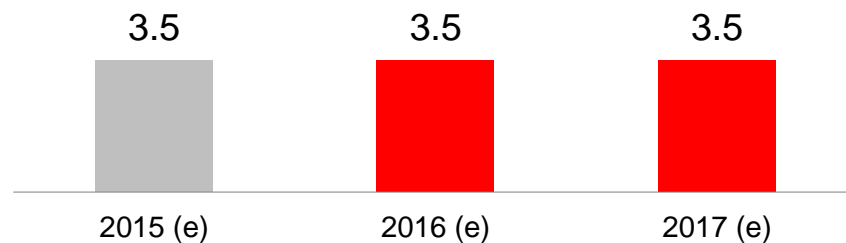
### Inflation

Annual change in UF inflation, %



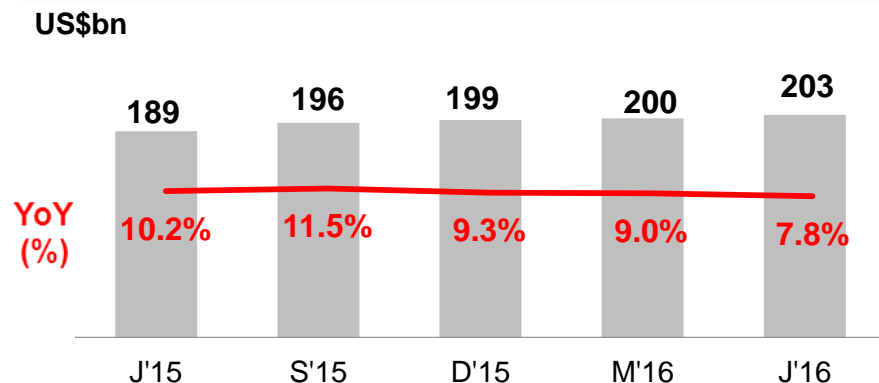
### Central Bank ST Reference Rate

%



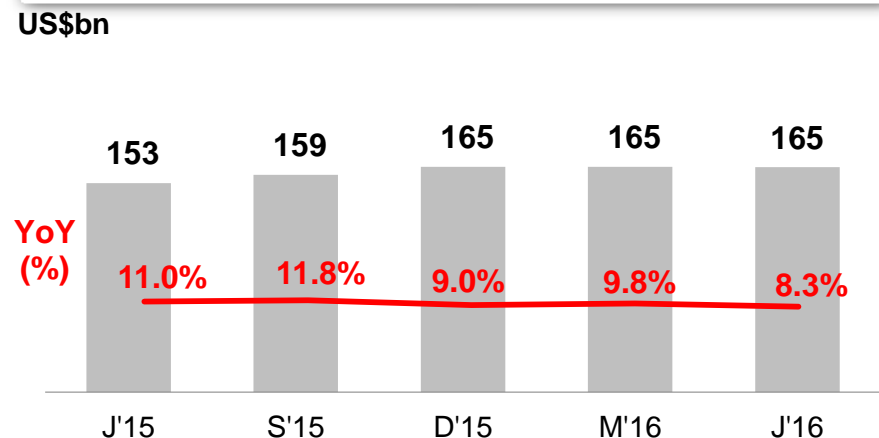
## Bank loans and deposits growing 7-8%...

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



- Positive growth of most non-mining exports boosts commercial loan growth
- Relatively stable employment figures drives loans to individuals
- Mortgage lending adjusting after an extraordinary 2015

### Total Deposits<sup>1,2</sup>

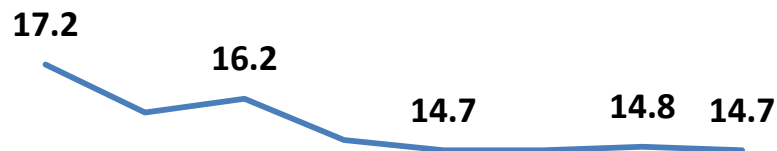


- Positive deposit growth equally driven by time and demand deposits
- High liquidity in the system to fund business growth

# Financial system: risks metrics

... with an improving risk profile

## Household debt servicing ratio (%)<sup>1</sup>



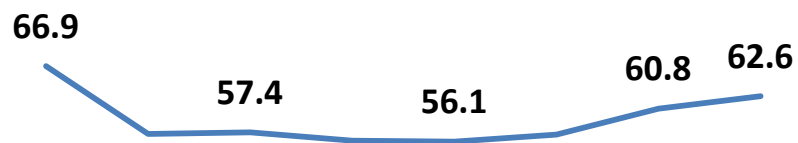
Dec-08 Dec-09 Dec-10 Dec-11 Dec-12 Dec-13 Dec-14 Dec-15

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



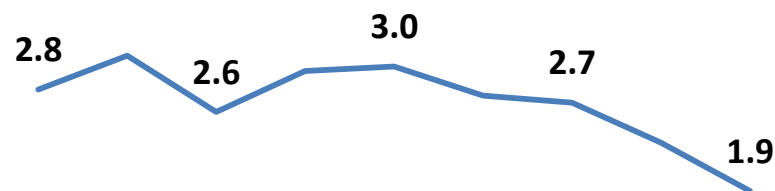
Dec-08 Dec-09 Dec-10 Dec-11 Dec-12 Dec-13 Dec-14 Dec-15 Jun-16

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



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

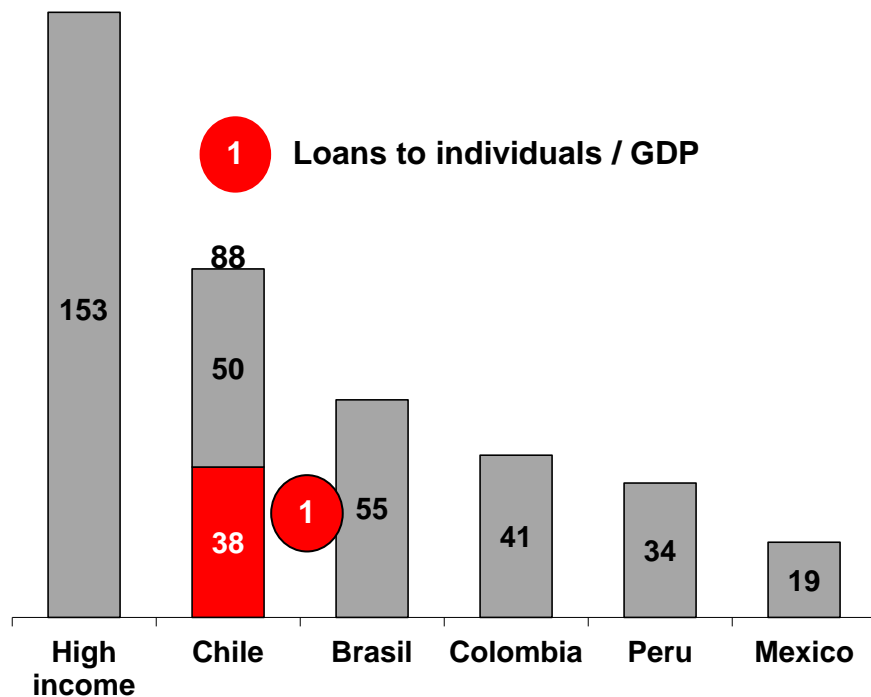
## Mortgage NPL ratio (%)<sup>2</sup>



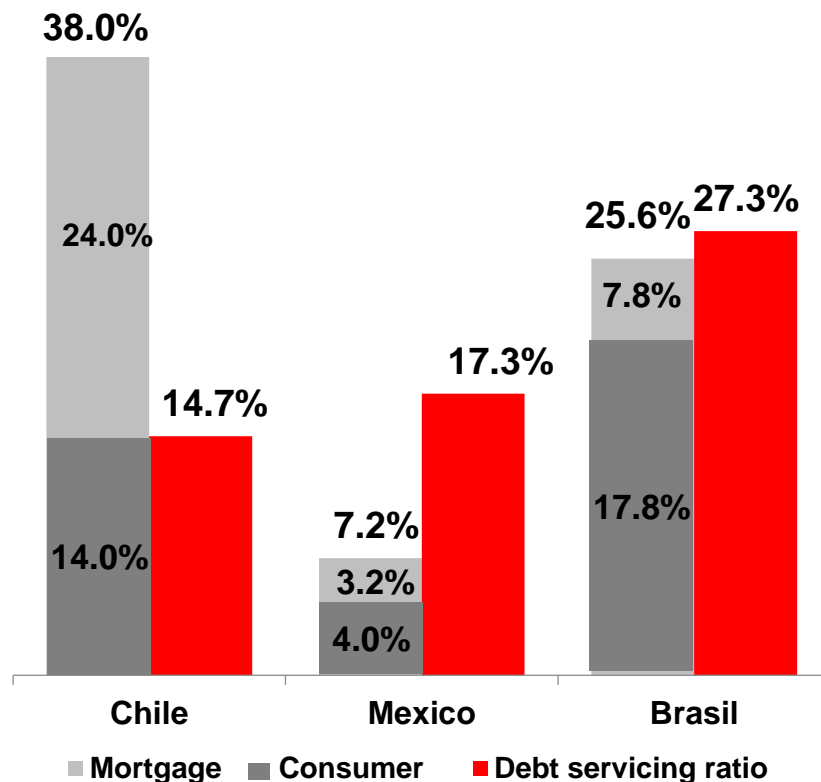
Dec-08 Dec-09 Dec-10 Dec-11 Dec-12 Dec-13 Dec-14 Dec-15 Jun-16

## 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).

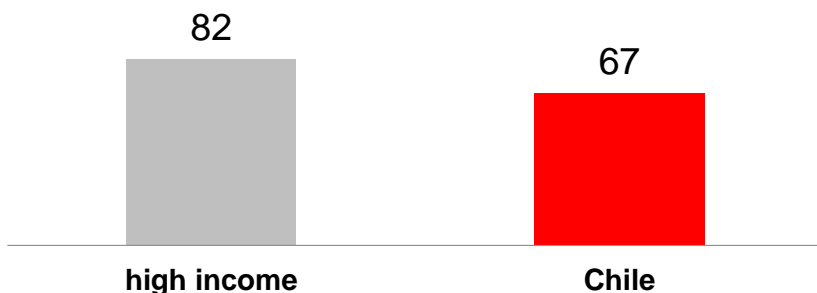
2. Debt servicing ratio, DSR: Total debt payments including amortization and interest / Disposable income. Sources: for Chile: SVS, SBIF and SVS; for Brazil and Mexico: JP Morgan, Scotiabank and Felaban



# Financial system: growth potential

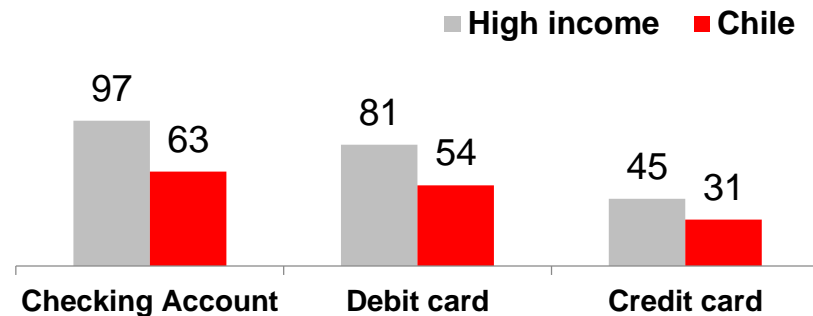
## ... and in other transactional and non-lending products

### Deposits (% GDP)

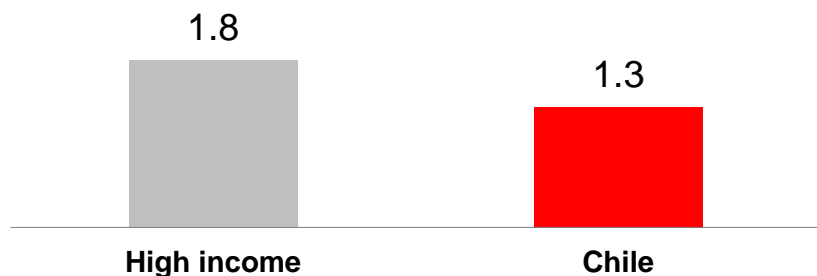


### Transactional product penetration (%)

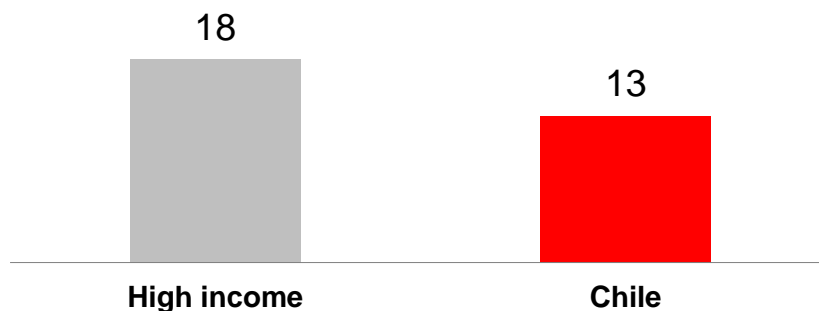
% of pop. > 15 yrs. having product



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

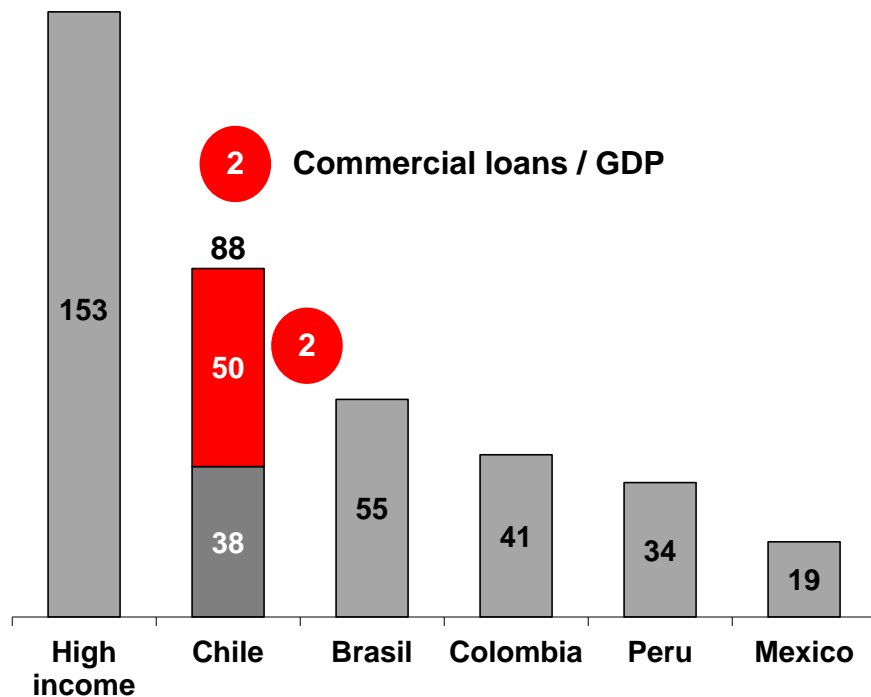


### Mutual funds (% GDP)

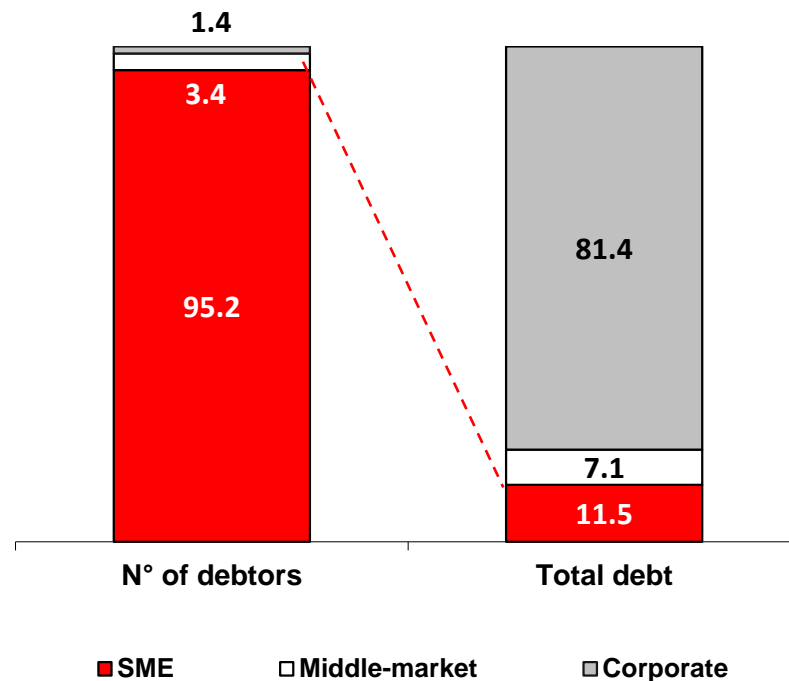


## High growth potential in Middle-market and SME customers...

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

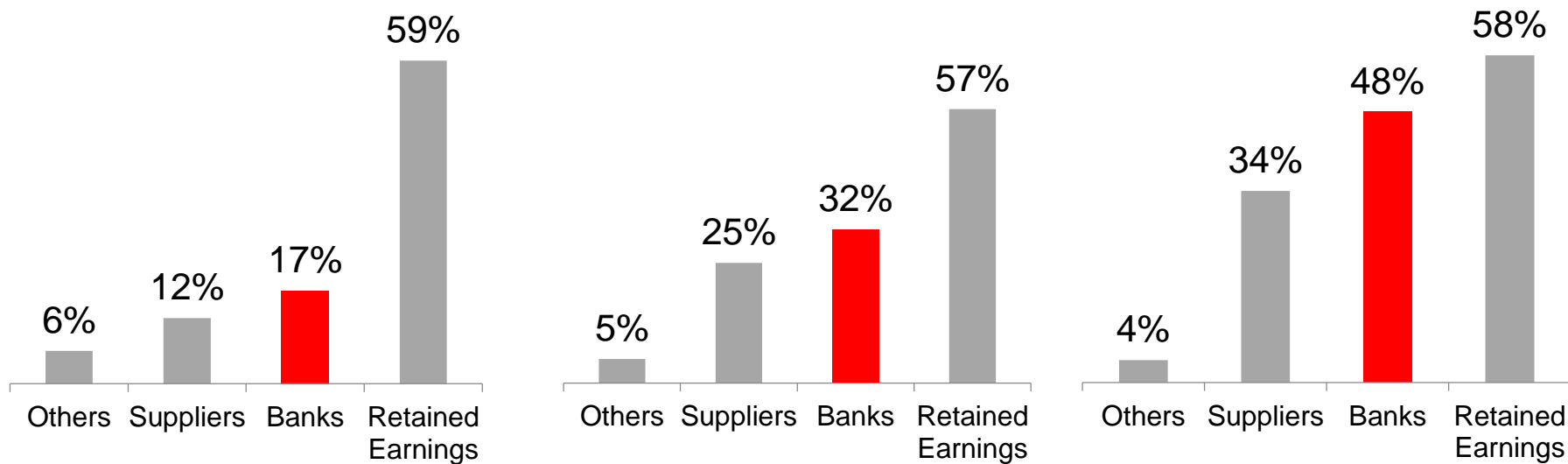
... as non-bank sources of financing are still widely used

### 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

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- **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\$ <b>Business and Results</b>	6M'16	Var. YoY
<b>Gross Loans</b>	39.4bn	8.0%
<b>Deposits</b>	30.5bn	10.3%
<b>Equity</b>	4.1bn	4.8%
<b>Net income</b>	365mn	2.5%

<b>Network and Customers</b>	6M'16	Mkt. share <sup>1</sup>
<b>Clients</b>	3.6 mn.	22.1% <sup>2</sup>
<b>Branches</b>	469	20.0%
<b>ATMs</b>	1,484	19.3%

	<b>Market Share<sup>1</sup></b>	<b>Rank</b>
<b>Loans</b>	19.5%	1
<b>Deposits</b>	19.0%	1
<b>Checking accounts</b>	22.1%	1
<b>Bank credit cards<sup>3</sup></b>	22.9%	1

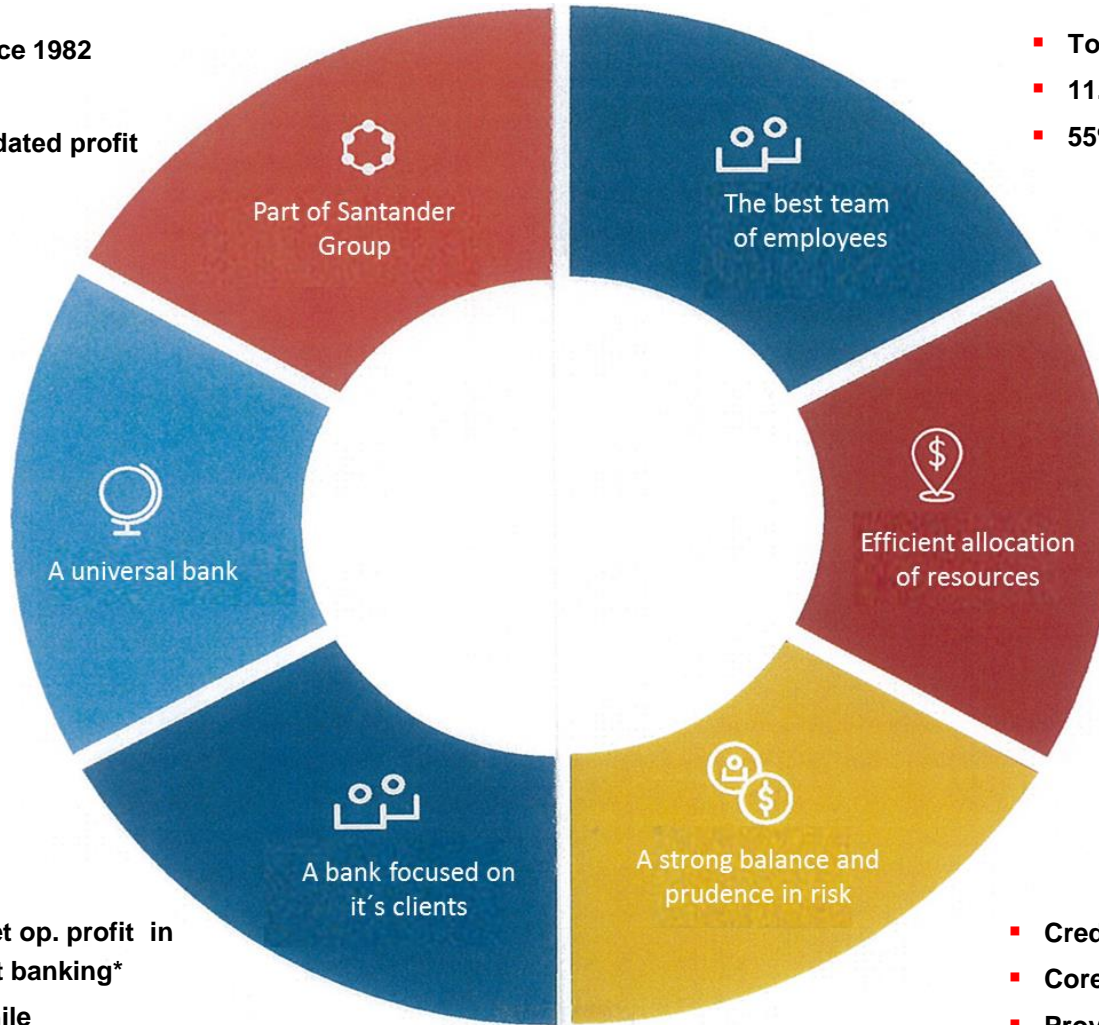
# Our Franchise

## ... with a solid business model

- Part of Santander since 1982
- 3.7% of Group assets
- 11% Group's consolidated profit

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

- 90% 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\*\*
- 11.800 employees
- 55% women

- Simple organization
- Cost / Income: 42.7 %
- Cost / Assets: 1.9%

- Credit rating: Aa3
- Core Capital BIS I: 10.1%\*\*\*
- Provisions / NPLs: 141%

## 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

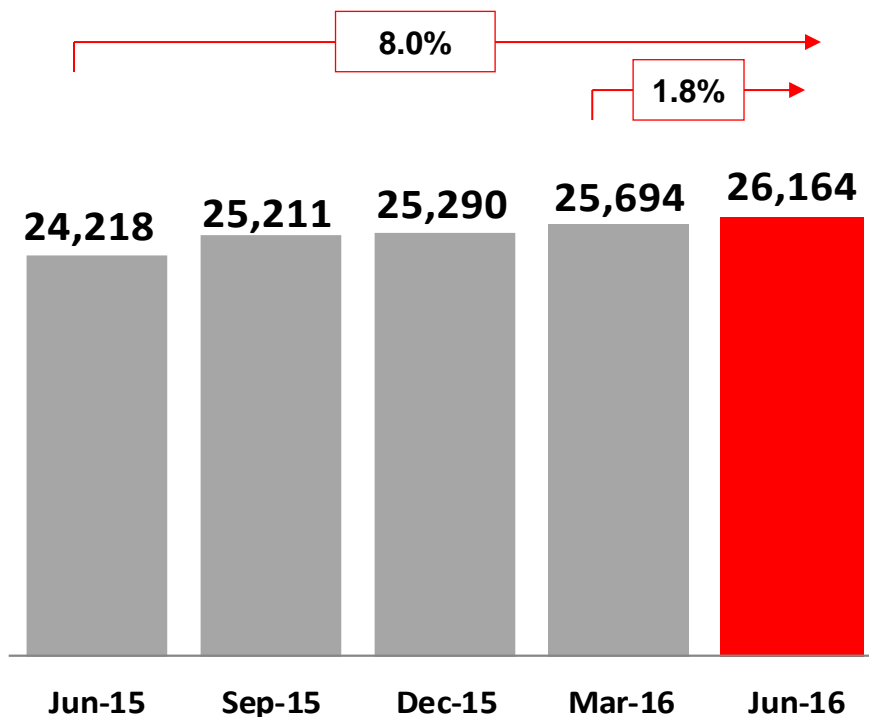


Strategy: I. Growth focused on segments with highest contribution, net of risk

**Total loans up 8.0% YoY in 2Q16, with Retail loans expanding 12.7%**

### Total Loans

Ch\$bn



Ch\$bn

	1H'16	YoY (%)	QoQ(%)
<b>Individuals<sup>1</sup></b>	<b>14,257</b>	<b>13.1</b>	<b>2.6</b>
Consumer	4,239	6.1	2.4
Mortgages	8,322	16.5	2.7
<b>SMEs</b>	<b>3,688</b>	<b>11.0</b>	<b>2.7</b>
<b>Retail</b>	<b>17,945</b>	<b>12.7</b>	<b>2.6</b>
<b>Middle Market</b>	<b>5,723</b>	<b>2.0</b>	<b>1.1</b>
<b>Corporate</b>	<b>2,224</b>	<b>-1.1</b>	<b>6.8</b>
<b>Total<sup>2</sup></b>	<b>26,164</b>	<b>8.0</b>	<b>1.8</b>

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

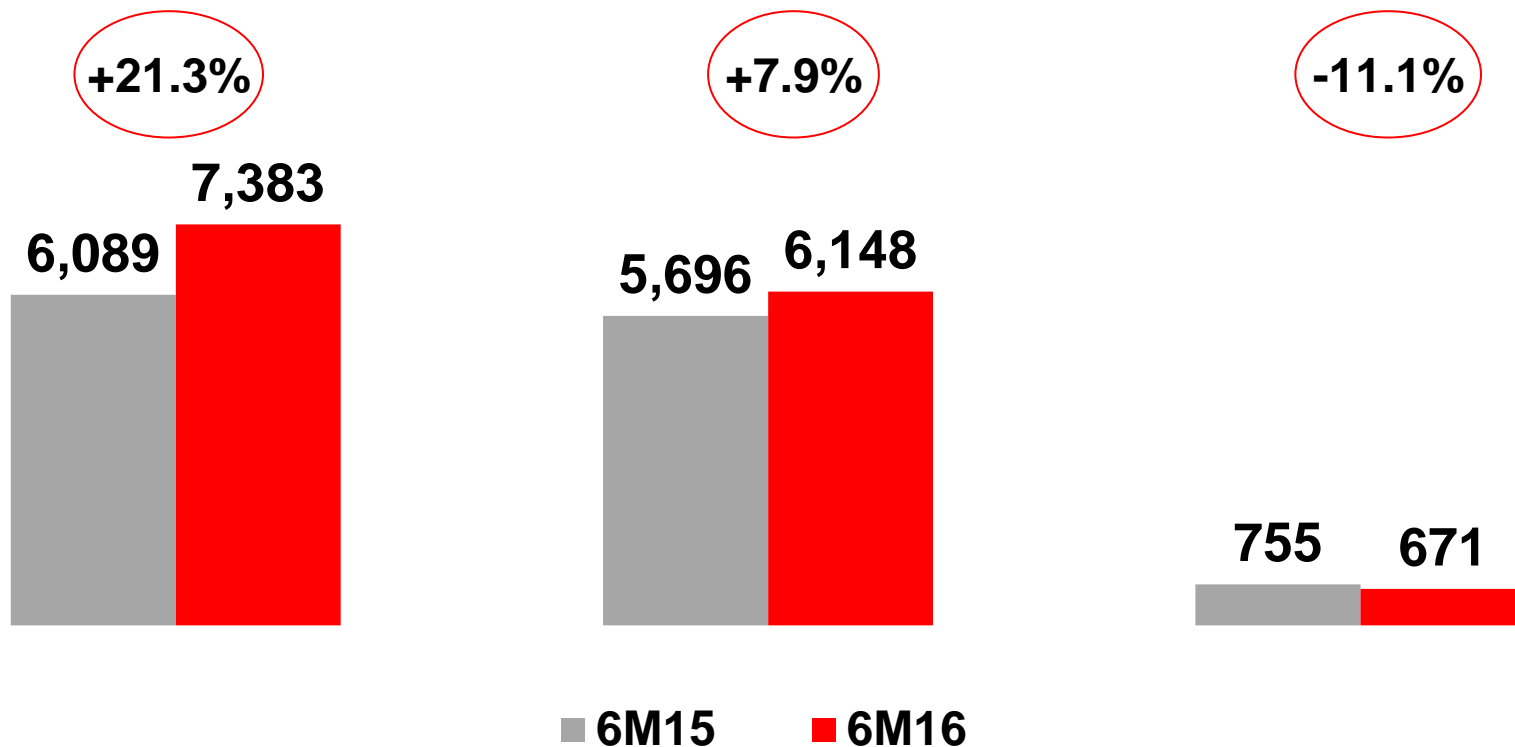
## Growth focused in segments with higher risk-adjusted profitability

High Income

Middle Income

Low Income

Total loans by segment in Individual<sup>1</sup>, Ch\$bn. YoY growth, %

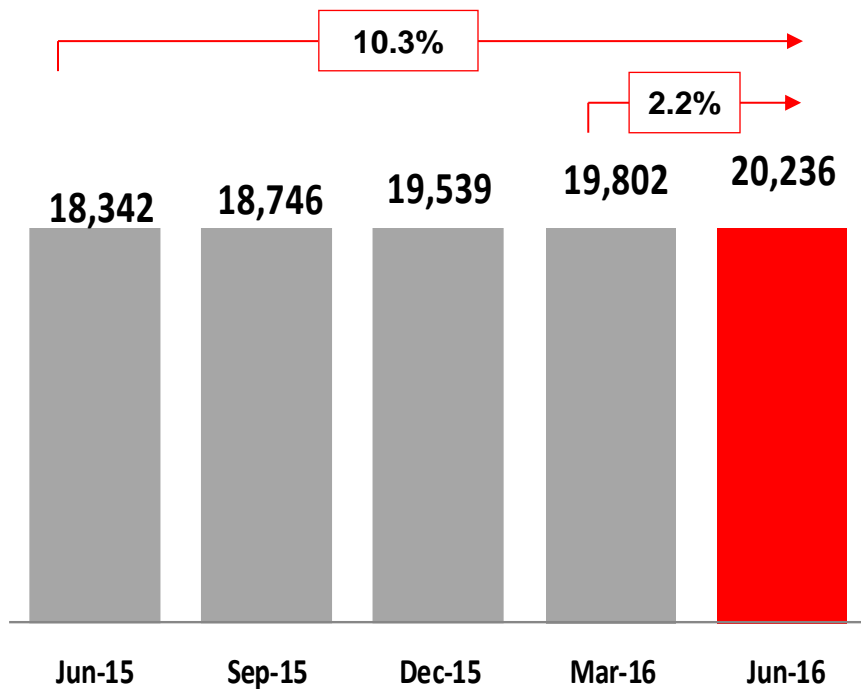


Strategy: I. Growth focused on segments with highest contribution, net of risk

## Total deposits increased 10.3% YoY in 2Q16

### Total Deposits

Ch\$bn



Ch\$bn

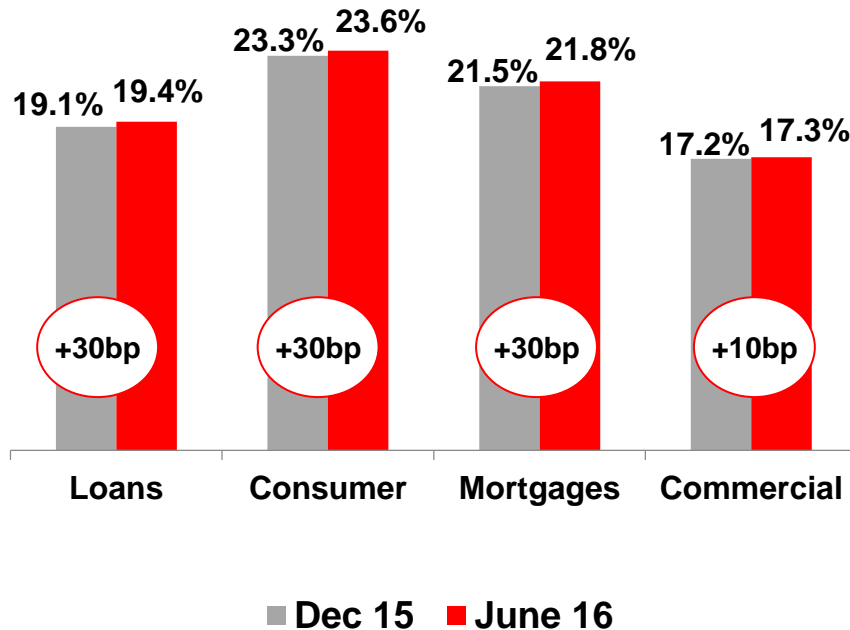
	1H'16	YoY(%)	QoQ(%)
Demand	7,238	8.7	2.2
Time	12,998	11.3	2.2
<b>Total deposits</b>	<b>20,236</b>	<b>10.3</b>	<b>2.2</b>

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

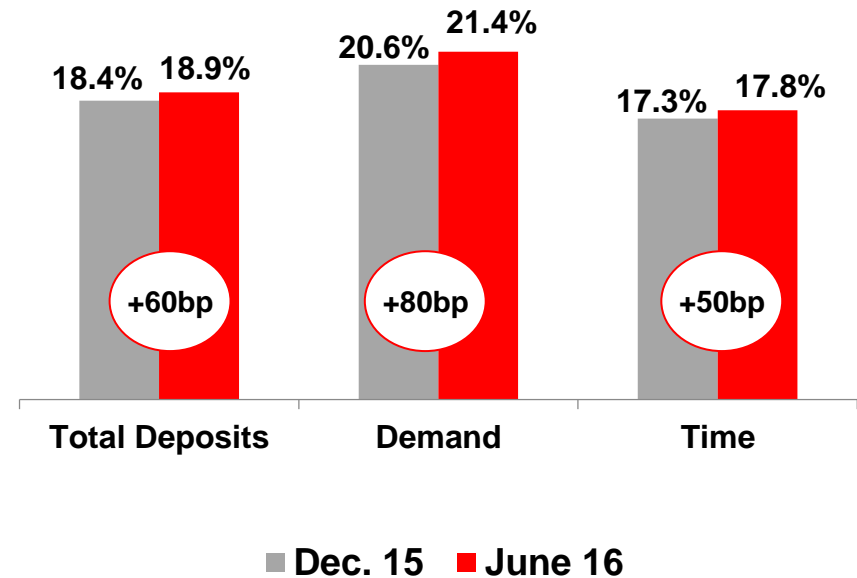
## Santander Chile is gaining market share across the board in 2016...

Banco Santander Chile's market share

### Total loans



### Total deposits

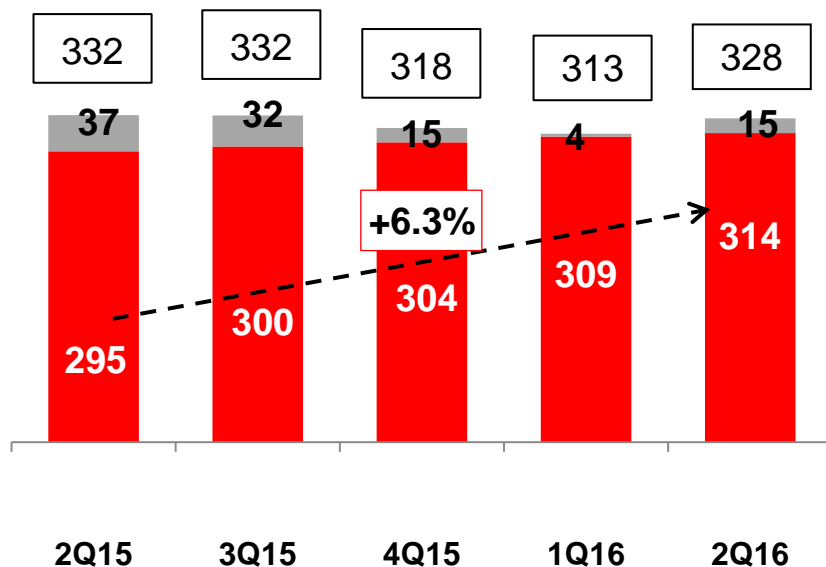


Strategy: I. Growth focused on segments with highest contribution, net of risk

... allowing for a Client NII growth of 6.3% YoY

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

Ch\$bn



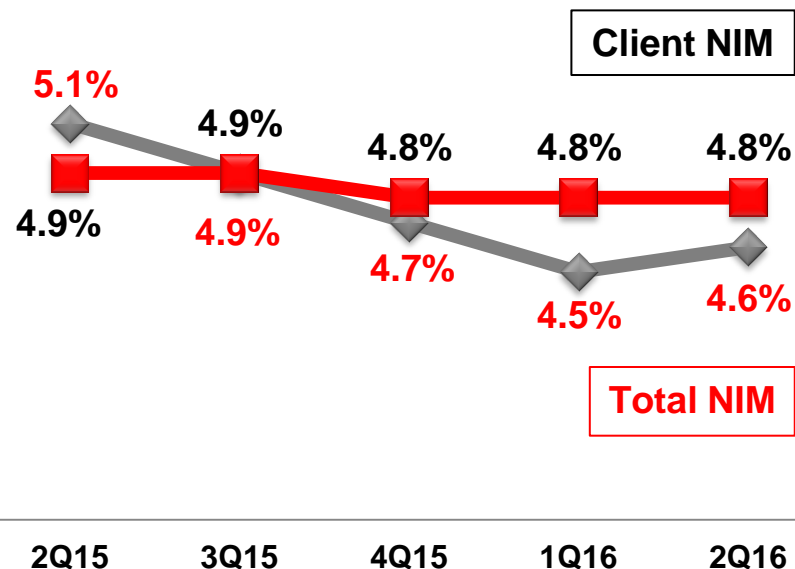
Total ■ Client NII ■ Non-client NII

### Inflation UF

1.5% 1.5% 1.1% 0.7% 0.9%

### NIM & Client NIM

Net Interest Margin (NIM), %



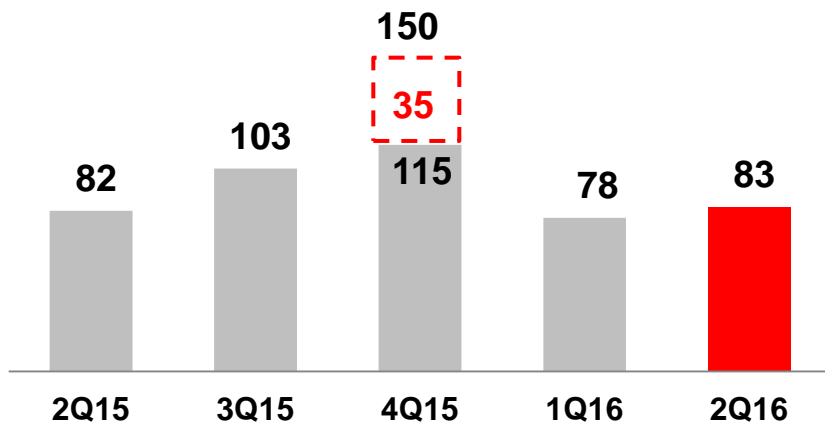
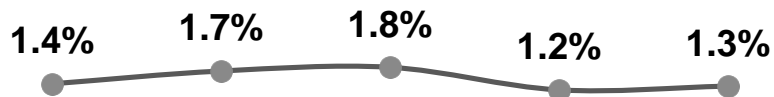
Total NII down 1% YoY in 2Q16 due to lower quarterly inflation

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

## Improved asset quality metrics...

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

Ch\$bn

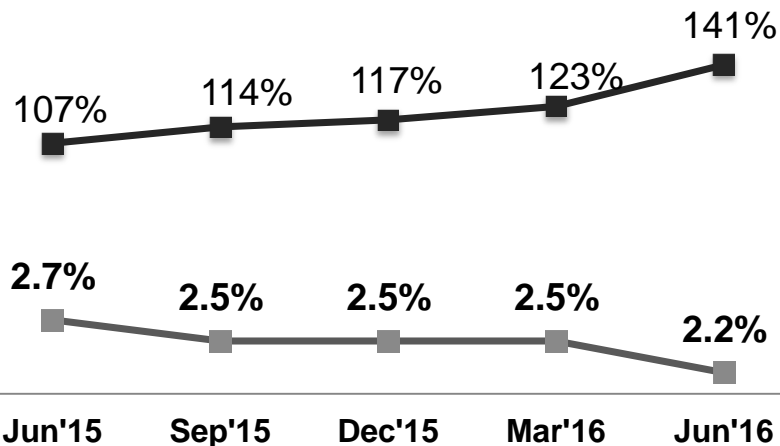


■ Ch\$bn      ● Cost of credit (%)

▭ One time Provision expense

### NPL and coverage ratio

% of loans



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

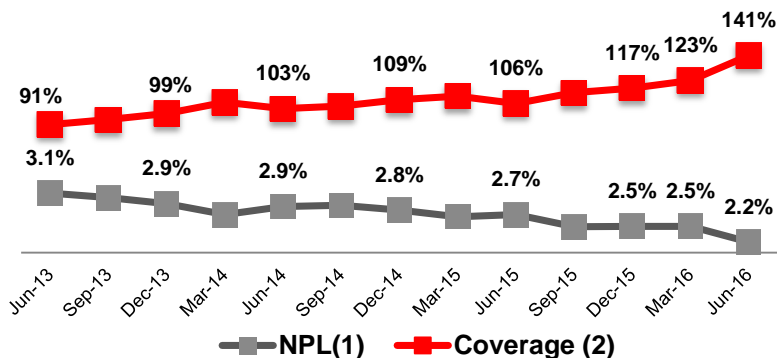
**New asset mix / credit models allow for a better risk-return relationship**

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

... in most products

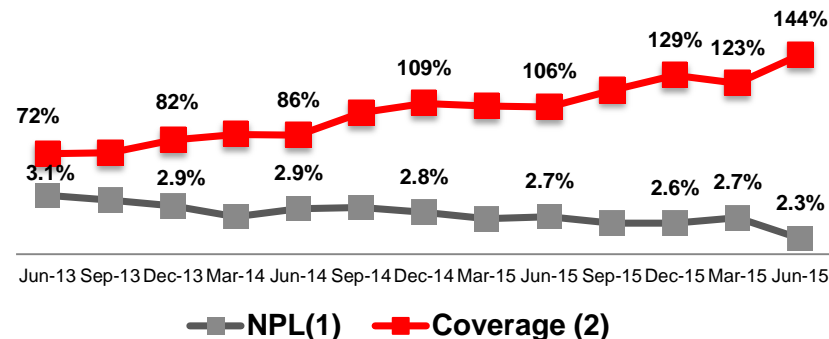
## Total loans

% of loans



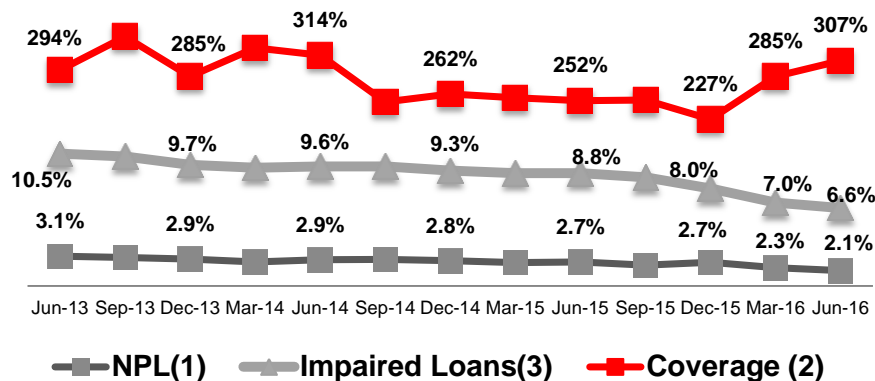
## Commercial loans

% of loans



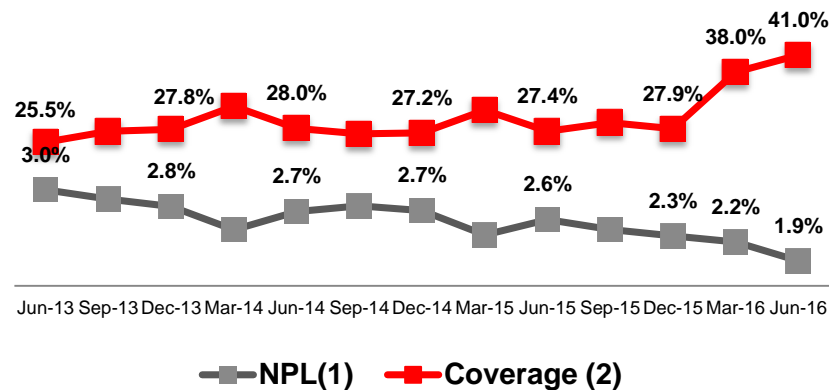
## Consumer loans

% of loans



## Mortgage loans

% of loans



## 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**

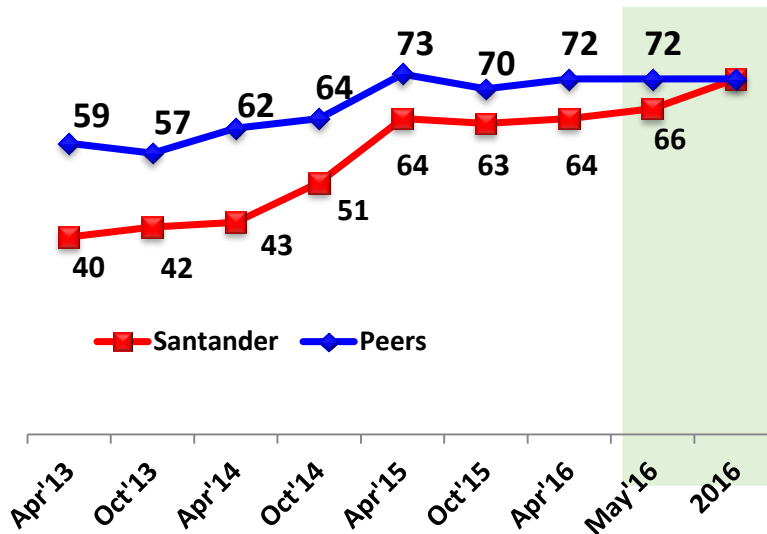


## Strategy: II. Increasing client loyalty

# Improving customer satisfaction and service...

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

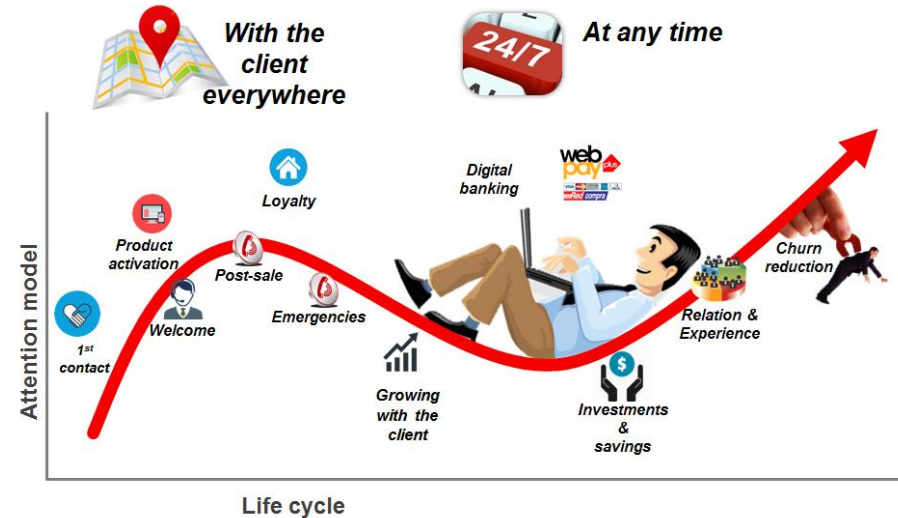
% of net satisfied clients



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

- Continuous investing / improving CRM
- Full indoctrination in new SPF<sup>2</sup> culture

### Customer Journeys



**Customer Journey: map out and define in detail how we will relate and treat our customer in every step of their journey with us**

## Strategy: II. Increasing client loyalty

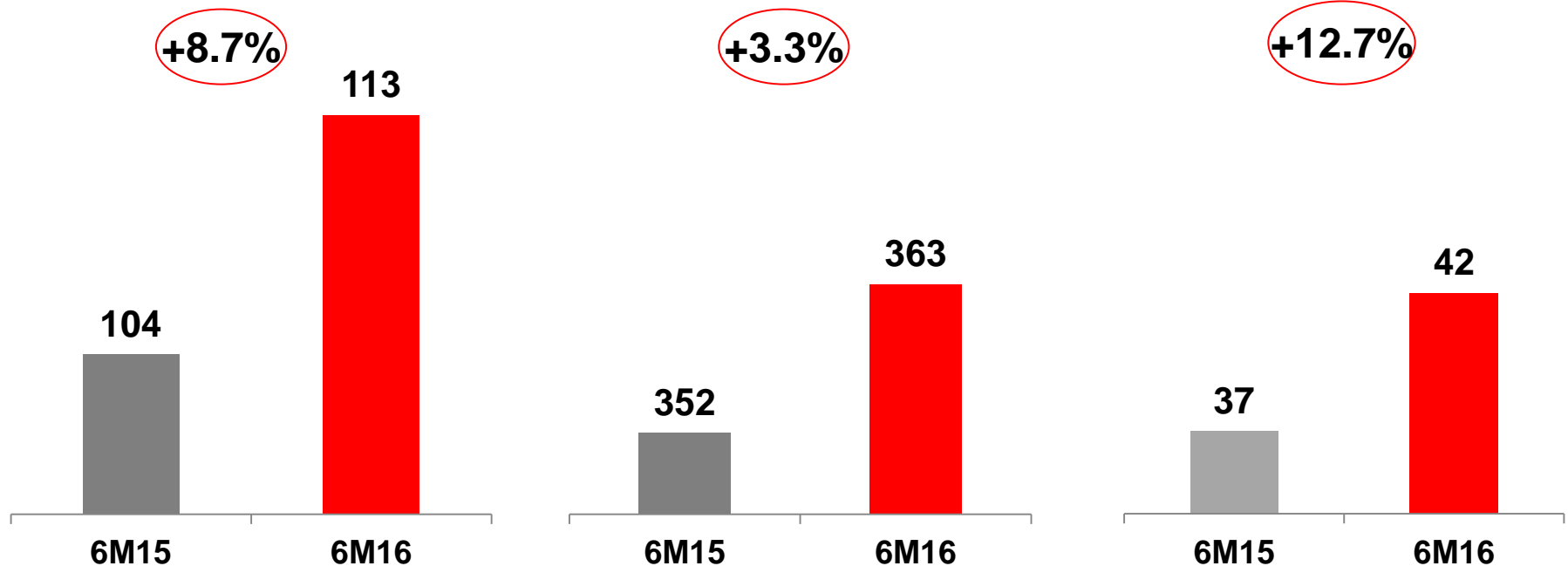
... is driving customer loyalty in targeted segments

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

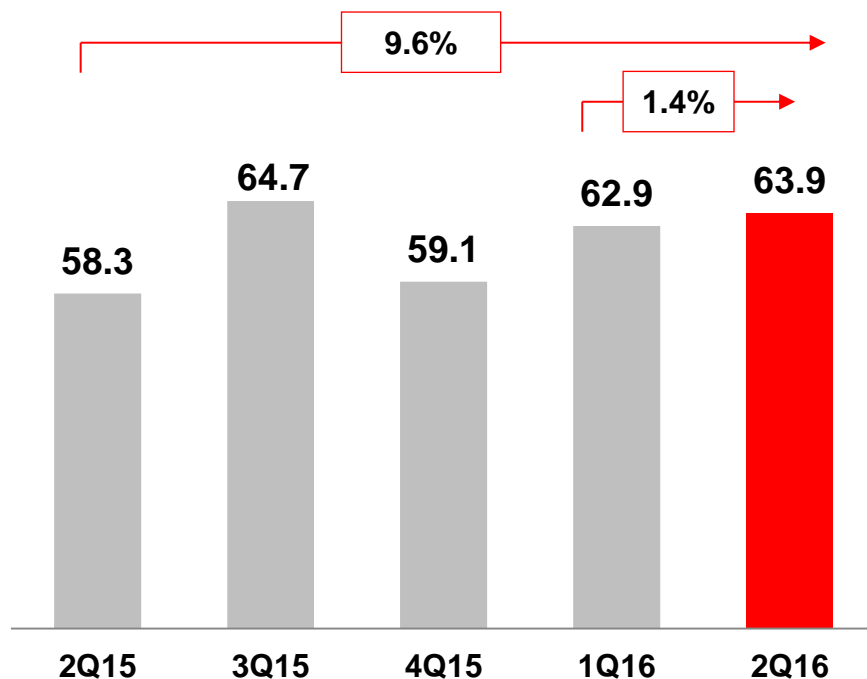


## Strategy: II. Increasing client loyalty

... leading to a 9.6% fee income growth in 2Q16

### Net fee income

Ch\$bn



### Fee income from business segments

Ch\$bn

	2Q'16	YoY (%)	QoQ(%)
Retail	50.2	5.6	2.4
Middle Market	7.8	17.2	0.7
Corporate	6.0	101.2	-9.2
<b>Subtotal</b>	<b>64.0</b>	<b>11.9</b>	<b>1.0</b>
Others	-0.1		--%
<b>Total fees</b>	<b>63.9</b>	<b>9.6</b>	<b>1.4</b>

### 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 **omnichannel** approach with **multi-segment business centers**
- Leading the system in **digital banking**
- This transformation should lead to greater **productivity and efficiency**

Redesigning our distribution network...

Trx intensive  
branch  
2013



Branch  
model 1.0  
2014-2016



Business Center / Digital  
2016-2019



HIGHER  
EFFICIENCY



MORE  
PRODUCTIVITY



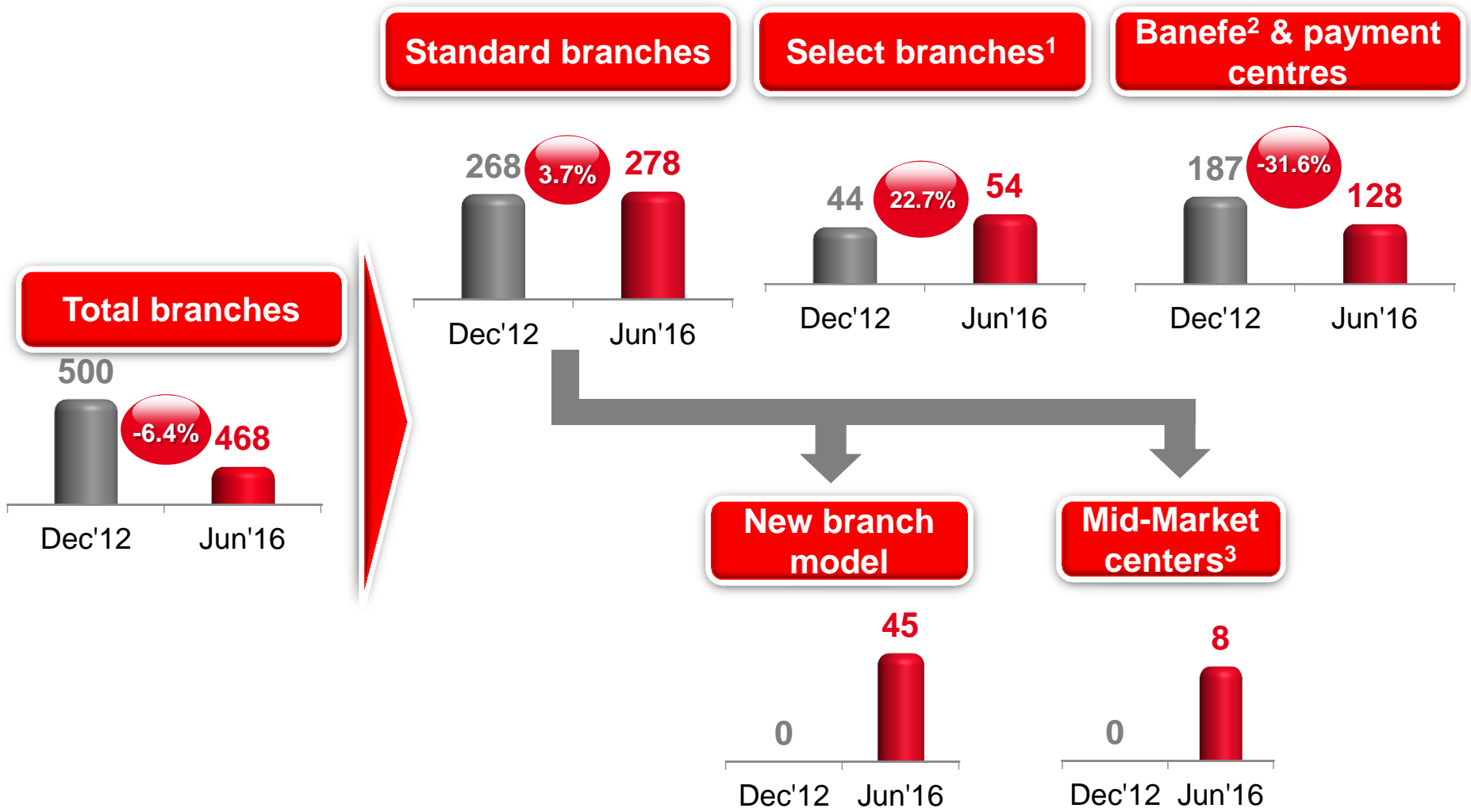
BEST IN CLASS  
EXPERIENCE



COMFORT  
#1 MOBILE

# Strategy III: Digital transformation

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



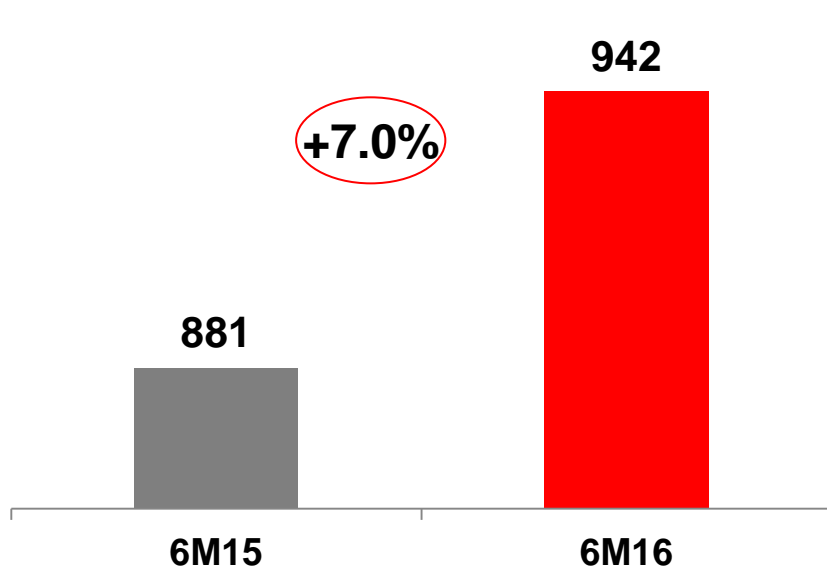
1. Select: branches targeting on the affluent customers. 2. Banefe: branches targeting on the mass consumer market. 3. Middle-market centers in Standard branches

# Strategy III: Digital transformation

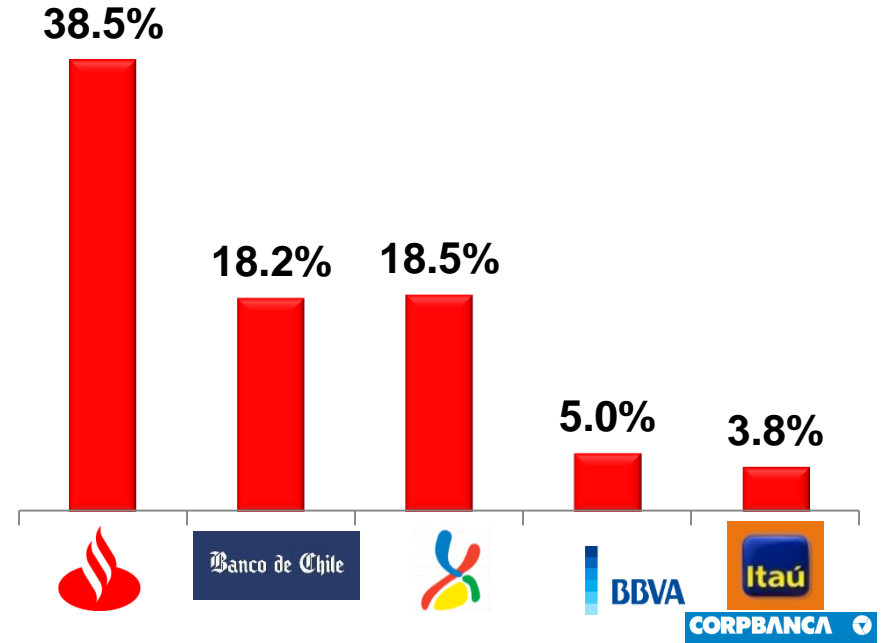
## ... and expanding the use of digital channels

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

Thousand



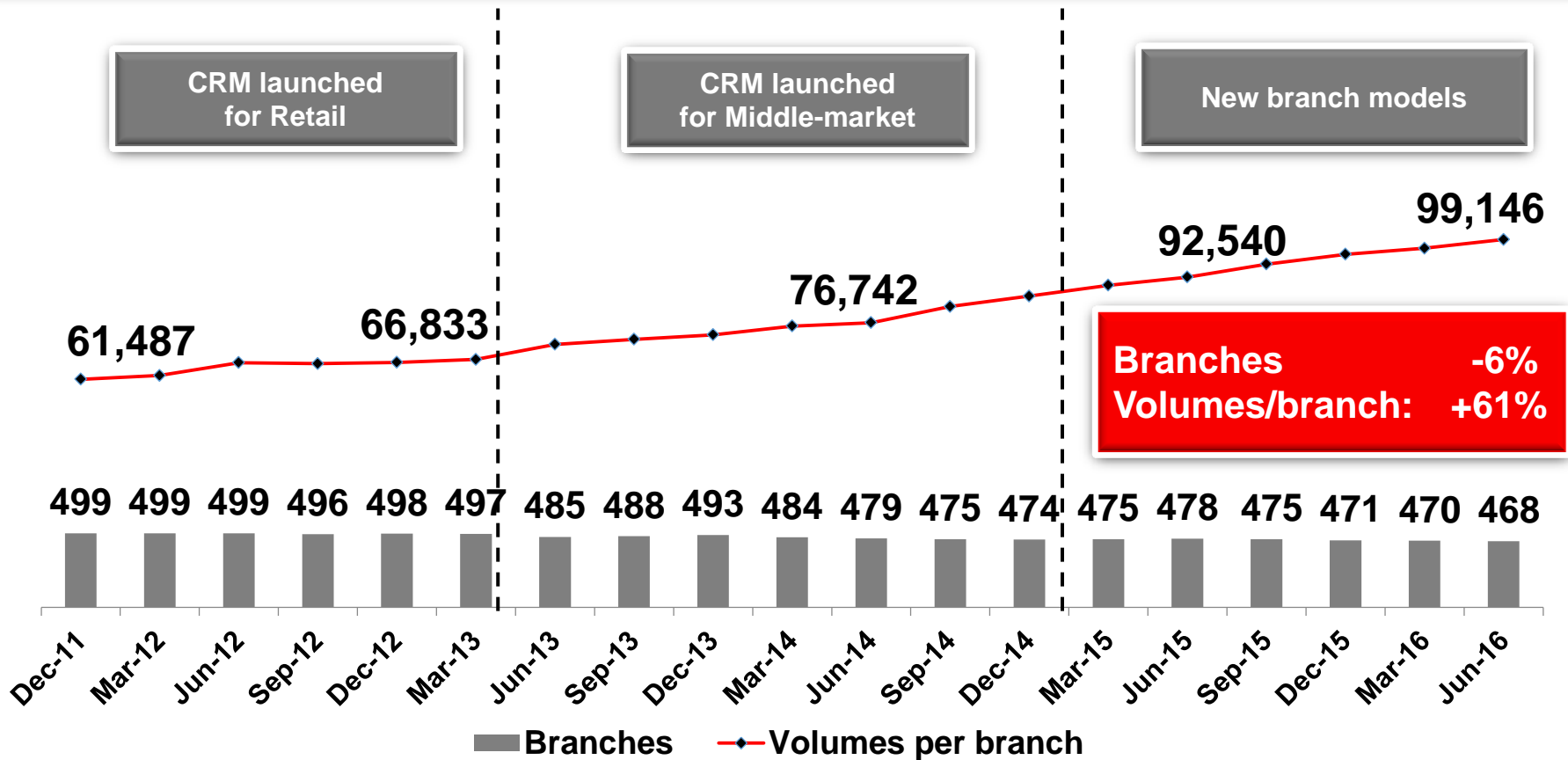
### Internet usage market share<sup>2</sup>



# Strategy III: Digital transformation

## Transformation is starting to boost commercial productivity...

### Business volumes\* per branch



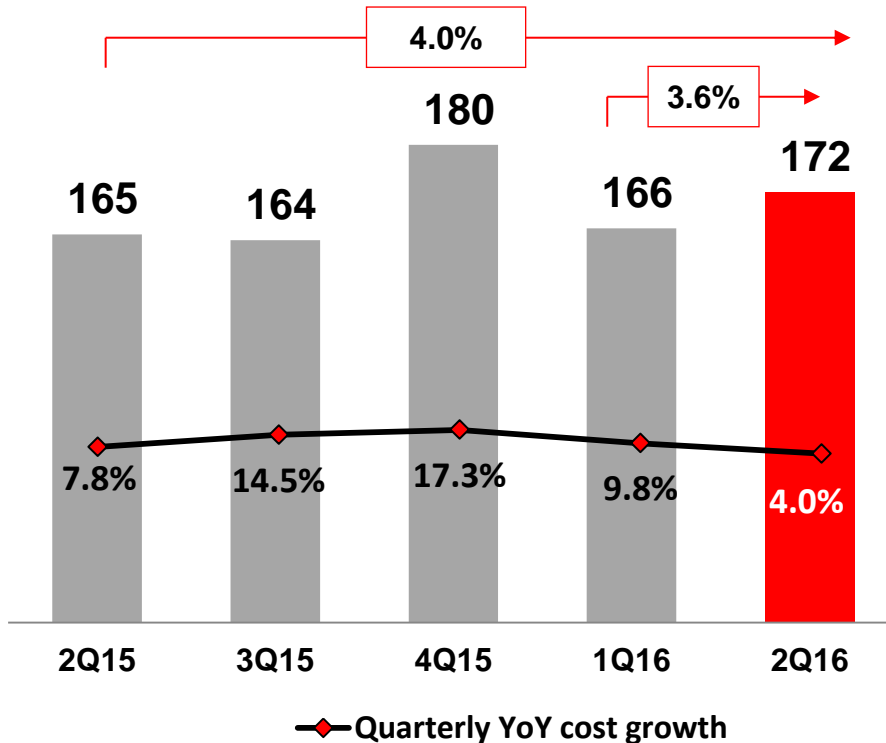


# Strategy III: Digital transformation

... which is lowering cost growth

## Operating expenses

Ch\$bn



	2Q'16	YoY(%)	QoQ(%)
--	-------	--------	--------

Personal exp.	101	5.1	8.9
Adm. exp.	55	-2.7	-6.3
Depreciation	16	25.3	10.4
<b>Op. expenses</b>	<b>172</b>	<b>4.0</b>	<b>3.6</b>
Efficiency Ratio <sup>1</sup>	43.8%	+350bps	+220bps
Cost / Assets	1.9%	-10 bps	0bps

Boosting operational excellence: lowest cost growth in last 7 quarters

### 4 objectives for healthy growth / higher profitability

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

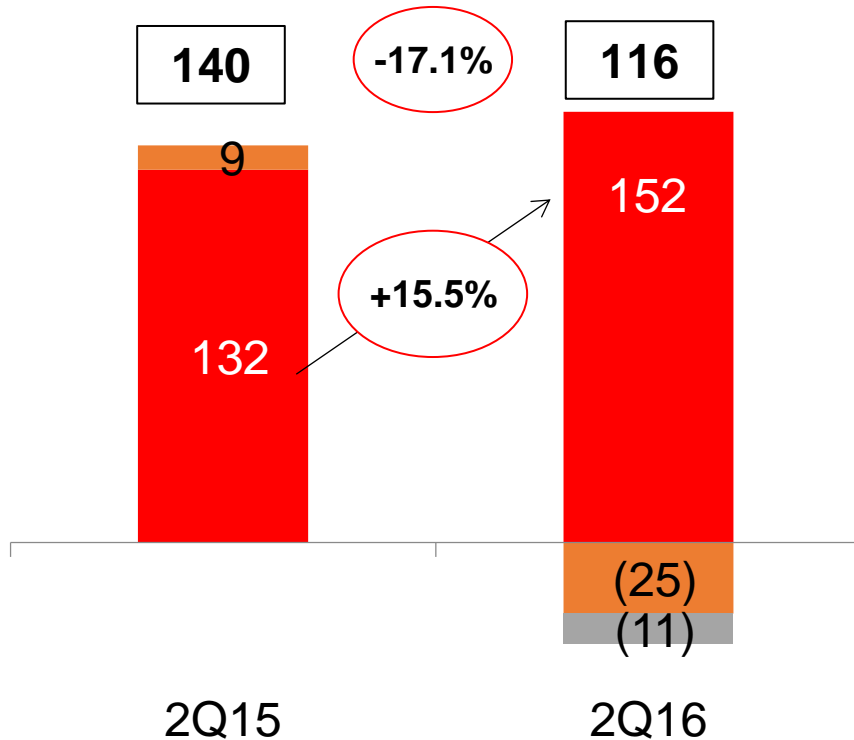


- **ROE** 17-18% in 6M15 & &M16, in line with guidance
- Strong **Core capital** ratios to support further growth
- Dividend paid in 2Q16 represented **dividend yield of 5.6%**
- Maximizing the **spread between ROE and COE\***

## Strategy: IV. Optimizing profitability and capital

### 2Q16 in a snapshot: stronger Client contribution driving profitability

Net income, Ch\$bn

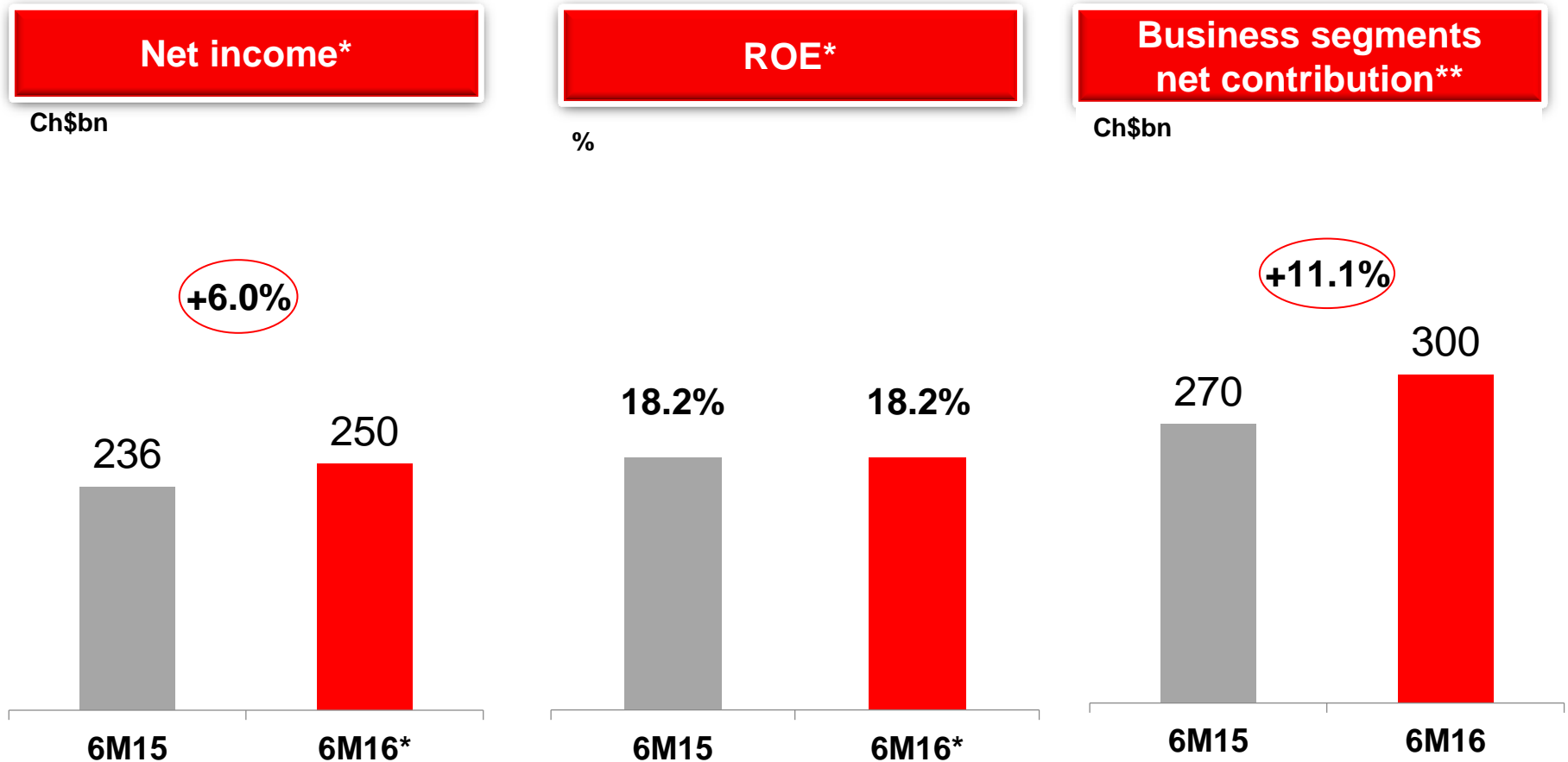


- Business segments net contribution\*
- Non-client income\*\*
- One-time severance charge

**Non-client income negatively affected by lower inflation / Ch\$11bn one-time charge**

## Strategy: IV. Optimizing profitability and capital

**In 6M16: ROE in line with guidance and driven by client activities**

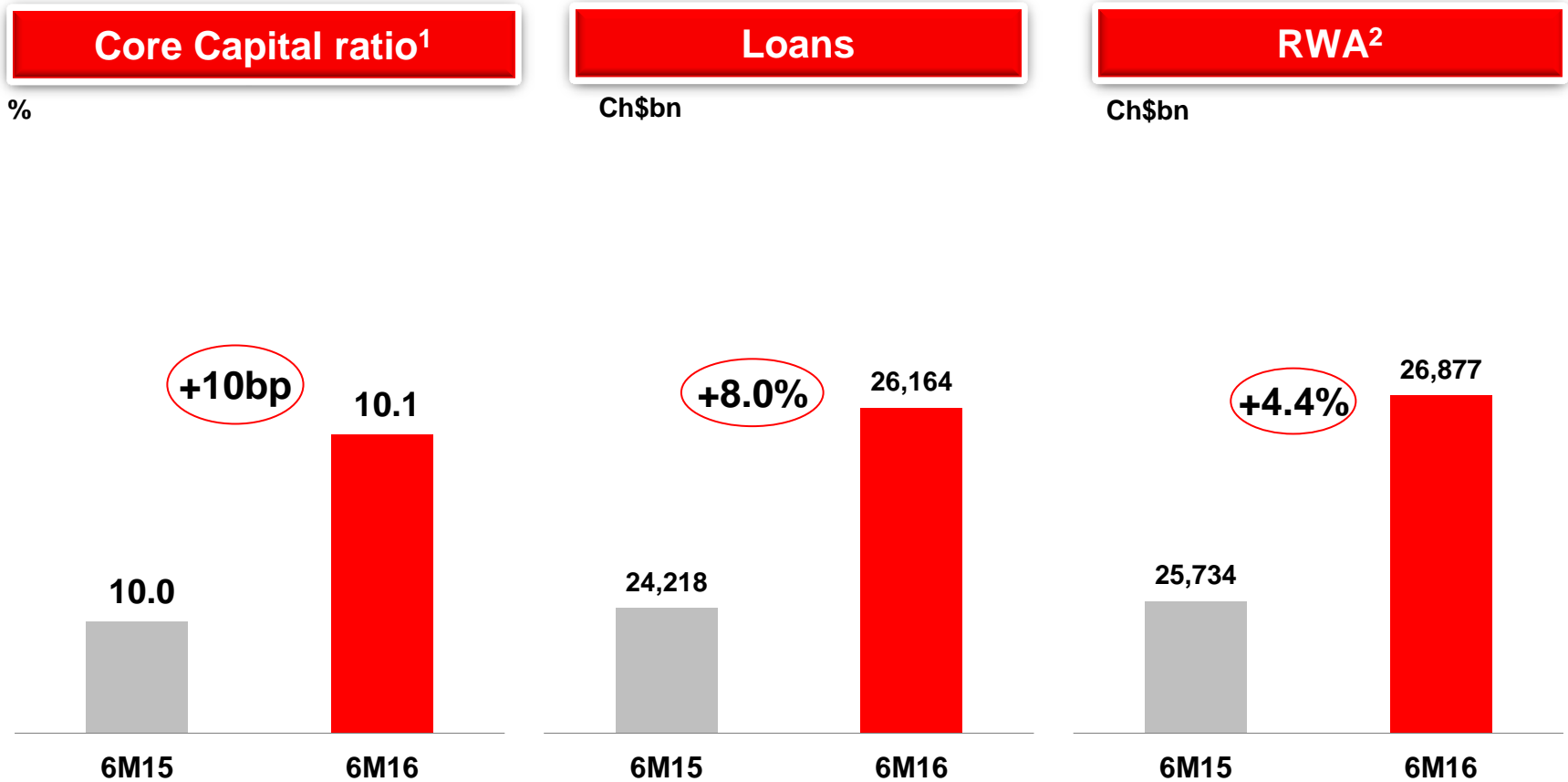


**Our strategy allows us to succeed in the current macro environment while setting the foundations for long-term growth**

\* 6M16 excludes one-time severance expense of Ch\$10,789 million booked in 2Q16. \*\* Net interest income + Net fee and commission income + Financial transactions, net - Provision expense – Operating expenses from our reporting segments. These results exclude our Corporate Center and the results from Financial Management, which includes, among other items, the impact of the inflation on results

## Strategy: IV. Optimizing profitability and capital

### Solid capital levels for further growth



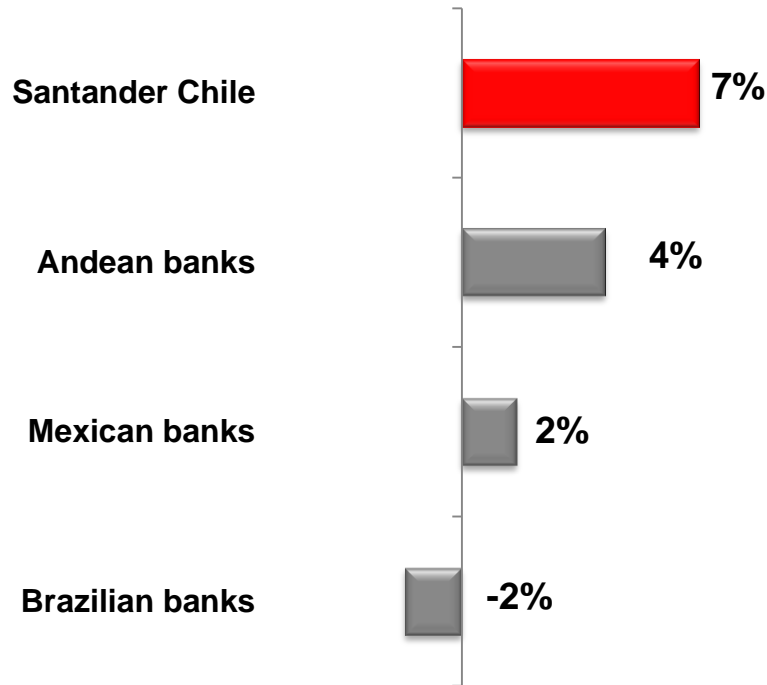
Given our high RWA density<sup>3</sup>, RWA should grow less than loans in shift to BIS III

## Strategy: IV. Optimizing profitability and capital

### Our strategy is maximizing ROE vs COE and TSR<sup>1</sup>

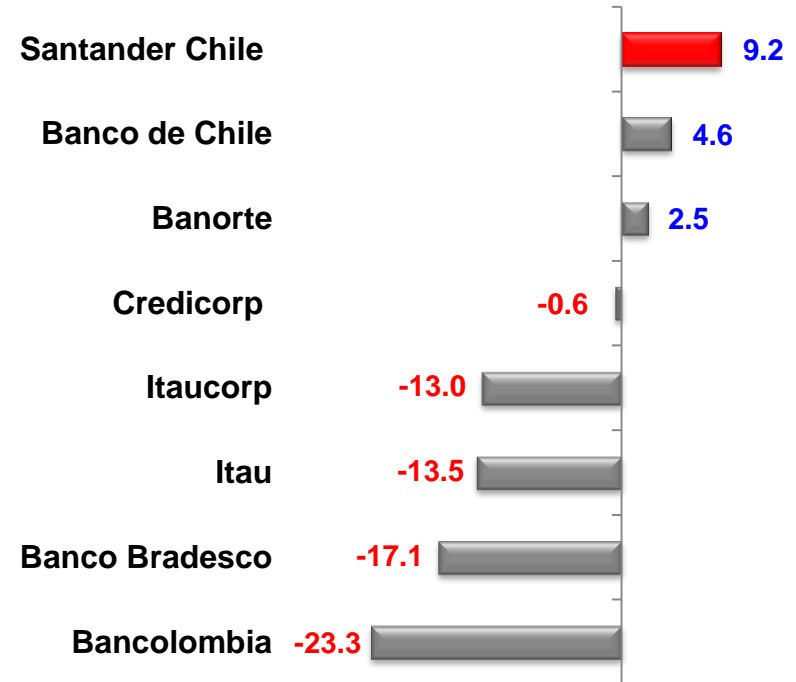
#### ROE vs COE

ROE 16e minus COE, %<sup>2</sup>



#### Total shareholder return

TSR including dividend, 12/31/14 - 6/30/16, %\*



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**
- **Banks with 7-8% growth in loans and deposits and stable risk levels**
- **BSAC: stronger Client contribution driving profitability in 2Q16, in line with strategy**
  - **Gaining market share in most products. Loan growth up 8.0% YoY, especially in segments with higher profitability, net of risk. Deposits increase 10.3% YoY**
  - **Stronger Client revenues: Client NII grew 6.3% YoY, with stable Client NIMs. Fee income expands 9.6% due to higher customer loyalty**
  - **Improved asset quality: coverage rises to 141% / NPLs down to 2.2% / cost of credit: 1.3%**
  - **Cost growth under control: up 4% YoY. Branch optimization plans underway**
  - **Business segment contribution up 11.1% YoY**
  - **ROE reached 17.1% in 2Q16 (18.3% adjusted for one time severance expense)**
- **For the rest of 2016 & 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**

