

Interview with Mr. Juan Carlos Chomali, Banco Santander Uruguay

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IN FOCUS (IF): How would you describe Uruguay's socioeconomic situation?

Juan Carlos Chomali (JCC): Uruguay is a country that has achieved a healthy balance between the wealthy and the less wealthy sectors. It is a country where the social equality is greater and that definitely allows more space for doing business, because there is a large middle-class with the power to consume. In general, most of the people on a low socioeconomic level enjoy free education and healthcare systems. Uruguay is also a country that combines the characteristics of transparency, solidity and respect for the rule of law, which makes it an example in the region.



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Uruguay may have relatively few inhabitants, but it has strong agriculture, livestock and forestry sectors, and good geographical characteristics that give it an advantage in the energy and tourism sectors. Uruguay is a country with great power and capacity, with the need to generate revenues, and it has labor flexibility that allows it to be more aggressive in its developments. When you do not have labor flexibility, costs are higher so you have to demand higher returns on your investment to offset the risk.

IF: Last year the Central Bank's Financial Stability Committee said the local banking system can afford to take external shocks against the international crisis. Why is there a healthy banking sector in Uruguay?

JCC: First, we have a banking sector that has already experienced a crisis situation and that counts for a lot. Secondly, the banking sector is required by the Central Bank and the Superintendence of Banks to have capital requirements at European level. It is heavily involved with the concepts of Basel, and very advanced. There is a capital requirement for credit risk and for an exchange rate risk. Since December 2011, we have capital requirements for systemic risk and this covers the custodies made in international currencies.

This means that highly capitalized banks have been built. In our case, Santander is a bank with a capital of \$450 million, which is a lot of money for a country like Uruguay. That gives us solidity because you cannot withdraw the capital without the permission of the Central Bank. In addition, and unlike neighboring countries, there is a disadvantage that actually turns out to be an advantage. Credits in Uruguay represent only 20% of the GDP, unlike countries such as Chile which represents more than 50% of the GDP. Savings represent 48% of GDP. That means we have a liquid financial system that is capable of withstanding a crisis. After the 2002 financial crisis, the average Uruguayan became a pro-saving consumer; he does not fall into the game of retail or pro-consumer, so he borrows comparatively little. Because of this, we are a country that displays a healthy credit risk and has savings to cover that credit, which are two key factors.

To summarize, Uruguayan banks are very liquid because they receive lots of deposits but they only lend a short percentage, which gives them cash flow and the resilience to face a crisis. The Uruguayan banking system suffered a lot in 2002, but today, it is comprised of a concentration of six or seven banks and is very strong.

IF: How do you see the banking sector in 5 years' time?

JCC: It's in good shape. At the moment, we have a business sector that is keen to get involved. We never stop receiving proposals for new business projects. Uruguay is a country that is growing at a rate of 4% and it has a fiscal deficit of 2% which is manageable. However, is a small country, dollarized, with an 8% inflation rate, which raises a yellow light in terms of competitiveness, given that much of the income received by the bank is from foreign trade and always exposed to what may happen globally. We should therefore be cautious.

IF: How can Uruguay act as a financial hub for the region?

JCC: We need to distinguish between the two different business aspects: one is the possibility of lending money to other countries within the region and the other is selling financial services. By regulation of Uruguay's Central Bank, the possible lending amount is linked to assets, and even though Banco Santander has huge scope on a local scale, to finance a project of some other country in the region there are the Banco Santander branches in those countries. The other side is the selling of financial services, investment consulting, deposits for non-residents, added value services—we have room to grow in those areas.

IF: Banco Santander Uruguay is backed by Grupo Santander in Spain. How involved is the parent company?

JCC: The Group has a business model based on subsidiaries that are autonomous in terms of capital and liquidity, which leaves the management and decisions to a steering committee and a local board. Banco Santander Uruguay is governed by local regulations. In terms of management, we have a constant relationship with headquarters. We have our own hierarchical structure which is called División América (American Division) to which all the Banco Santanders of America must answer in terms of performance and guidelines.

IF: What does the Latin American market represent for Grupo Santander?

JCC: This business model allows for greater diversity and flexibility in its funding sources, capital and profits. Today Latin America accounts for half of the Group's global profits. Mexico generates over a billion dollars, Chile nearly 900 million and Brazil about 2,900 million.

IF: How would you describe Banco Santander Uruguay's performance last year?

JCC: Last year was very good to us; the business margin grew more than 40% from the year before. However, costs grew a little more than inflation, which is around 8%. The drop in international rates in recent years has reduced earning capacity, all of which presents important business challenges. Today I can say that we are measuring up very well. International rates will eventually go up but the structure of retail credit will continue which means more credit income will be generated and the loss of income due to savings will be retrieved. That will give an interesting boost in the generation of income.

IF: What segment is the bank focusing on?

JCC: The bank is focused on universal banking, trying to reach all market segments. We are very strong with big companies in corporate banking, and we have our own network that is called Van Gogh for high income clients. That said, we have been working hard with SMEs because we are in a 'pro-banking' plan, and we have been focusing on the medium-income clients in search of boosting retail and financial services sales. In addition, Grupo Santander bought a massive credit company, called Creditel and that way we acquired a distribution network to reach lower income clientele. Although in some cases it is with different brands and governments because of local regulations, we aim to have all segments covered.

IF: How is the bank able to finance projects?

JCC: Banco Santander is open to financing any project depending on the project risk and the bank's capital. Banco Santander has the necessary mechanisms to finance projects submitted. In this respect, the support

and know-how from the headquarters in Madrid is key. The most recent event of this kind in Uruguay was a transaction with ANCAP (the state-owned company that manages the nation's oil) for \$200 million where the official exports credit agency from Denmark participated and a machinery builder from the same country, FLSmidth. There are also some eolian projects in Uruguay which are almost wholly financed through Project Finance from Spain.

IF: Do you search for partners on your own?

JCC: Definitely. That is the only way to overcome the issue of regulation. The critical mass in corporate banking and the know-how and the clients and contacts of the group worldwide are key factors.

IF: How do you rate the business climate in Uruguay?

JCC: It is very good. There is an important legal guarantee and macroeconomic stability, which are fundamental factors for doing business in a country.

IF: Banco Santander Uruguay is considered to be the bank for businesses. However, you also have retail. Where does most of the bank's income come from?

JCC: The biggest part, 51%, is from corporate banking. But the trend is to achieve equality between corporate banking and retail banking.

IF: In a way they are both complementary—the person that comes here to make a project will also need the retail side.

JCC: Today, within the corporate banking segment, part of its goal is to do with Cash Management like 'Pago Nómina' (payroll payment), meaning that the client we lend money to pays the salaries through the Banco Santander network. But the beneficiary of that payment falls into the category of retail because it is a debit card that he will use in the ATM and will pay a commission. This business is in retail banking, but it would not be generated without a developed corporate banking segment. Then there are the other businesses

that we have made agreements with, for example, we have signed an alliance with Conaprole (a major dairy producer in Uruguay) to work through their financial company Proleco. Proleco finances the milk producers and we are their financing partners. The alliance is managed by Conaprole, and our corporate banking team works in relation with Conaprole. However, in the end we are lending work capital to a small company. So, each time it is more confusing and more difficult to separate who the income represents.

IF: What is behind all this success?

JCC: Banco Santander Uruguay is a healthy and careful bank. We have a hedge fund of around 10%.

IF: China is the second business partner of Uruguay. Last year business transactions reached around \$3.000 million. What is your opinion about relations with China?

JCC: The top export segment we have with China is grains, and while that is important for Uruguay, it is something that provides little added value for the country. It would be interesting to see how we could make more exchanges with what Uruguay has.

IF: China has shown some interest in the new energy matrix that has been developing in the country. How can Banco Santander help Chinese companies be involved with these projects?

JCC: It can help mainly with our Project Finance department. A Chinese company that wants to develop a project in Uruguay can call us and find a great reception and knowledge-base. However, if it calls Spain, they will tell it to "go to Uruguay, speak with them and we will join you". In fact, several people specialized in different areas of Project Finance came with the project we signed with UTE (the state-owned energy company). The fact is that Banco Santander is the bank that understands Latin America the most.

IF: Grupo Santander has always been associated with giving back to the community, especially in education, where it gives people access to university, and this is highly promoted in Latin

America with the Universia project. How is this strategy being implemented here in Uruguay?

JCC: We have an alliance with a 100% of the universities in Uruguay. We have developed PAES – Programa de Apoyo a la Educación Superior (Support to Higher Education Programs), where we generate a fluid relationship with the respective deans of the educational institutions and finance university projects and internships. In Uruguay, the universities are at a very professional level.

You always believe your country has the best universities in the world—I come from Chile and Uruguay professionals have the same level as they do there. We support Universia, a project that is present in Latin America, and has a strong base here because it was decided that most of the content generation of the network would be done here.

IF: What other CSR activities do you have in order to give back to the Uruguayan society?

JCC: We want to build a CSR legacy because it is not just simply making a donation, as we do with many

universities. In a cultural sense, we back the 'Teatro Solís' with a program that attempts to democratize culture because it brings the Teatro Solís and the people together. We are also the bank for 'Teletón', an organization that works with kids and teenagers with neuro-muscle-skeletal alterations—we support them and raise funds for rehabilitation and development.

IF: What motivated you to take this challenge and say "I'm moving to Uruguay"?

JCC: The truth is that Uruguay offered a very good quality of life and strong security indicators and that is fundamental to be able to develop personally and family-wise. Also, it has top level education and culture. For me is a nice challenge to be in Uruguay because in Chile I was the CEO of Creditel Chile, a retail bank. But it is very different to manage a retail bank and then to start managing another where there are aspects such as treasury and international commerce. Personally, comfort zones scare me and in Chile I was very comfortable. I felt that if I did not get out of that comfortable position I would stop innovating and that it is why I was so eager to take this challenge.