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Digital Banking: Paving the way to become the #1 digital bank in our markets

Juan Manuel Matheu, Corporate CEO of Banco Falabella

Thank you very much, Fernando, and thank you all for giving us the opportunity to present our digital banking strategy. We are extremely excited about our digital banking strategy. We feel that our value proposition is really gaining traction with our customers, and we really think that we have done a lot of progress in the implementation of this strategy. Consequently, we are also very optimistic about the future, and I will try to show you why.

First, our aspiration is to become the number one digital bank in the countries we operate. Today, we process \$23.5 billion US dollars in our credit card purchases per year. We have a \$6.5 billion loan book, consumer loan book portfolio, and we have 7.8 million customers. 76% of them are active monthly users in our app. Chile is the leading country in our digital strategy in implementation. And as you will see in Chile, our strategy has clearly outperformed the market and will continue to do so. For example, we are already number one in credit cards in the country. We are also number one in current accounts in the country. We have been able to increase in credit card purchases as more and more customers choose CMR as their preferred and main credit card.

In terms of current accounts, during the last five years, we have multiplied by five times the number of current accounts that our customers have in the bank. And the good news is that we have also multiplied by five the debit card purchases that these customers do. So, we are able to open and attract customers, but we are also able to make these customers transact with our cards.

In terms of consumer loans, we have remained stable all through this period that was given our prudent approach to create risk in a challenging credit risk market. But the good news is that during the last few months, we were able to start growing again our consumer loan book, which will drive a top line increase for the bank. We were able to accomplish this given our digital strategy, strategy that allowed us to reduce our number of branches by half during these last five years. As I mentioned, our strategy is gaining traction with our customers, and we think that we are suited to deliver profitable growth going forward.

I will quickly go through the main five pillars of our strategy. Being the first, a mobile first experience to our customer with a strong presence in our high traffic retail stores of the Falabella ecosystem. We also offer a reduced portfolio of very simple and intuitive products, which are enhanced by benefits that only the Falabella ecosystem can provide. Third, we have accurate risk prediction and personalized offers that we can do leveraging the ecosystem data and also our AI models in terms of technology and in terms of organization, we have been working during the last, I would say, 10 years in achieving a decoupled, modular and API oriented, IT architecture combined with an agile organization to shorter time to impact. These days, we are benefiting of the job done through all of these years, and we believe that we'll be able to actually put in hands of the customers, more products, better services, more quickly, and all of this complemented with a low spending discipline.

So now let me provide a little bit more color on each of these pillars. During the last five years, we have been working hard in the digitalization of our sales and service model. We have been adding a wide range of features to our app. Maybe there are a couple that it was worth to comment in depth. The first one is the

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instant credit card and account opening journey that we have. We are able to actually open a credit card for a customer who is in Falabella.com, for example, looking for a TV, offer the customer the credit card, allowing the customer to open the credit card in a few minutes and purchasing a few minutes after with also a discount, a benefit that help us have the highest activation level on our opening of products.

Lately, we have been adding debt payment alerts and refinancing products within our app. This has shown a very high impact in improving our credit risk management capabilities. All of these that I have been telling you have driven a significant increase in the number of active app users that we have. We were able to multiply by 2.4 times the number of active monthly users in our app, reaching to 5.9 million.

Going forward, we think that we can even boost our service proposal to our customer by the adoption of Gen AI solutions in our service model. We have been using AI for 10 years now, but we have recently implemented Gen AI, not only in our back office, but also, we are leveraging on AI to improve the quality of service we provide. What you're seeing here is an example of using AI in our bot for transaction disputes. Transaction disputes is one of the most required services that customers have in a digital bank, and we were able to actually accomplish three things at the same time. We are, today, more accurate in fraud prevention fraud detection through this tool, but we are also able to improve satisfaction of our customers with this adoption, and also to accomplish more efficiency given the adoption of this technology. Now we are going to start rolling out Gen AI solutions, as we have been creating the basis through this use case to actually adopt new use cases.

I already mentioned that our value proposition is gaining traction, and I think that that's the result of two things. The first one that I already told you about, that is a digital, simple, intuitive offer, but this offer is complemented by all of the benefits that only the Falabella ecosystem can provide to customers. First, we offer promotions within our ecosystem. We give what we call oportunidades unicas. Customers can acquire products with a discount for our cardholders.

Second, we also provide promotions with business partners, which prefer us in all of the countries that we operate, given the large customer base we have. Whenever a partner joins us, the impact on their sales, it's massive given the quantity of customers that we actually provide to the partnership. And finally, we complement this oportunidades unicas, or discounts, with the best loyalty program in the region, CMR Puntos, that Andrea has already told you about. The good news here is that as a consequence of these benefits, we have been accomplishing a very, very challenging objective for Banco Falabella. We were born as the credit card of our retailers. So, in our origin, our customers just use our credit card whenever they wanted to go to Falabella, Sodimac or Tottus.

And with these benefits and with these proposals, we are actually increasing the card purchases. We more than double the card purchases during these last five years, and we almost doubled the number of purchases the customers do with our credit card, mainly through an expanded use of our products outside of the ecosystem in the day-to-day life of the customers. More and more customers are adopting our cards as their main cards, and that will continue to provide growth for us.

Being a part of the Falabella ecosystem has lots of benefits. One of those is the possibility to leverage the data that this ecosystem has. Of course, we use the data of our customers, banking products, their loans, their assets, etc. We also, and of course, we use the transactional data of the credit card, of the debit card,

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but we complement that data with the purchases that customers of ecosystem do in Falabella, in Tottus, in Sodimac, so we can actually know the purchases the customer do as an SKU level. We know the specific product, and that allows us to really learn and understand the customer.

Being a part of CMR Puntos also gives us the consent of the customer to use this data for several purposes. We complement all of the ecosystem data with external sources, and we process this data with the AI models that we have been developing for the last 10 years. Today, we use more than 15,000 different variables, because in some cases, we have some information from one customer. In other cases, we have other information. But these models actually give us a lot of value in several things.

The first one is superior credit risk assessment. The second one, solid fraud management capabilities. It also allows us to have a low customer acquisition cost and also to present personalized offers. This last part is something that we have been working on in the recent past, and that we are really excited that we can actually take to the next level.

Now let me show some figures of that impact. There are some things that are extremely important in banking, in consumer banking. One is risk management. Given all of the data that I just showed to you, we see that in almost all of the countries, we have NPL levels lower than our peers. That's what you see on your right side of the chart. OK?

Another thing that is very important in consumer banking is customer acquisition cost, being part of the ecosystem with the data, with the traffic that Falabella, Sodimac or Tottus stores have and the traffic that Falabella.com have, we are able to actually get customer acquisition costs that are one-third of our competitors. And finally, and in the center, there is something really, very important for our ecommerce. That is processing payments in the ecommerce. They are the challenges to accomplish two things. One, to have low fraud index, but also high acceptance rates of the purchases. As you see here, we are outperforming the market by far, and that's because of the data we have.

Another consequence of our digital model has been to actually increase productivity. We have achieved much higher productivity per employee, and also in the recent past, we were able to stabilize our IT spending given how advanced we are in the implementation of our new architecture. And why do I think that we are really very well-positioned for the future? We have been going through really very challenging times during the last five years. We faced social unrest. We faced the pandemic. We faced post-pandemic inflation. And now we see that these are industry data that risk levels are starting to go down. That will allow us to actually start to grow again in consumer loans.

In Chile, we believe that we will be able to grow given more and more customers choosing us as the primary bank, and also, as I mentioned, to increase the loan portfolio. In Peru, this year, we were able to gain profitability, to recover profitability and given structural changes that we have done in the business. In Colombia, we faced last year changes in regulation, especially in the cap of the interest rates, and we have actually re-thought our business model to generate more fee income and actually downside our structure, again, to regain profitability.

In Mexico, we think that we will be able to keep on acquiring new customers and making these customers transact. And we are also adding new products, such as personal loans that we are adding in the next

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following months. But also, we're changing the legal entity, Mexico, to a SOFIPO that will allow us to hold customer deposits.

In brief, the key takeaways I would like you to take home are first, our value proposition has traction among customers. Second, our customer base benefit and ecosystem data generate a competitive advantage for us. Third, we see a more stable or normal credit risk context that will allow us to accelerate growth. So that's why we think that we are really, very well-positioned for the future.

Thank you very much. I will leave you with Alejandro again for his closing remarks before the Q&A.