Tanner
Servicios Financieros

Quarterly Earnings Report

Tanner Servicios Financieros

June 2016

Index

I. Executive Summary

Tanner Servicios Financieros second quarter performance showed a **positive net profit of $ 10,658 million, increasing 24.9%**, equivalent to $ 2,127 million, versus $ 8,531 million reached by the end of 2Q15. The improvement is mainly a consequence of increased yields, lower risk charges and improved performance of the subsidiary Tanner Corredora de Bolsa (Gestora Tanner).

Total net loan portfolio in the period ended June 30, 2016, reached $ 733,174 million, decreasing 7.5% (↓$ 59,183 million), when compared to December 2015, although remained virtually flat regarding 2Q15, with a variation of 0.4% (↑$ 2,534 million). The reduction is mainly explained by Company's efforts to decrease in corporate lending (↓$ 71,302 million / -28.9%) and focus on strategic products, which is reflected by the improvements in factoring (↑$ 16,191 million / +8.4%) and auto financing (↑$ 8,831 million / +4.1%). Additionally, there is business seasonality effect, which expands strongly in the second half of the year.

As of June 30, 2016, **current ratio was 1.96 times**, progressing from the 1.54x of December and 1.66x of June, 2015, while **cash and cash equivalents totaled $ 35,675 million** in June 2016, versus $ 31,785 million by the end of 2015. Meanwhile, **leverage reached 2.83 times** against 3.03 times in December 2015.

NPLs over 90 days totaled 4.7% by the end of the first six months of 2016, improving compared to previous periods (4Q15: 4.8% and 2Q15: 5.6%). Thus, in the factoring business, NPLs reached 5.5%[1] (4Q15: 6.3%1 and 2Q15: 7.2%1), explained by better collection processes and admission requirements applied since last year. In corporate lending, NPLs increased from 0.6% in 4Q15 to 1.3% in 2Q16, explained by the drop in the stock of loans of this business segment, in line with the Company's strategy to reduce its exposure in this product, while in auto financing and leasing, NPLs significantly improved, reaching 5.6% (4Q15: 6.9% and 2Q15: 8.8%) and 7.3% (4Q15: 8.2% and 2Q15: 8.5%), respectively.

Ch$ Million	Jun 2016	Dec 2015	Jun 2015
Total Assets	932,607	956,505	845,999
Total Liabilities	689,104	719,127	617,119
Equity	243,503	237,379	228,880
Gross Profit	29,637	50,931	25,748
Profit (losses) before taxes	10,658	20,044	8,531
ROAA (anualized)	2.3%	2.3%	2.1%
ROAE (anualized)	8.9%	8.7%	7.5%
Non-Performing Loans > 90 days / Loans [1]	4.7%	4.8%	5.6%

(1) Including provisions

Figure 1: Key Metrics Summary

[1] NPLs calculated including the Pescanova case.

II. Financial Statement Analysis

INCOME STATEMENT ThCh$	Jan-16 Jun-16	Jan-16 Jun-15	Δ $	Δ %
Revenue from ordinary activities	56,695	68,808	(12,113)	-17.6%
Cost of sales	(27,059)	(43,060)	16,002	-37.2%
Gross profit	29,637	25,748	3,889	15.1%
Other revenue by function	149	356	(206)	-58.1%
Selling, General and Administrative Expenses	(18,206)	(16,653)	(1,552)	9.3%
Other gains (losses)	0.2	4.7	(4.4)	-94.8%
Operating Margin	11,580	9,455	2,126	22.5%
Financial revenue	21	7	14	198.1%
Financial costs	(71)	(82)	11	-13.8%
Participation in profits (losses) of associates and joint ventures recorded using the share method	0	2.55	(2.55)	-100.0%
Foreign currency gains (losses)	(33)	10	(43)	-421.7%
Indexation adjustments	54	129	(75)	-58.0%
Profit (losses) before taxes	11,552	9,521	2,031	21.3%
Income tax (expense) revenue	(894)	(990)	96	-9.7%
Net Income	10,658	8,531	2,127	24.9%
Profit (Loss) Attributable to controller's owners	10,535	8,463	2,072	24.5%
Profit (Loss) Attributable to non-controller shares	123	68	54	79.8%

Figure 2: Consolidated Income Statement

Net result as of June 30, 2016, registered an increase of 24.9% (↑$ 2,127 million), totaling $ 10,658 million, versus $ 8,531 million in 2Q15, while gross profit reached $ 29,637 million, a record for the period, with an increment of 15.1% (↑$ 3,889 million) when compared with $ 25,748 million totaled in 2Q15.

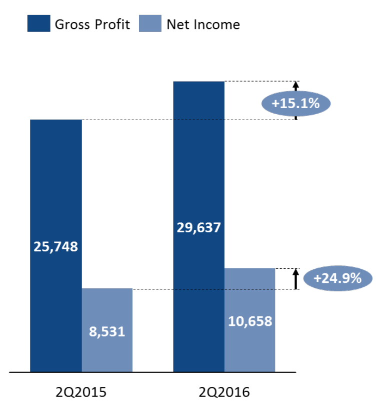


Chart 1: Consolidated Gross Profit and Net Income Evolution

Consolidated revenues decreased 17.6% (↓$12,113 million) in the first quarter of the year, totaling $ 56,695 million, versus $ 68,808 million in 2Q15, mainly as a consequence of drops in: (i) treasury, mostly due to readjustments revenues offset by costs in this item, and (ii) factoring, in line with lower other revenue, which could not be offset by increased corporate lending, auto financing, leasing and subsidiaries[2].

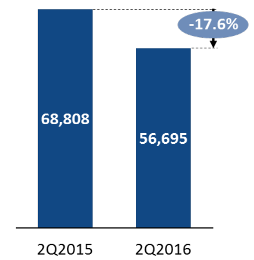


Chart 2: Consolidated Revenues Evolution

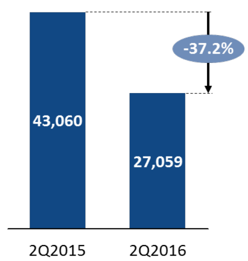


Chart 3: Consolidated Cost of Sales Evolution

Consolidated cost of sales as of June, 2016, showed a significant reduction of $16,002 million (-37.2%) when compared to the first half of the previous year, reaching $ 27,059 million, versus $ 43,060 million, primarily due to decreases in: (i) treasury, mostly due to readjustments costs offset by revenues in this item, (ii) factoring, in line with lower write-offs and provisions and other costs, and (iii) leasing, which offset increased costs in corporate lending and subsidiaries[2].

Administrative expenses (including depreciation) registered and increase of 9.3% (↑$ 1,521 million), totaling $ 18,206 million, in line with higher overhead expenses, mainly in: (i) services, billing and collection expenses, derived of the outsourcing of collection since 1Q15, in order to improve the management of that process and (ii) leases, lighting, heating and other services, as a consequence of the sale of the Company's headquarters and signature of the lease contract of the same facilities, increases not offset by reductions in: (i) fines, lawsuits and interest and other leasing and auto financing expenses and (ii) external advisory and fees for professional services.

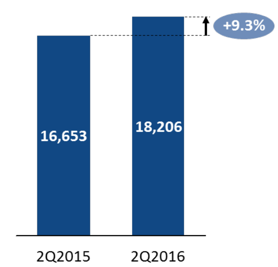


Chart 4: Administrative Expenses Evolution

[2] Subsidiaries corresponds to Tanner Corredores de Bolsa de Productos, Tanner Corredores de Seguros Ltda. and Tanner Corredores de Bolsa S.A.

III. Main Metrics

	Indicator	Definition	Unit of Measurement	Jun-16	Dec-15	Jun-15
Liquidity and Solvency	Current Ratio	*Current Assets/Current Liabilities*	*times*	1.96	1.54	1.66
	Current Liabilities to Equity	*Non-current liabilities/Equity*	*times*	1.24	1.46	1.27
	Immediate Liquidity	*Cash and cash equivalent/Current Liabilities*	*times*	0.12	0.09	0.06
	Stable Funding Ratio	*(Non-current liabilities + Equity)/(Non-current loans + others non-liquid assets)*	*%*	1.86	1.44	1.53
	Debt to Equity	*Total liabilities/Equity*	*times*	2.83	3.03	2.70
	Capitalization	*Equity/Assets*	*times*	0.26	0.25	0.27
	Short Term Debt Ratio	*Current liabilities/Total liabilities*	*%*	43.8%	48.1%	47.2%
	Long Term Debt Ratio	*Non-current liabilities/Total liabilities*	*%*	56.2%	51.9%	52.8%
	Short Term Bank Debt	*Current bank liabilities/Current liabilities*	*%*	36.1%	49.2%	36.4%
	Long Term Bank Debt	*Non-current bank liabilities/Non-current liabilities*	*%*	18.1%	0.6%	1.3%
	Working Capital	*Current assets - Current liabilities*	*ThCh$*	291,172	185,818	192,074
	Interest Coverage Ratio	*Net income/Financial expenditure*	*times*	1.0	0.9	0.8
Profitability	Return on Equity	*Annualized profit/Equity*	*%*	8.8%	8.4%	7.5%
	Return on Assets	*Annualized profit/Assets*	*%*	2.3%	2.1%	2.0%
	Return on Average Assets	*Annualized profit/ Average Equity*	*%*	8.9%	8.7%	7.5%
	Return on Average Equity	*Annualized profit/ Average Assets*	*%*	2.3%	2.3%	2.1%
	Gross profit Margin	*Gross profit/Revenue from ordinary activities*	*%*	52.3%	32.5%	37.4%
	Operating Profit Margin	*Operating Profit/Revenue from ordinary activities*	*%*	20.4%	13.0%	13.7%
	Net Income Margin	*Net income/Revenue from ordinary activities*	*%*	18.8%	12.8%	12.4%
	Earnings Per Share (EPS)	*Net income/number of shares*	*$*	8,793	16,536	7,038
	Efficiency of Expenditure	*SG&A Expenses/Gross profit*	*%*	61%	71%	65%
Assets Quality	Non-Performing Loans over 30 days	*Non-performing loans >30 days/(Loans + Provisions)*	*%*	7.1%	7.4%	9.2%
	Non-Performing Loans over 90 days	*Non-performing loans >90 days/(Loans + Provisions)*	*%*	4.7%	4.8%	5.6%
		Non-Performing loans >90 days/Equity	*%*	14.6%	16.6%	18.5%
	Non-Performing Loans	*Non-Performing loans/(Loans + Provisions)*	*%*	16.0%	16.3%	15.4%
		Non-Performing loans/Equity	*%*	49.8%	56.4%	51.2%
	Provisions	*Provisions/(Loans + Provisions)*	*%*	3.4%	3.4%	3.6%
		Provisions/Non-performing loans	*%*	21.2%	20.9%	23.3%
	Write-offs	*Write-offs/(Loans + Provisions)*	*%*	1.6%	2.7%	1.7%
	Provisions and Write-offs	*Annualized provisions and write-offs/(Loans + Provisions)*	*%*	2.7%	3.0%	2.9%
	Securitized Porfolio	*Securitized portfolio/(Loans + Provisions)*	*%*	2.9%	2.7%	1.9%

Figure 3: Main Metrics

As of June 30, 2016, in terms of liquidity and solvency, the Company improved regarding the same previous year levels, increasing in the main indexes measured in this dimension, primarily as a consequence of the drop of current liabilities and cash and cash equivalents increment.

Regarding profitability ratios, Tanner showed substantial improvements in each of them, coming from the significant rise of 24.9% in net profit during the half, which totaled $ 10,658 million, with gross profit expanding in 15.1%, to reach $ 29,637 million, and operational margin growing 22.5%, to $ 11,580 million.

Finally, assets quality ratios reflect improvements in origination control and collection policies and processes which the Company is carrying-on since 2015, in order to reduce NPLs, metric which in the period between January and June, 2015, reached historical records.

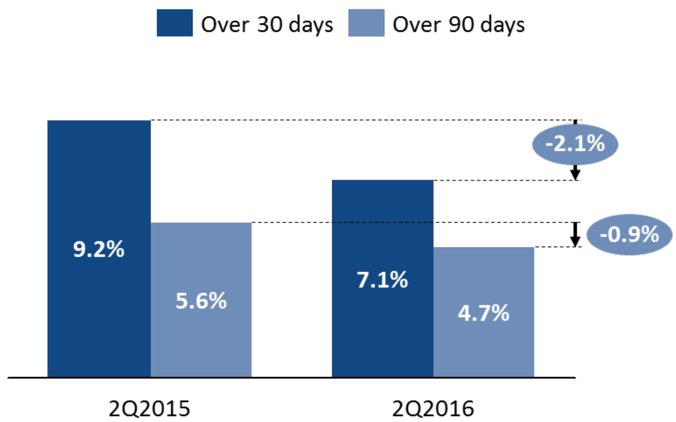


Chart 5: Non-Performing Loans Evolution

IV. Analysis by Business Segment

Tanner has four main business segment: Factoring, Corporate Lending, Auto Financing and Leasing, that represent 88% of total gross profit. Additionally, Tanner gets revenue from its treasury area and subsidiaries – Gestora Tanner, Tanner Leasing S.A., Tanner Corredores de Bolsa de Productos S.A., Tanner Corredora de Seguros Ltda. and Tanner Leasing Vendor Limitada –, which together are grouped under Others for purpose of this analysis.

Business Line		Jun-16	Jun-15	Δ $	Δ %
FACTORING					
	Revenue	14,012	16,148	(2,136)	-13.2%
	Costs	5,447	6,726	(1,279)	-19.0%
	Gross Profit	8,565	9,423	(857)	-9.1%
CORPORATE LENDING					
	Revenue	10,576	6,382	4,194	65.7%
	Costs	3,866	2,593	1,274	49.1%
	Gross Profit	6,710	3,789	2,921	77.1%
AUTO FINANCING					
	Revenue	26,934	25,473	1,461	5.7%
	Costs	18,961	16,871	2,091	12.4%
	Gross Profit	7,973	8,602	(629)	-7.3%
LEASING					
	Revenue	6,630	6,139	491	8.0%
	Costs	3,676	3,962	(285)	-7.2%
	Gross Profit	2,954	2,177	777	35.7%
TREASURY					
	Revenue	(6,274)	12,626	(18,900)	-149.7%
	Costs	(7,177)	12,477	(19,654)	-157.5%
	Gross Profit	903	149	754	505.9%
OTHERS					
	Revenue	4,817	2,040	2,777	136.1%
	Costs	2,285	433	1,852	428.2%
	Gross Profit	2,532	1,608	925	57.5%
Tanner Servicios Financieros					
	Revenue	56,695	68,808	(12,113)	-17.6%
	Costs	27,059	43,060	(16,002)	-37.2%
	Gross Profit	29,637	25,748	3,889	15.1%

Figure 4: Results by Business Segment

Consolidated gross profit between January and June, 2016, reached $ 29,637 million, increasing $ 3,889 million (+15.1%), year-on-year, due to a costs reduction (↓$ 16,002 million / -37.2%) higher than the revenues drop (↓$ 12,113 million / -17.6%) in the period. By segment, gross margin breaks down as follows:

FACTORING

$ 8,565 million, decreasing 9.1% (↓$ 857 million), despite a reduction in costs (↓$ 1,279 million / -19.0%), which partially offset the drop of 13.2% (↓$ 2,136 million) in revenues;

CORPORATE LENDING

$ 6,710 million, equivalent to an increase of 77.1% (↑$ 2,921 million) in line with 65.7% higher revenues, compensating the jump in costs (↑$ 1,274 million / +49.1%);

AUTO-FINANCING

$ 7,973 million, falling 7.3% (↓$ 629 million) year-on-year, because higher revenues (↑$ 1,461 million / +5.7%) could not counterbalance the rise of $ 2,091 million (+12.4%) in costs; and,

LEASING

$ 2,954 million, growing 35.7% (↑$ 777 million), as a result of a combined effect of higher revenues (↑$ 491 million / +8.0%) and lower costs (↓$ -285 million /-7.2%).

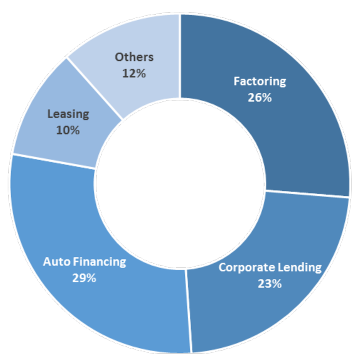


Chart 6: Gross Profit Distribution

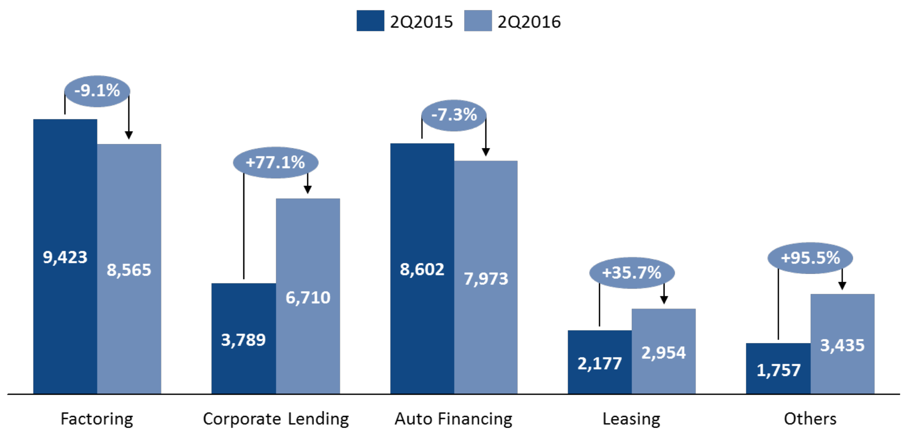


Chart 7: Gross Profit by Business Segment

Consolidated revenues in the first half of 2016 totaled $ 56,695 million (↓$ 12,113 million), with a decrease of 17.6% YoY. The result is explained by revenues of:

FACTORING

$ 14,012 million, equivalent to a drop of 13.2% (↓$ 2,136 million) in a yearly basis, in line with market lower stocks, according to the figures reported for June, 2015, by ACHEF[3], although in terms of price differences, the level remains almost the same to that observed in the same period last year;

CORPORATE LENDING

$ 10,576 million, with an expansion of 65.7% (↑$ 4,194 million) between January and June, 2016, explained by a low comparison base regarding 2Q15;

AUTO-FINANCING

$ 26,934 million, recording an increase of 5.7% (↑$ 1,461 million) YoY, mainly derived from an increased volume, in line with higher sales both in new and used vehicles, according to ANAC[4] and CAVEM[5]; and,

LEASING

$ 6,630 million, with a rise of 8.0% (↑$ 491 million) in 2Q16 coming from higher yields, even though leasing loans in the banking system have been declining in the last twelve months.

[3] ACHEF: Asociación Chilena de Factoring (Chilean Association of Factoring)
[4] ANAC: Asociación Nacional Automotriz de Chile A.G. (National Automotive Association of Chile)
[5] CAVEM: Cámara Nacional de Comercio Automotriz de Chile (National Automotive Chamber of Commerce of Chile)

Consolidated costs in the first two quarters of 2016 reached $ 27,059 million, decreasing in $ 16,002 million (-37.2%), explained by costs of:

FACTORING

$ 5,447 million, dropping 19.0% (↓$ 1,279 million) when compared with the first half of 2015, coming from a decrease in write-offs and provisions and other costs, which more than offset the rise in interests related with the business;

CORPORATE LENDING

$ 3,866 million, growing 49.1% (↑$ 1,274 million) in the first six months of 2016 due to higher interest costs;

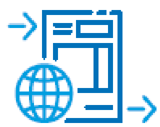
AUTO-FINANCING

$ 18,961 million, equivalent to an increase of 12.4% (↑$ 2,091 million), primarily as a result of higher write-offs and provisions;

LEASING

$ 3,676 million, with a reduction of 7.2% (↓$ 285 million) in 2Q16 in line with a decrease in write-offs and provisions which offset increases in interests and other costs, derived from the rise of the short-term financing costs – which is mainly done through commercial papers – following the market conditions since 4Q15, just beginning to normalize towards the end of 2Q16.

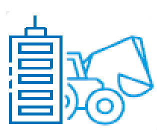
V. Portfolio Quality by Business Segment



FACTORING		Definition	Unit of Measurement	Jun-16	Dec-15	Jun-15
	Non-Performing Loans	*Non-Performing loans/(Loans + Provisions)*	%	13.0%	16.7%	13.8%
		Non-Performing loans/Equity	%	11.7%	14.4%	11.5%
	Provisions	*Provisions/(Loans + Provisions)*	%	5.1%	5.7%	6.2%
		Provisions/Non-performing loans	%	39.1%	34.1%	45.0%
	Provisions and Write-offs	*Annualized provisions and write-offs/(Loans + Provisions)*	%	1.6%	2.5%	3.2%
	Non-Performing Loans over 30 days [1]	*Non-performing loans >30 days/(Loans + Provisions)*	%	5.8%	7.3%	8.9%
	Non-Performing Loans over 90 days [1]	*Non-performing loans >90 days/(Loans + Provisions)*	%	5.5%	6.3%	7.2%
		Non-Performing loans >90 days/Equity	%	5.0%	5.4%	6.0%
	Securitized Porfolio	*Securitized portfolio/(Loans + Provisions)*	%	0.9%	1.5%	1.8%
		Securitized portfolio/Equity	%	0.8%	1.3%	1.5%
	Clients	*Number of clients*	#	2,137	1,880	2,340

CORPORATE LENDING		Definition	Unit of Measurement	Jun-16	Dec-15	Jun-15
	Non-Performing Loans	*Non-Performing loans/(Loans + Provisions)*	%	5.6%	4.3%	1.6%
		Non-Performing loans/Equity	%	4.1%	4.5%	1.3%
	Provisions	*Provisions/(Loans + Provisions)*	%	1.2%	0.8%	0.4%
		Provisions/Non-performing loans	%	20.5%	19.2%	24.3%
	Provisions and Write-offs	*Annualized provisions and write-offs/(Loans + Provisions)*	%	0.0%	0.8%	0.0%
	Non-Performing Loans over 30 days	*Non-performing loans >30 days/(Loans + Provisions)*	%	1.8%	1.6%	0.1%
	Non-Performing Loans over 90 days	*Non-performing loans >90 days/(Loans + Provisions)*	%	1.3%	0.6%	0.03%
		Non-Performing loans >90 days/Equity	%	1.0%	0.7%	0.0%
	Securitized Porfolio	*Securitized portfolio/(Loans + Provisions)*	%	4.1%	2.6%	0.0%
		Securitized portfolio/Equity	%	3.0%	2.7%	0.0%
	Clients	*Number of clients*	#	1,138	971	677

AUTO-FINANCING		Definition	Unit of Measurement	Jun-16	Dec-15	Jun-15
	Non-Performing Loans	*Non-Performing loans/(Loans + Provisions)*	%	23.0%	25.8%	29.9%
		Non-Performing loans/Equity	%	21.9%	24.4%	28.9%
	Provisions	*Provisions/(Loans + Provisions)*	%	3.7%	4.2%	4.3%
		Provisions/Non-performing loans	%	16.0%	16.2%	14.5%
	Provisions and Write-offs	*Annualized provisions and write-offs/(Loans + Provisions)*	%	6.5%	6.1%	5.5%
	Non-Performing Loans over 30 days	*Non-performing loans >30 days/(Loans + Provisions)*	%	10.7%	12.5%	17.4%
	Non-Performing Loans over 90 days	*Non-performing loans >90 days/(Loans + Provisions)*	%	5.6%	6.9%	8.8%
		Non-Performing loans >90 days/Equity	%	5.3%	6.5%	8.5%
	Securitized Porfolio	*Securitized portfolio/(Loans + Provisions)*	%	2.3%	2.8%	2.9%
		Securitized portfolio/Equity	%	2.2%	2.6%	2.8%
	Clients	*Number of clients*	#	47,820	48,113	48,878



LEASING		Definition	Unit of Measurement	Jun-16	Dec-15	Jun-15
	Non-Performing Loans	*Non-Performing loans/(Loans + Provisions)*	%	26.2%	26.9%	20.3%
		Non-Performing loans/Equity	%	12.0%	13.1%	9.4%
	Provisions	*Provisions/(Loans + Provisions)*	%	3.6%	4.3%	4.8%
		Provisions/Non-performing loans	%	13.6%	16.0%	23.5%
	Provisions and Write-offs	*Annualized provisions and write-offs/(Loans + Provisions)*	%	1.6%	3.1%	3.3%
	Non-Performing Loans over 30 days	*Non-performing loans >30 days/(Loans + Provisions)*	%	11.5%	11.9%	13.5%
	Non-Performing Loans over 90 days	*Non-performing loans >90 days/(Loans + Provisions)*	%	7.3%	8.2%	8.5%
		Non-Performing loans >90 days/Equity	%	3.3%	4.0%	3.9%
	Securitized Porfolio	*Securitized portfolio/(Loans + Provisions)*	%	6.9%	5.9%	4.1%
		Securitized portfolio/Equity	%	3.2%	2.9%	1.9%
	Clients	*Number of clients*	#	1,167	1,272	1,296

[1] NPLs calculated including Pescanova

Figure 5: Main Indicators by Business Line

FACTORING

Non-performing loans portfolio, non-performing loans over 30 and 90 days and the securitized portfolio declined when compared with December, 2015, evidencing the improvements in the quality of factoring's portfolio.

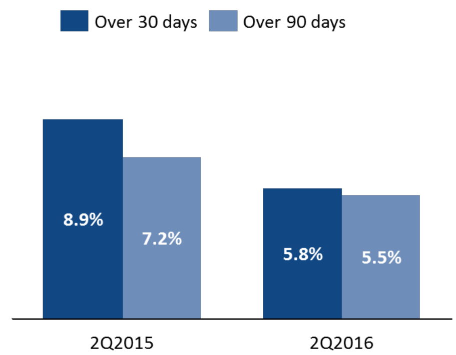


Chart 8: Evolution of Non-Performing Loans for Factoring

CORPORATE LENDING

Increases when compared to levels registered in 2Q15 and 4Q15, according to the greater maturity of the portfolio, as this business segment is relatively new and potential deterioration occurs over time, so it has not yet reached equilibrium. Despite the aforementioned, this level of indexes is significantly less than other business that the Company develops.

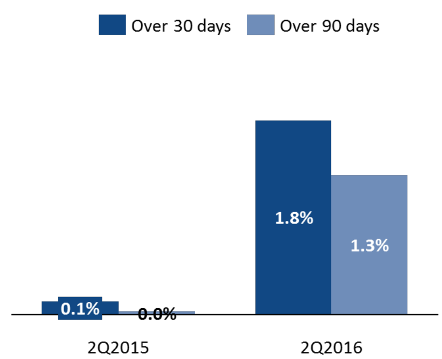


Chart 9: Evolution of Non-Performing Loans for Corporate Lending

AUTO-FINANCING

Non-performing loans portfolio and non-performing loans over 30 and 90 days decreased significantly, reflecting the progress in collection and origination procedures implemented by the Company in order to improve the quality of the portfolio.

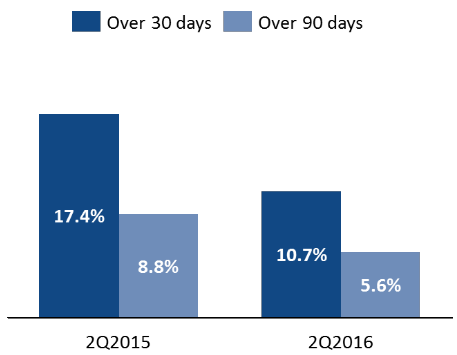


Chart 10: Evolution of Non-Performing Loans for Auto Financing

LEASING

Non-performing loans portfolio and non-performing loans over 30 and 90 days improved due to better vintage since 2014, based in a more rigid origination policy.

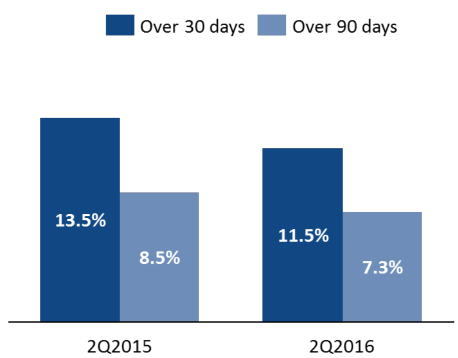


Chart 11: Evolution of Non-Performing Loans for Leasing

VI. Analysis of Consolidated Balance Sheet

Assets (MM$)	Jun-16	Dec-15	Δ $	Δ %
Current Assets				
Cash and cash equivalent	35,675	31,785	3,890	12.2%
Other current financial assets	73,654	29,143	44,512	152.7%
Other current non-financial assets	3,405	1,928	1,477	76.6%
Trade receivables and other current accounts receivable, net	465,604	450,348	15,256	3.4%
Current accounts receivable from related parties	358	365	(7)	-2.0%
Current tax assets	13,616	17,354	(3,738)	-21.5%
Non-current assets held for sale	594	510	84	16.5%
Total Current Assets	**592,907**	**531,432**	**61,475**	**11.6%**
Non-Current Assets				
Otrher non-current financial assets	32,162	36,998	(4,837)	-13.1%
Other non-current non-financial assets	1,167	916	251	27.4%
Trade receivables and other non-current accounts receivable, net	267,570	342,009	(74,439)	-21.8%
Non-current accounts receivable from related parties	24	52	(28)	-53.4%
Investments in companies	-	-	0	0.0%
Intangible assets other than goodwill	505	452	53	11.7%
Goodwill	1,764	1,764	0	0.0%
Property, plant and equipment	3,932	4,271	(339)	-7.9%
Deferred tax assets	32,578	38,612	(6,034)	-15.6%
Total Non-Current Assets	**339,701**	**425,073**	**(85,373)**	**-20.1%**
TOTAL ASSETS	**932,607**	**956,505**	**(23,898)**	**10.2%**

Liabilities (MM$)	Jun-16	Dec-15	Δ $	Δ %
Current Liabilities				
Other current financial liabilities	254,262	281,277	(27,016)	-9.6%
Trade payables and other current accounts payables	42,760	54,127	(11,367)	-21.0%
Other short-term provisions	2,989	3,117	(128)	-4.1%
Current tax liabilities	1,689	7,077	(5,387)	-76.1%
Other current non-financial liabilities	35	16	19	117.5%
Total Current Liabilities	**301,735**	**345,614**	**(43,879)**	**-12.7%**
			0	
Non-Current Liabilities			0	
Other non-current financial liabilities	382,488	361,651	20,837	5.8%
Non-current accounts payable	-	718	(718)	-100.0%
Deferred tax liabilities	4,881	11,144	(6,263)	-56.2%
Total Non-Current Liabilities	**387,369**	**373,513**	**13,856**	**3.7%**
TOTAL LIABILITIES	**689,104**	**719,127**	**(30,023)**	**-4.2%**
Equity	243,503	237,379	6,125	2.6%
TOTAL EQUITY AND LIABILITIES	**932,607**	**956,505**	**(23,898)**	**-2.5%**

Figure 6: Consolidated Balance Sheet – First Half 2016

A. Loans Portfolio[6]

Total gross loan portfolio as of June 30, 2016 reached $ 758,938 million, equivalent to an increase of 0.1% YoY, versus $ 757,886 million in 2Q15, while provisions stock was $ 25,764 million, decreasing 5.4% YoY (↓$ 1,481 million) when compared to $ 27,246 million in 2Q15. As a result of the aforementioned, total net loan portfolio in 2Q16 was $ 733,174 million, over $ 730,640 million recorded at the end of June, 2015, which means an increase of 0.3% YoY or $ 2,534 million.

By the end of the first half of 2016, net loans portfolio for each business segment were the following:

1. **Factoring:** $ 209,003 million, increasing 17.0% YoY (2Q15: $ 178,673 million);
2. **Corporate Lending:** $ 174,999 million, decreasing 7.7% YoY (2Q15: $ 189,649 million);
3. **Auto-Financing:** $ 223,375 million, which means a rise of 5.4% YoY (2Q15: $ 211,896 million); and,
4. **Leasing:** $ 107,940 million, equivalent to a growth of 7.2% YoY (2Q15: $ 100,713 million).

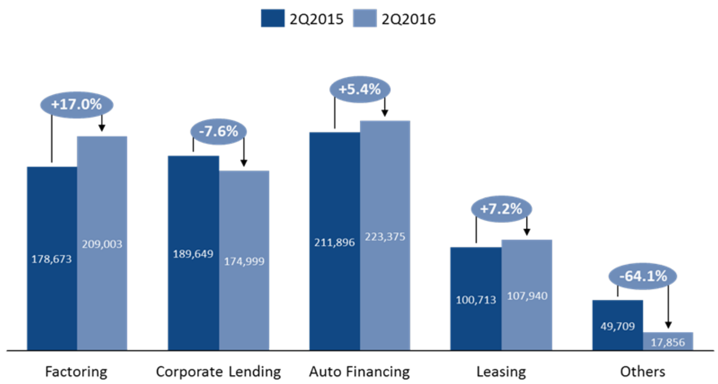


Chart 12: Net Loans Portfolio Evolution by Business Segment

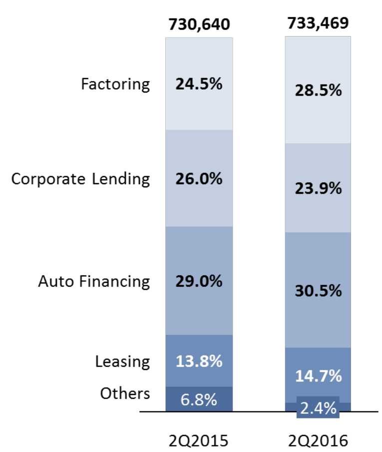
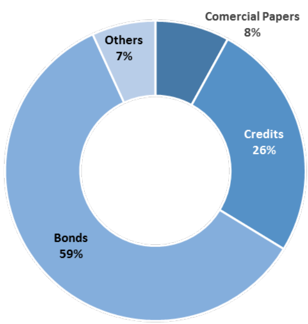


Chart 13: Loans Portfolio Composition by Business Segment

[6] Gross loans less provisions.

Loan portfolio composition has changed towards a greater focus on strategic business for the Company, like factoring and auto-financing, which as of June 30, 2016, represents 28.5% and 30.5% of consolidated net loan portfolio, respectively. In the long term, the Company wants to focus its corporate lending business on working capital loans to factoring clients, so as to complement the product offering.

B. Funding Sources



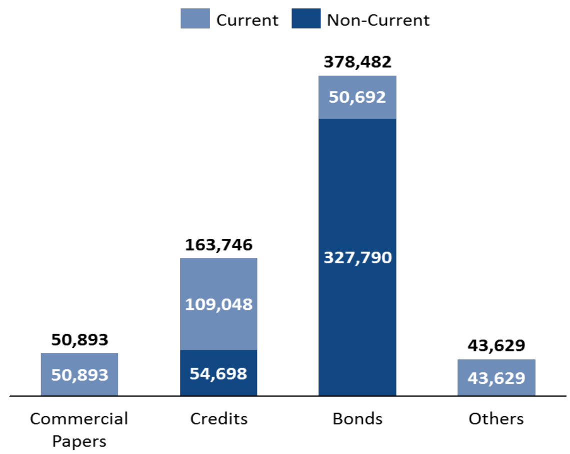


Chart 14: Funding Sources Composition

Financial liabilities by the end of the first half of 2016 reached $ 636,750 million versus $ 642,938 million at the end of 2Q15, equivalent to a decrease of $ 6,178 million (-1.0%), explained by a reduction of $ 27,016 (-9.6%) in current financial liabilities, which is partially offset by a rise of 5.8% (↑$ 20,837 million) in non-current financial liabilities.

Regarding the liabilities breakdown, 59% ($ 378,482 million) corresponds to bonds – local and international –, 26% ($ 163,746 million) are credits, 8% ($ 50,893 million) is related with commercial papers and $ 42,058 million are pacts, mainly related with the brokerage house subsidiary. The remaining corresponds to derivative instruments valuation, primarily short-term forwards.

VII. Statements of Cash Flows

ThCh$	30-06-2016	30-06-2015	Δ $
Cash flows provided by (used in) operating activities	88,355	(58,540)	146,894
Cash flows provided by (used in) investing activities	17,832	102,240	(84,408)
Cash flows provided by (used in) financing activities	(102,113)	(49,179)	(52,934)
Effect of changes in exchange rates	(184)	169	(353)
Net increase (decrease) in cash and cash equivalent	3,890	(5,479)	9,369
Cash and Cash Equivalent, Initial Balance	31,785	22,856	8,929
Cash and Cash Equivalent, Final Balance	35,675	17,377	18,298

Figure 7: Statements of Cash Flows – First Half 2016

In the period between January and June, 2016, **net operating cash flow** significantly grew regarding the same previous year levels from $ -58,540 million in 2Q15 to $ 88,355 million as of the end of the first half of 2016, equivalent to an increase of $ 146,894 million.

Net investment cash flow reached $ 17,832 million versus $ 102,240 million, which involves a variation of $ -84,408 million as of June, 2016.

Net financing cash flow in the first six months of 2016, totaled $ -102,113 million, compared to $ -49,179 million in 2Q15, decreasing by $ -52,934 million.

Despite lower flows coming from investing and financing activities, for the period ended June 30, 2016, the balance is $ 3,890 million, $ 9,199 million over the results of the first half of 2015, due to improved operating cash flows.

Cash and cash equivalent for the period between January and June, 2016, totaled $ 33,675 million, almost doubling the level of $ 17,547 million reached in 2Q15.

VIII. Risk Analysis

A. Credit Risk

This risk is managed by business segment – i.e. independently for the factoring, corporate lending, auto-financing and leasing businesses – with specific credit policies and analysis based on expected revenues from clients, available financial information and payments history, along with other commercial information. The Company also considerers the macroeconomic environment as well as specific sector statistics for client and, in the case of factoring, also for the debtor.

Additionally, the Company periodically reviews the credit quality of its counterparties in order to anticipate changes in their repayment capacity, to evaluate the risk of potential loss and to take preventive or corrective actions.

Another important and complementary aspect in assessing credit risk is the quality and quantity of the required guarantees. One of the Company´s policies has been to request solid guarantees that constitute a second source of payment of its client’s obligations, in the case of eventual defaults. Thus, for each business segment the Company defines different conditions:

FACTORING

For each client a framework agreement is signed into a public deed in order to support future operations and the most lines includes liability of the assignor for the insolvency of the assigned debtor. Operations without liability are generally covered by a credit insurance policy and/or specific guarantees.

LEASING

Leasing operations are guaranteed by the leased asset. Insurance policies are required for these assets to cover any claim that may cause a loss in value.

AUTO FINANCING

Car loans are guaranteed by the assets associated with the financing and also include a credit analysis profile for the client. There are two types of guarantees in this case: real (vehicle pledges) and personal (securities and solidary obligations).

CORPORATE LENDING

Mortgages and/or stocks are required. However, it is possible to define another person to answer for the credit in case of default, who is usually some partner of the debtor company.

The main characteristics of the policies used by Tanner to determinate provision levels by each product are the followings:

FACTORING	For invoices, the provision is equal to an increasing percentage from the total amount owed by the debtor to the Tanner´s client. For checks exists a difference among protested checks and checks sent to judicial collection. The write-offs policy has as maximum term of 540 days past due.
LEASING	According to the asset type leased (real estate, vehicle or machinery and equipment) and days of delay in payment, a percentage is applied on the outstanding principal balance. The write-offs policy has as maximum term of 540 days past due.
AUTO FINANCING	The calculation of provisions considered the use of variables that contemplate demographic aspects, conditions of the product - sales channel, vehicle type and characteristics of the credit - and internal behavior, as payment history, recoveries and defaults, among others. The write-offs policy has as maximum term of 420 days past due.
CORPORATE LENDING	The provision is an increasing percentage on outstanding balance, which depends on of days of delay. *La política de castigos contempla como máximo plazo los 540 días de mora.*

B. Liquidity Risk

The Company manages its liquidity risk at the consolidated level, with the main source of liquidity being cash flows from its operating activities (collections) plus a series of diversified funding sources such as bonds – local and international, with a defined payments schedule, non-guaranteed banking credit lines, primarily short-term which are renovated in a regular basis, and commercial papers.

The Company has a daily cash flow management system that includes a simulation of all assets and liability, so as to anticipate cash needs. Additionally, there's a monthly Finance Committee meeting, were projections are reviewed and actions are defined based on the Company´s forecasts and market conditions.

The indirect subsidiary Tanner Corredores de Bolsa S.A. is subject to requirements set forth by the Superintendencia de Valores y Seguros (SVS) and must comply with regulations with respect the General Liquidity Index and Intermediation Liquidity Index, to which the subsidiary has continued compliance during the period under analysis.

As of June 30, 2016, the Company – at a consolidated level – maintains cash for $35,675 million, versus $31,785 million in December, 2015.

C. *Market Risk*

Financial or market risk refers to the exposure to economic losses due to adverse activity in market factors, such as price, interest rate, currency, price-level restatement, among others; affecting the value of any operation recorded in the balance sheet.

i. *Price Risk*

This is defined as the risk of receiving a lower amount than what had been invested when selling a debt instrument, for example bonds, as a consequence of the instrument´s profitability generated by the instrument being lower than that required by the market at the time of the sale. For financial instruments, the price risk is directly related to interest rate risk.

The total portfolio of this instruments is US$ 30 million at the end of June, 2015, and its sensibility to a variation of +/- US$ 1 in the price of this instruments is +/-US$ 567,000.

ii. *Interest Rate Risk*

This is defined as the risk of losses due to adverse activity in the intertemporal interest rate structure and which affect the value of loans, contracts or other operations recorded in the balance sheet.

As of June 30, 2016, the Company is exposed to interest rate risk in: (i) operations with derivative, trading and hedging instruments, which have maturity up to 5 years and (ii) the currencies *Unidades de Fomento* (inflation-adjusted currency), *Chilean Pesos* and *United States Dollars*, however, all positions with variable interest rate are covered.

iii. *Currency Risk*

This is defined as the exposure to potential losses due to changes in the value assets and liabilities recorded in foreign currency. The Company, due to its business and funding sources is exposed to risks in United States Dollars, which mitigates using derivative instruments of trading and hedging.

By June, 2016, Tanner has a currency risk exposure of US$ 4.8 million, which, in terms of sensitivity to this risk, would affect the result by +/- $ 1 million against a +/- $1 variation in the dollar exchange rate, for every US$ 1 million mismatched.

iv. Price-Level Restatement Risk

This corresponds to the exposure to potential losses caused by changes in the inflation-adjusted currency – *Unidades de Fomento* – due to the existence of assets and liabilities recorded in that currency which could generate losses in the conversion to Chilean Pesos, Tanner's functional currency, risk which is mitigated by using derivative instruments, usually "*swaps*".

By the end of the first half of 2016, the exposure in *Unidades de Fomento* is CLF$ 1.04 million, which, in terms of sensitivity to this risk, would affect the result by +/- $ 1 million against a +/- $1 variation in the *Unidad de Fomento*, for every CLF$ 1 million mismatched.

For further details on this section, please refer to Note 4 of the Financial Statements of the Company as of June 30, 2016.

Tanner
Servicios Financieros