Santander
INVESTOR RELATIONS

Banco Santander-Chile anuncia resultados del cuarto trimestre 2018

Febrero 4, 2019

(GLOBE NEWSWIRE via COMTEX) --Santiago, Chile, February 4, 2019. Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results[1] for the twelve month period ended December 31, 2018 (12M18) and fourth quarter 2018 (4Q18).

Net income attributable to shareholders increased 20.7% QoQ and 16.3% YoY in 4Q18. ROAE[2]4Q18 at 19.8%

Net income attributable to shareholders in 4Q18 totaled Ch$156,644 million (Ch$0.83 per share and US$0.48 per ADR), increasing 20.7% compared to 3Q18 (from now on QoQ) and 16.3% compared to 4Q17 and ROAE reached 19.8% in the quarter. Quarterly results were driven by loan growth, client revenues, better asset quality and an improvement in efficiency.

Net income attributable to shareholders increased 4.8% YoY. ROAE 12M18 of 19.2%

Net income attributable to shareholders for 12M18 totaled Ch$ 591,902 million, increasing 4.8% maintaining an ROAE of 19.2% year-to-date (YTD), in line with guidance. These record level profits were driven by strong loan growth, an improvement in the funding mix, stable net interest margins net of risk, positive fee growth and greater efficiency levels. This was partially offset by lower results from financial transactions net and a higher tax rate.

Loan portfolio growing 9.2% YoY. Strong focus on consumer lending in 4Q18

Total loans increased 9.2% YoY and 1.0% QoQ in 4Q18. During 2018, higher economic activity led to a higher level of investment and greater business confidence. This led to strong growth in our commercial lending as companies started to reactivate their investment projects. This was especially true in the Middle-market in which loans increased 1.0% QoQ and 13.5% YoY.

In 4Q18, the Bank in to order to improve margins, while maintaining strong capital ratios, shifted its focus towards consumer loans. Loans to individuals increased 3.5% QoQ and 9.8% YoY, led by consumer loans that increased 4.1% QoQ, and 7.0% YoY. Mortgage loans increased 3.4% QoQ and 11.6% YoY as the housing market continued to show positive trends.

Non-interest bearing demand deposits increase 12.5% YoY

In 4Q18, the Bank's total deposits increased 5.0% QoQ and 10.8% YoY. The Bank's non-interest bearing demand deposits grew strongly in the quarter, led by a rise in all business segments, reflecting greater client loyalty. In 4Q18, time deposits grew 9.7% YoY and 2.3% QoQ. Due to the strong increase of deposits in the quarter, the Bank's liquidity levels also increased and our LCR ratio reached 151.6% and the NSFR ratio reached 109.5% as of December 31, 2018.[3] Mutual funds brokered grew 10.3% YoY as the Bank also successfully cross-sold this product despite weaker equity markets.

Capital ratio rises 40bp QoQ to finish the year at 10.6%

During the quarter, the Bank's high profitability generated 40bp of core capital. The Bank ended 2018 with a solid core capital ratio[4] of 10.6% and a total BIS ratio[5] at 13.4%.

NIM stable at 4.4% in 4Q18, as improving loan mix compensates rising interest rates

The Bank's net interest margin (NIM)[6] in 4Q18 was 4.4%, lower than the 4.6% in 4Q17, however stable compared to 12M17. Compared to 3Q18, NIMs remained flat at 4.4%. In October 2018, the Central Bank increased short term rates by 25bp to 2.75%. As the Bank's liabilities re-price faster than our assets, this rise in rates had a negative impact on margins and our average cost of funds rose 20bp QoQ to 2.9%. This was offset by the improved funding mix and the focus on higher yielding loans. Compared to 4Q17, our NIM contracted by 20bp due to higher funding costs. This was only partially offset by the positive impact of higher UF inflation in 4Q18 compared to 4Q17 and the increase in non-interest bearing demand deposits.

Asset quality continues to improve, particularly in consumer and mortgage loans.

During the quarter, provisions decreased 4.6% compared to 4Q17 and 24.0% compared to 3Q18. As a reminder in 3Q18 the Bank recognized a one-time charge of Ch$20,000 million for additional provisions in our consumer provisioning model, anticipating future changes to our expected loss model. Not considering these additional provisions, provisions in the quarter decreased 4.1%. Cost of credit in 4Q18 remained stable at 1.0% as the expected loan loss ratio (Loan loss allowance over total loans) improved slightly to 2.6% in the quarter.

The total NPL ratio improved to 2.1% as of December 2018 and the impaired loan ratio improved 60bp YoY and 10bp QoQ to 5.9%. The improvement in both the NPL and impaired loan ratio, along with a lower expected loss ratio reflects the more positive economic trends in Chile in 2018. The total Coverage ratio[7] improved to 129.3% in the quarter.

NIM, net of risk stable at 3.4% in 12M18 and 3.5% in 4Q18

When adjusted for risk, the Bank's NIM, net of cost of credit remained stable throughout 2018 at 3.4%, reflecting that our asset mix shift has been compensated with better asset quality.

Positive fee growth from business segments offset by lower collection fees

In 4Q18, fee income increased 1.7% compared to 4Q17 and decreased 2.4% compared to 3Q18. Growth from business segments has been offset by lower collection of insurance fees due to a change in methodology for estimating refunds of insurance premiums collected following the pre-payment or refinancing of mortgage loans. Fees in Retail banking increased 7.6% compared to 4Q17 and 3.0% compared to 3Q18. Client loyalty continues to rise in retail banking with loyal individual customers (clients with >4 products plus minimum usage and profitability levels) in the High-income segment growing 8.3% YoY and loyal Mid-income earners growing 8.2% YoY. Fees in the Middle-market increased 3.1% compared to 4Q17 and 0.5% compared to 3Q18. Customer loyalty has been expanding with Loyal Middle-market and SME clients growing 4.3% YoY. Fees in SCIB increased 33.5% compared to 4Q17 and decreased 18.4% compared to 3Q18. Fees in this segment are deal driven and after an increase in activity at the start of 2018, business from Corporates slowed down in the fourth quarter.

Results from financial transactions, net recovering in the quarter

In 4Q18, results from Total financial transactions, net was a gain of Ch$35,770 million in 4Q18, an increase of 96.8% compared to 4Q17 and an increase of 29.9% compared to 3Q18. The strong quarter was mainly due to an increase in Client treasury services as Debt Capital Markets and Market Making for our clients performed well in the quarter as various large corporates structured their financing needs for their investment projects with us.

Continued improvements in productivity and digitalization leads to an efficiency ratio of 40.0% in 12M18

The Bank's efficiency ratio reached 40.0% in 12M18 compared to 40.8% in 2017. The improvement of the efficiency ratio is mainly due to the various initiatives that the Bank has been implementing to improve productivity and efficiency through digitalization in 2018. This led to Operating expenses, excluding Impairment and Other operating expenses, in 4Q18 increasing just 1.0% QoQ and 0.4% YoY.

[1].The information contained in this report is unaudited and is presented in accordance with Chilean Bank GAAP as defined by the Superintendency of Banks of Chile (SBIF).

[2]. Return on average equity

[3].LCR= Liquidity Coverage Ratio under ECB rules. These are not the Chilean models. NSFR= Net Stable Funding Ratio according to internal methodology.

[4]. Core Capital ratio = Shareholders' equity divided by Risk-weighted Assets (RWA) according to SBIF BIS I definitions.

[5]. BIS ratio: Regulatory capital divided by RWA.

[6]. NIM = net interest margin or net interest income divided by average interest earning assets.

[7]. LLA/ Total NPLs. Adjusted to include the additional provision of Ch$20,000 million in 3Q18.