Banco Santander-Chile Announces Fourth Quarter 2021 Earnings

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SANTIAGO, Chile, Feb. 03, 2022 (GLOBE NEWSWIRE) -- Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results[i] for the twelve month period ended December 31, 2021 and fourth quarter 2021 (4Q21).

Net income attributable to shareholders up 49.8% YoY in 12M21, with ROAE of 22.7%

Net income attributable to shareholders in 12M21 totaled Ch$774,959 million (Ch$4.11 per share and US$1.93 per ADR), a 49.8% increase compared to the same period in 2020. The Bank's **ROAE** for 12M21 was 22.7% compared to 14.5% in 12M20, the Net interest margin (NIM) reached 4.2% in 12M21 compared to 4.0% in 12M20 and the efficiency ratio reached 36.6% in 12M21 compared to 39.8% in 12M20.

Net income attributable to shareholders in 4Q21 totaled Ch$231,761 million (Ch$1.23 per share and US$0.58 per ADR), increasing 26.3% compared to 4Q20 (from now on YoY) and 31.7% compared to 3Q21 (from now on QoQ). Strong YoY results were driven by a 14.0% increase in net interest income, which in turn was driven by asset growth, a better funding mix and a higher inflation rate. Fee income increased 37.6% YoY and 10.7% QoQ due to new product sales through digital platforms, client growth and greater product usage. This was offset by higher Provision expense, which increased 49.6% YoY and 34.4% QoQ. The Board of Directors continued to maintain a conservative stance and established additional provisions of Ch$60,000 million in the quarter. The efficiency ratio reached a world class level of 33.8% in the quarter despite greater cost pressure from rising inflation. The Bank notched its fifth consecutive quarter of plus 20% **ROAE** which reached 28.0% in 4Q21.

Client base increases 14.1% YoY and surpasses 4 million total clients

In the quarter, total clients continued to grow strongly, increasing 2.5% QoQ and 14.1% YoY and the Bank surpassed 4 million. The growth of our client base, as can be observed in the adjacent graph clearly reflects the success of our digital strategy, including Life and Superdigital. This rise in clients was driven by our digital platforms, including Life and Superdigital. Total digital clients have increased 61.7% since December 2019, and increased 30.4% in 2021 alone to 2,016,947.

Life and Superdigital driving digital account openings

The success of Life and Superdigital continued in 4Q21, with demand for these digital products remaining high. This led to a 6.1% QoQ and a 37.8% YoY increase in clients with accounts at the Bank.

Santander Life continues to be the main contributor to new client growth due to the success of this product's Meritolife Program and Digital On-boarding process for opening a checking account. Total new clients in Life in December 2021 increased 85.5% YoY and in 4Q21 Life opened 78,443 checking accounts reaching a total of 900,065. Santander Life's clients are rapidly being monetized while obtaining a high Net Promoter Score (NPS) for the onboarding process. Santander Life has an NPS of 75. This year Santander Life's client base generated revenues of more than Ch$81 billion in 2021.

In **Superdigital, a record amount of debit accounts** were opened in the quarter, providing an attractive alternative for unbanked Chileans to open a digital debit account. At the end of December 2021, we already had more than 284,000 clients, adding 69,570 new clients in the quarter. This has been led by the ease of opening these accounts online, the possibility of receiving government aid into these accounts as well as the various partnerships Superdigital has signed with companies such as Uber and Cornershop to attract new customers. Superdigital recently signed an agreement with Todas Conectadas, a platform for women entrepreneurs in Latin America and the Caribbean led by UN Women, Mastercard and Microsoft. Superdigital will be the account that will enable these women in Chile to receive payments, shop and have access to benefits and financial education courses, free of cost.

Market share in checking accounts rises 650bp to 28.9%

As a result of these efforts, the Bank's market share in checking accounts continued to rise sharply. According to the latest publicly available information, which is as of October 2021, Santander Chile has increased market share in current accounts to 28.9%, with account openings totaling 569,747 in the twelve-month period, compared to a total of 624,609 for the whole system (not including Santander) in the same period. These figures do not include Superdigital since those accounts are categorized as debit cards.

Getnet's successful initial year

Getnet's entry into Chile's acquiring market continues to show strong results. Client reception has been high with more than 62,000 POSs installed for 55,000 clients, 92% of which are SMEs. Moreover, it has an NPS score of 74 and 60% of the clients have auto installed their new POS, which demonstrates the efficiency of Getnet's systems. A star feature has been the deposit of sales receipts up to 5 times daily, including weekends. Getnet generated revenues of approximately Ch$3.9bn in the quarter and Ch$7.1 bn since being launched in February 2021.

Santander Chile holds ESG Talk, announcing 10 responsible banking commitments

For the second year in a row, Santander Chile held a virtual event with investors, where the advances of the Bank were explained by Claudio Melandri, President of the Bank, and its CEO, Miguel Mata. In this opportunity, the focus was ESG themes (Environmental, Social, and Governance), highlighting the efforts Santander has done to help its clients transition towards a greener economy and how it has reduced its own impact on the planet.

Miguel Mata announced the ten responsible banking commitments that we have established to meet in the coming years:

1. To be the best company to work for in Chile: we are currently the number 1 company in the Great Place To Work ranking in 2020 in companies with more than 1,000 workers and we have the Top Employer certification. We seek to maintain this leadership position.
2. Increase the percentage of women in managerial positions: currently 25% of managers are women and our goal is to reach 30% by 2025.
3. Eliminate the gender pay gap: we currently have a 3.1% gender pay gap and our goal is to eliminate it by 2025. The Equal Conciliation Seal, delivered by the Ministry of Women and Gender Equity, gives us a path and an official commitment to advance on this issue.
4. Work to financially empower people: between 2019 and 2020 we contributed to financially empower 921,779 people. Through our financial products such as Life we want to financially empower more than 2 million people by 2025.
5. Grant green financing to our clients: We have defined a goal for 2025 to finance our own projects and those of our clients for at least US$ 1.5 billion through our ESG framework.
6. Increase energy from renewable sources: 28% of our energy comes from these types of sources. In addition, we are committed to ensuring that 100% of the electrical energy we use comes from renewable sources.
7. Mitigate 100% of our carbon footprint and gradually reduce it: since 2019 we mitigate 100% of our carbon footprint. We will also continue to make progress in measuring the carbon footprint of our loan portfolio and we join the Group's goal of becoming carbon neutral by 2050. Regarding our own operations, the goal is to be carbon neutral by 2025, without the need to offset the footprint with the purchase of carbon credits.
8. Eliminate single-use plastics in our operation: This year we will eliminate 100% of single-use plastics.
9. Deliver scholarships, internships and entrepreneurship programs: in 2020 we awarded 2,951 scholarships for education and entrepreneurship at the local level. Our goal is to award 13,541 scholarships between 2019 and 2024.
10. Support people through our community contribution programs: during 2020 we supported 103,792 people through our education programs and other support measures for the benefit of people in vulnerable situations. In social matters between 2019 and 2024 we hope to help 493,852 people through our community programs.

During the ESG Talk, Claudio Melandri announced that the entity will be one of the first large companies in Chile and the first local bank in producing its own renewable energy. An agreement was signed with Gasco Luz and Fourtrees Capital where six solar plants of 300kW each will be built in the Coquimbo, Valparaiso and Metropolitan Region and will be fully operational by 2022. The contract consists of a 10-year lease of these solar plants that are already under construction for an annual payment of US$240,000. 100% of the energy produced in these plants will be used for energy consumption within the Bank, thus reducing its carbon footprint by 1,380 tons each year. In this manner, the energy generated in these plants will be incorporated to the national grid, permitting Santander to compensate its consumption through this contribution.

These energy plants are in line with the UN Sustainable Development Goals. In effect, in 2019 the Santander Group set as an objective to have 100% of its energy come from renewable resources in 2025 in countries where it was possible to certify the energy resource. In addition, the loan book will also be carbon neutral by 2050, in line with the Net Zero Banking Alliance, which Santander adheres to.

Furthermore, it was announced that the Bank is currently preparing its first ESG Framework which should be launched soon. Under this mechanism, the bond issues will have an official seal as ESG bonds. This framework will include a Second Party Opinion to ensure that funds will be allocated to projects, complying with the principles of the International Capital Markets Association. Initially, US$1.5 billion in initiatives have been identified that will be financed through this program. The ESG bonds will be linked to energy efficiency, renewable energy, pollution reduction, financial inclusion, and social projects.

For more information, click here to see the replay.

Funding mix improves. Deposits increase 11.5% YoY with demand deposits rising 22.9% YoY

The Bank's **total deposits** increased 11.5% YoY and decreased 6.1% QoQ in 4Q21. In the quarter, **non-interest bearing demand deposits** increased 3.1% QoQ and 22.9% YoY. The strong growth of our checking account base, the withdrawal of pension fund moneys and other direct transfers to households together with our strength in transactional services for corporate clients drove the high growth of demand deposits in 2021. On the other hand, **time deposits** decreased 18.9% QoQ despite rising rates. The monetary policy rate (MPR) rose from 1.5% in September to 4% at year-end 2021.

Loans growth accelerates in the quarter

Total loans increased 2.5% QoQ and 6.5% YoY. During the quarter, our **SCIB segment** experienced strong growth of 32.6% YoY as the economy re-opened and large corporates sought funding in the form of corporate loans as the bond market remained illiquid following the pension fund withdrawals. Our Middle-market segment also saw signs of reactivation, with loans growing 2.2% QoQ driven by the acceleration of economic activity in the quarter. The depreciation of the peso also resulted in a translation loss of dollars denominated in foreign currency. The Chilean peso depreciated 5.3% in 4Q21. Approximately 9.3% of our loan book is denominated in foreign currency, mainly US$. Our strategy with these segments continues to focus on the overall profitability of clients, focusing on non-lending activities. **Loans to SMEs** contracted 5.5% YoY and 2.5% QoQ as demand for the Fogape and Fogape Activa programs for SMEs waned (See Section 3).

Loans to individuals increased 7.4% YoY and 3.3% QoQ. **Consumer loans** increased 2.9% QoQ. This was driven by a 11.2% increase in Santander Consumer, our subsidiary that sells auto loans and represents 14.5% of total consumer loans. Despite contracting 4.3% YoY, other forms of consumer lending increased 1.7% QoQ as the economy continued to reopen and travel restrictions were lifted. **Mortgage loans** increased 11.8% YoY and 3.9% QoQ. Even though interest rates have been rising, the continued liquidity of our clients is contributing to the sustained growth, especially among high-income earners. The UF inflation rate of 3.0% in the quarter also resulted in a positive translation impact on mortgage loans as most of these loans are denominated in UF[1].

NII in 4Q21 up 14.0% YoY and NIM of 4.5% due to strong inflation in the quarter

In 4Q21, **Net interest income, NII,** increased 14.0% compared to 4Q20 and 14.7% compared to 3Q21. The Bank's **NIM** in 4Q21 was 4.5%, higher than the 4.3% in 4Q20 and the 4.0% in 3Q21. In 4Q21, the higher NIM is mainly due to the higher inflation rate and improved funding mix. In 4Q21, the Central Bank continued to tighten monetary policy, increasing the MPR from 1.5% in September to 4.0% in December. This increase in short term rates has led to an increase in our **cost of funds** from 1.8% in 3Q21 to 4.7% in 4Q21. However, this was more than compensated by the higher inflation which reached 3.0% in the quarter, leading to an increase in the **interest earning asset yield** from 6.0% in 2Q21 to 9.2% in 3Q21.

Cost of credit at 1.2% in 12M21 with high coverage of 270.5%

During the quarter, **provisions for loan losses** totaled Ch$127,034 million, increasing 49.6% YoY and 34.4% QoQ. The **cost of credit** in 4Q21 reached 1.4%, increasing from 1.1% in 3Q21 and 1.0% in 4Q20. This led to a cost of credit of 1.2% for the full year. The Board of Directors continued to maintain a conservative stance and established additional provisions of Ch$60,000 million in the quarter.

The **Expected loan loss ratio** (Loan loss allowance over total loans) increased from 3.2% in 3Q21 to 3.3% in 4Q21 and the **total Coverage ratio,** including the additional provisions, reached 270.5% in 4Q21. During 4Q21 the **NPL ratio** remained stable at 1.2% compared to 3Q21 and an improvement compared to the 1.4% in 4Q21. The **impaired loans ratio** continued to fall, reaching 4.5% at year-end.

Fee income increases 37.6% YoY driven by rise in client base

Fee income increased 37.6% compared to 4Q20 and 10.7% compared to 3Q21. Fees in the quarter continued to show healthy signs of pick-up driven by various new products, client growth and greater product usage as the economy reopens. In the quarter, total clients continued to grow strongly, increasing 2.5% QoQ and 14.1% YoY and the Bank surpassed 4 million clients driven by the increase in current account openings with digital clients increasing 4.3% QoQ and 30.4% YoY, thanks to our successful digital offer, including Life and Superdigital.

Results from Total financial transactions, net was a gain of Ch$27,256 million in 4Q21, an increase of 572.3% compared to 4Q20 and a decrease of 21.3% compared to 3Q21. **Client treasury services** revenues reached a gain of Ch$49,405 million in the quarter, an increase of 61.4% compared to 4Q20 and 4.2% compared to 3Q21. **Non-client treasury** totaled a loss of Ch$22,149 million in the quarter.

Productivity continues to rise. Efficiency ratio of 33.8% in the quarter.

Operating expenses increased 4.8% QoQ and 8.9% YoY in the fourth quarter. The Bank continues to advance in the execution of its investment plan of US$260 million for the years 2022-2024 with a focus on digital initiatives both at the front and back-end. The recent rise in costs in 4Q21 was mainly due to depreciation of the peso and the rise in inflation in the quarter, especially on administrative expenses. Despite this rise, the Bank's **efficiency ratio** reached a record low level in the year of 33.8% in 4Q21 and 36.6% for the full year 2021. **Productivity** has continued to improve demonstrating the strength of our digital channels, with digital clients defined as those using internet and mobile banking increasing over 30% in the year. Volumes (loans plus deposits) per branch increased 16.6% YoY and volumes per employee rose 16.7% YoY.

BIS III begins. First Chilean issuer of AT1 perpetual bond.

The Bank's **core capital ratio**[2] was 9.6% as of December 31, 2021. The Bank's **Tier 1 ratio** was 12.3% and the **total BIS ratio**[3] was 15.9% at year-end 2021. The new risk weightings for assets under BIS III requirements became effective on December 1, 2021 and as of that date **Risk weighted assets (RWA)** now include credit, market, and operational risk. For this reason, RWA increased 4.1% compared to the previous quarter and 8.8% YoY. To further bolster capital ratios, in October 2021, the Bank became the first Chilean bank to **issue an AT1 perpetual bond**. The bond is for US$ 700 million with no fixed maturity and not redeemable before five years from the date of issuance. For a more detailed description of BIS III implementation in Chile, which started in December 2021, please see **Annex 1: Summary new capital requirements under BIS III.**

Banco Santander Chile is the largest bank in the Chilean market in terms of loans and assets. As of December 31, 2021, the Bank had total assets of US$ 74.5 billion, loans net of provisions of US$ 41.8 billion, deposits of US$ 32.8 billion, and total equity of US$ 4.1 billion. The BIS capital ratio as of December 31, 2021 was 15.9%, with a core capital ratio of 9.6%. Banco Santander Chile is one of the companies with the highest risk classifications in Latin America with an A1 rating from Moody's, A- from Standard and Poor's, A+ from Japan Credit Rating Agency, and AA- from HR Ratings.

CONTACT INFORMATION
Robert Moreno
Investor Relations
Banco Santander Chile
Bandera 140, Floor 20
Santiago, Chile
Tel: (562) 2320-8284
Email: irelations@santander.cl
Website: www.santander.cl

1 Unidad de Fomento (UF), an inflation indexed unit. The UF is revalued in monthly cycles. Each day in the period beginning on the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. One UF equaled Ch$29,394.77 at March 31, 2021 and Ch$28,597.46 at March 31, 2020.
2. Core Capital ratio = Shareholders' equity divided by Risk-weighted Assets (RWA) according to CMF BIS I definitions.
3. BIS ratio: Regulatory capital divided by RWA.

i The information contained in this report is unaudited and is presented in accordance with Chilean Bank GAAP as defined by the Financial Markets Commission (CMF).