



Banco Santander-Chile anuncia resultados del cuarto trimestre 2015

Febrero 1, 2016

Santiago, Chile, February 1st, 2016. Banco Santander Chile (NYSE: BSAC; SSE: B santander) announced today its unaudited results for the Fourth quarter of 2015^[1].

ROAE reached 18.1% on a recurring basis in 2015, led by an 8.6% increase in net operating profits from business segments

In 2015, Banco Santander Chile's **Net income attributable to shareholders totaled Ch\$448,878 million** (Ch\$2.38 per share and US\$1.35/ADR), decreasing 18.4% compared to 2014. The Bank's sound business trends were offset by the negative impacts of a lower inflation rate on margins, one-time provision expenses recognized due to new regulations and a higher tax rate. The Bank's **ROAE** reached 17.1% in 12M15. Adjusting for the pre-tax voluntary provision of Ch\$35,000 million for new provisioning requirements, **the Bank's adjusted ROE in 2015 reached 18.1%**. The Bank's business units showed positive operating trends in 2015. **Net operating profits from business segments^[2] increased 8.6% YoY** in 12M15. Net operating profit from Retail banking^[3] increased 10.6% YoY and 17.7% in the Middle-market^[4]. This has been achieved through positive loan growth, an improved funding mix, a rebound in fee income and lower provision expenses. These positive results were partially offset by lower results from Global corporate banking, which although has seen a solid rise in margins because of strong demand deposit growth, this was more than offset by higher provisions and lower corporate advisory fee income.

Net income attributable to shareholders in 4Q15 totaled Ch\$83,783 million (Ch\$0.44 per share and US\$0.25/ADR), decreasing 35.2% QoQ and 39.6% YoY. The Bank's ROAE reached 12.4% in the quarter. 4Q15 results include non-recurring pre-tax provisions of **Ch\$50,000 million** related to (i) the new provisioning requirements regarding mortgage loans and (ii) other one-time provisions recognized in the Middle-market and Global corporate banking segments.

Loans up 10.5% YoY. Growth focused in segments with a higher risk-adjusted profitability

Total loans increased 0.3% QoQ and 10.5% YoY in 4Q15. Loan growth continued to be focused on segments with a higher risk-adjusted profitability. **Retail banking loans** (loans to individuals and SMEs) increased 3.6% QoQ and 12.1% YoY. **Loans to individuals** increased 3.9% QoQ and 12.9% YoY, led by growth of loans to the Mid- to high income that increased 4.2% QoQ and 14.3% YoY. **Loans to SMEs** increased 2.4% QoQ and 9.2% YoY with loan growth focused on larger SMEs that also generate non-lending income. This was offset by a 3.5% QoQ decrease of loans in the **Middle-market** and a 12.3% QoQ decline in loan volumes in **Global corporate banking**. During the quarter, spreads in these segments tightened, resulting in a temporary pause of our loan growth in these areas.

Total deposits increased 15.7% YoY. Improving client loyalty drives demand deposit growth

Total deposits increased 4.2% QoQ and 15.7% YoY. In the quarter, deposit growth was led by **demand deposits** that increased 10.7% QoQ and 13.5% YoY. Demand deposits grew at healthy rates in all segments throughout the year, as the Bank continued to improve client loyalty and service indicators. Non-interest bearing demand deposits from retail banking increased 5.6% QoQ and 12.2% YoY. In the middle-market, demand deposits grew 8.5% QoQ and 15.4% YoY. Finally, in Global corporate banking demand deposits increased 13.7% QoQ and 11.5% YoY. This rise in demand deposits in the quarter also helped to mitigate the negative impact of rising short-term interest rates on funding costs.

BIS Ratio at 13.4% with a Core capital ratio of 10.3%. Dividend yield at 4.8%

The Bank's **Core Capital** ratio reached 10.3% as of December 31, 2015 and the Bank's **BIS ratio^[5]** reached 13.4% at the same date. . If the Bank's dividend payout ratio remains unchanged at 60%, as has been the case in the past five years, the dividend yield would be 4.8% with 2015's closing share price. According to the latest published data, Santander Chile leads its main peers in core capital and total BIS ratio.

Stable asset quality in the quarter. New provision guidelines set by the SBIF

The Bank's total **Non-performing loans (NPLs) ratio** remained stable at 2.5% in 4Q15 compared to 2.5% in 3Q15 and 2.8% in 4Q14. **Total Coverage of NPLs** in 4Q15 reached 117.3% compared to 114.0% in 3Q15 and 108.8% in 4Q14. The improvement of most of the Bank's asset quality metrics continued to reflect the change in the loan mix, the focus on pre-approved loan through our CRM, the improvements in asset quality in SMEs and the strengthening of our collections area. **Provision for loan losses** increased 46.4% QoQ and 36.9% YoY in 4Q15. As mentioned, 4Q15 results include non-recurring pre-tax provisions of **Ch\$50,000 million** related to: (i) a one-time voluntary provision of Ch\$35,000 million taken to comply with new provisioning requirements, mainly for mortgage loans. Since January 2016, Chilean banks in accordance with rules adopted by the SBIF, must use a **new standard credit-provisioning model** to calculate loan loss allowances for residential mortgage loans analyzed on a collective basis. This new model mainly affect mortgage loans, but also has some impacts on loan loss allowance for substandard consumer and commercial loans, and (ii) an extraordinary loan loss provision of Ch\$15,000 million in the salmon sector and for a company in the financial services industry.

Lower inflation affects NIMs in the quarter

In 4Q15, **Net interest income** decreased 3.8% QoQ and 10.6% YoY. The **Net interest margin (NIM)** reached 4.7% in 4Q15 compared to 4.9% in

3Q15 and 5.8% in 4Q14. This reduction of NIMs was mainly due to the lower inflation rate in 4Q15 compared to 3Q15 and 4Q14. The Bank has more assets than liabilities linked to inflation and, as a result, margins have a positive sensitivity to variations in inflation. In 4Q15, the variation of the *Unidad de Fomento* (an inflation indexed currency unit), was 1.1% compared to 1.5% in 3Q15 and 1.9% in 4Q15. In 4Q15, **Client NIMs** (defined as Client net interest income^[6] divided by average loans), which excludes the impact of inflation, reached 4.8% compared to 4.9% in 3Q15 and 5.0% in 4Q14. This trend was mainly associated to the shift in the asset mix to less riskier segments, which is supporting our **Client NIMs, net of provisions**^[7]. For the full year 2015, Client NIMs, net of provisions reached 3.4% compared to 3.5% in 2014. This reduction was mainly due to the extraordinary provisions recognized in Global corporate banking. Client NIMs, net of provisions in Retail and the Middle-market were stable at 3.5% in 2015, as the shift in the loan mix and the better funding mix offset lower loan spreads.

Fee income in Retail banking increases 8.8% YoY. Client loyalty continues to expand

Net fee and commission income decreased 8.6% QoQ and 0.8% YoY in 4Q15. In the quarter, fees were negatively affected by the lower growth of the economy and weaker markets which reduced fees from investment banking activities (financial advisory, bond issuances, etc.) and lower brokerage income. For the full-year 2015, fees increased 4.6%. Fees in Retail banking grew 8.8% and Middle-market fees increased 5.5%. This rise in fees was due to greater product usage and customer loyalty. Loyal individual customers (clients with 2-4 products plus minimum usage and profitability levels) in the Mid-high income division increased 6.3% YoY. Among Middle-market and SME clients, total loyal customers grew 11.2% YoY.

Extraordinary severance expenses drives cost growth

Operating expenses, excluding impairment and other operating expenses increased 9.5% QoQ and 17.3% YoY. The **Efficiency ratio** reached 43.5% in 4Q15 and 41.3% in 12M15. The rise in costs in the quarter was mainly due to: (i) Ch\$6,300 million higher severance payments as part of a cost efficiency plan implemented this year, (ii) the impacts of inflation indexation on wages, (iii) higher administrative expenses denominated in foreign currency due to depreciation of the peso (with a corresponding counterbalancing hedge in Financial transactions, net), (iv) greater business activity and (v) the accelerated amortization of various intangible assets in the quarter. These intangible assets mainly consisted of software developments that were no longer in use or that were being replaced. The growth rate of expenses should begin to stabilize given the stability in headcount, lower severance payments, greater productivity in the branch network and higher usage of digital banking services.

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

^[2] Net operating profit from business segments: Net interest income + Net fee and commission income + total financial transactions, net - provision for loan losses. These results exclude our Corporate Activities, which include, among other items, the impact of the inflation on results.

^[3] Retail: includes individuals and SMEs: defined as companies with sales below than Ch\$1,200 million per year.

^[4] Middle-market is defined as companies with sales between Ch\$1,200 million and Ch\$10,000 million per year + Companies that engage in real estate industry that sell properties with annual sales exceeding Ch\$800 million with no ceiling + Other companies such as large corporations with annual sales exceeding Ch\$10,000 million and Institutional companies that serve institutions like universities, government entities and local and regional governments.

^[5] BIS ratio: Regulatory capital divided by risk-weighted assets according to SBIF BIS I definitions.

6. Client net interest income (NII) is Net interest income from all client activities such as loans and deposits minus the internal transfer rate and the spread earned over the Bank's capital.

^[7] The Client NIM, net of provision expense excludes non-recurring provisions recognized as a result of regulatory changes in 2015 and changes in our provisioning models in 2014.

