Banco Santander-Chile anuncia resultados del segundo trimestre 2016

Julio 28, 2016

Santiago, Chile, July 28th, 2016. Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results for the first half and second quarter of 2016.

Adjusted net income increased 6.0% YoY in 1H16, resulting in a ROE of 18.2%

In the first half of 2016 (1H16), **net income attributable to equity holders,** excluding a pre-tax one-time severance expense of Ch$10,789 million, totaled Ch$249,939 million (Ch$1.33 per share and US$0.80/ADR) and increased 6.0% compared to the first half of 2015 (1H15). The **Bank's adjusted ROE**[1] reached 18.2% in 1H16, the same level achieved in 1H15. Including the extraordinary charge, net income totaled Ch$241,739 million (Ch$1.28/share and US$0.77/ADR) and the ROE was 17.7% in 1H16.

Healthy loan and deposit growth, greater customer loyalty and sound asset quality indicators were the driving forces that propelled our results in the first half. **The net contribution from our business segments**[2] rose 11.1% YoY.

Adjusted ROE reached 18.3% in 2Q16

In the second quarter of 2016 (2Q16), **Net income attributable to shareholders in 2Q16,** excluding the extraordinary one-time severance expense already mentioned, totaled Ch$124,500 million (Ch$0.66/share and US$0.40/ADR). The **Bank's adjusted ROE reached 18.3% in the quarter**. Reported net income was Ch$116,300 million (Ch$0.62 per share and US$0.37/ADR), decreasing 7.3% QoQ and 17.1% YoY. The reported ROE was 17.1% in the quarter.

Loans up 8.0% YoY. Growth focused in segments with the highest profitability, net of risk

Total loans increased 1.8% QoQ and 8.0% YoY in 2Q16. The Bank continued to focus loan growth on segments with the highest profitability, net of risk. **Retail banking loans** (loans to individuals and small and middle-sized enterprises, SMEs) increased 2.6% QoQ and 12.7% YoY. The Bank is still focusing on expanding its loan portfolio in middle and high-income individuals, but with a more balanced growth between consumer and mortgage loans to boost overall spreads. As a result, **consumer loan** growth accelerated to 2.4% QoQ, while **Residential mortgage loans** expanded 2.7% QoQ. Loans in the **Middle-market** expended 1.1% and 2.0% YoY as lower economic growth has slowed demand for loans in this segment. In our GCB unit, **large corporate loans** increased 6.8% QoQ but decreased 1.1% YoY. Loan growth in this segment is volatile due, in part, to large transactions that are not necessarily recurrent between one quarter and the next.

Total deposits increased 10.3% YoY in 2Q16

Total deposits increased 2.2% QoQ and 10.3% YoY. **Non-interest bearing demand deposits** increased 2.2% QoQ and 8.7% YoY. Notable was the rise in demand deposits in the GCB segment, which expanded 23.0% QoQ and 28.9% YoY. This high growth is a reflection of our strength in cash management services. **Time deposits** increased 2.2% QoQ and 11.3% YoY. This growth came from our retail customers, as well as wholesale deposits from institutional sources. The high liquidity in the local market is resulting in an ample supply of deposits, which has been beneficial for margins.

Core Capital ratio[3] at 10.1% and BIS ratio of 13% in 2Q16 after payout of 75% of 2015 earnings

The Bank's **Core Capital ratio** reached 10.1% and its **BIS ratio** was 13.0% as of June 30, 2016. The Bank paid its annual dividend in April, equivalent to 75% of 2015 earnings. This payout was temporarily increased from the 60% paid out in the previous year. Despite this increase in payout, the Bank's core capital ratio increased 10bp YoY due to the Bank's solid profitability levels and the control of Risk-weighted Asset (RWAs) growth.

Client net interest income up 6.3% in 2Q16. Client NIMs stable at 4.8%

In 2Q16, **Net interest income, NII,** increased 5.0% QoQ and decreased 1.0% YoY. The **Net interest margin** (NIM[4]) reached 4.6% compared to 4.5% in 1Q16 and 5.1% in 2Q15. The YoY decrease in NIM in the quarter was mainly due to the lower inflation rate in 2Q16 compared to 2Q15. In 2Q16, the variation of the *Unidad de Fomento* (an inflation indexed currency unit), was 0.9% compared to 0.7% in 1Q16 and 1.5% in 2Q15. The Bank has more assets than liabilities linked to inflation. Therefore, margins go up when inflation accelerates and vice-versa.

Client net interest income[5]**,** which is NII from our business segments and excludes the impact of inflation, increased 1.5% QoQ and 6.3% YoY, driven mainly by loan growth and a higher yielding loan mix. **Client NIMs**[6] reached 4.8% in 2Q16 compared to 4.8% in 1Q16 and 4.9% in 2Q15. On a QoQ basis, the Bank's client NIMs remained steady since loan spreads have been rising in the segments we are targeting. On a YoY basis, the 10bp decline in client margins was mainly due to the shift in the asset mix to less riskier segments, which is gradually improving asset quality.

Steady improvement of asset quality: NPLs down to 2.2%, Cost of credit at 1.3% in 2Q16

The Bank's strategy of de-risking the asset mix continues to have a positive impact on asset quality. In 2Q16, the **Non-performing loans (NPLs) ratio** improved to 2.2% from 2.5% in 1Q16 and 2.7% in 2Q15. Total **Impaired loans**, a broader measure of asset quality that includes NPLs and renegotiated loans, improved 10 bp. QoQ to 6.3% and 40 bp. since the end of 2Q15. **Total Coverage of NPLs** in 2Q16 reached 140.5% compared to 122.5% in 1Q16 and 106.4% in 2Q15.

Provision for loan losses increased 7.1% QoQ and 2.3% YoY in 2Q16. The **cost of credit** in the quarter was 1.3% compared to 1.2% in 1Q16 and 1.4% in 2Q15. The QoQ rise in provision for loan losses was mainly due to higher provision expenses in consumer loans. As mentioned in previous earning reports, the Bank continues to push forward its strategy of lowering exposure to the low-end of the consumer loan market. This entails an active policy of charging-offs loans in this sub-segment and bolstering the coverage ratio. The **Consumer loan NPL ratio** improved to 20bp QoQ to 2.1%. The **coverage ratio of non-performing consumer loans** reached 306.7% as of June 30, 2016.

Fee income increases 9.6% YoY in 2Q16. Client loyalty continues to expand

Net fee and commission income increased 1.4% QoQ and 9.6% YoY in 2Q16. This rise in fees was in part due to greater product usage and customer loyalty and a recovery of fees in GCB. Loyal individual customers (clients with >4 products plus minimum usage and profitability levels) in the high-income segment grew 8.7% YoY. Among Middle-market and SME clients, total loyal customers grew 12.7% YoY. By products, the drivers of fee growth were mainly credit cards, debit cards, and checking accounts.

Cost control measures beginning to pay-off: operating expenses up 4% YoY in 2Q16

Operating expenses increased 4.0% YoY in 2Q16. This was the lowest quarterly YoY growth rate in the last seven quarters. The Bank has been implementing several measures to lower cost growth to mid-single digits by year-end 2016. **Personnel salaries and expenses** increased 5.1% YoY in 2Q16, also the lowest growth level in seven quarters. This has been achieved by reducing high-level management positions. **Administrative expenses** decreased 2.7% YoY. The Bank in the last 12 months has closed 10 branches and eliminated 120 ATMs. This has been replaced by an increase in transaction through more efficient channels, such as internet, mobile and phone banking. The effectiveness of the Bank's CRM has also increased productivity.

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[1]. Return on Equity, ROE = Net income distributable to shareholders divided by average shareholders' equity.

[2]. Net business segment contribution: Net interest income + Net fee and commission income + Financial transactions, net - Provision expense - Operating expenses from our reporting segments. These results exclude our Corporate Center and the results from Financial Management, which includes, among other items, the impact of the inflation on results.

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

[4]. Net interest income, annualized, divided by average interest earning assets.

[5]. Client net interest income: NII from the Bank's reporting segments that includes NII from the Retail, Middle-market and GCB segments, excluding GCB's Treasury division. Non-client NII: NII from Bank's inflation gap, the financial cost of hedging, the financial cost of the Bank's structural liquidity position, NII from treasury positions and the interest expense of the Bank's financial investments classified as trading, since NII from this portfolio is recognized as Financial transactions net.

[6]. Client NII divided by average loans.