Santander INVESTOR RELATIONS

# Banco Santander Chile Announces First Quarter 2018 Earnings

April 27, 2018

Santiago, Chile, April 27, 2018. Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results for the first quarter of 2018.

**Net income attributable to shareholder increased 6.1% YoY. ROAE 3M18 of 19.4%**

**Net income attributable to shareholders** in 3M18 totaled Ch$151,016 million (Ch$0.80 per share and US$0.53/ADR), increasing 12.1% compared to 4Q17 (from now on QoQ) and 6.1% compared to 1Q17. The Bank's **ROAE**[1] in the quarter reached 19.4%. The positive evolution of our results reflects solid operating trends in terms of business volumes growth, strong growth of non-lending activities, a stable cost of credit and a tight control of costs.

**Loan volume growth accelerating in line with economy.**

In 1Q18**, total loans** increased 3.2% YoY and accelerating to an annualized growth rate of almost 9% in the quarter (2.2% QoQ). This was mainly driven by greater economic activity and business confidence reflected in the strong growth of commercial loans in the quarter. **Loans in Global Corporate Banking (GCB)** grew 15.5% QoQ after a 21.0% decrease in volumes in 4Q17. **Loans in the Middle-market** increased 2.9% QoQ and 6.7% YoY, indicating that this segment is also gradually gaining momentum. These loans are generally lower yielding than retail loans. On the other hand, the greater demand for loans in these segments reflects that the investment rate in the economy is finally recovering after a prolonged deceleration. This should eventually fuel greater loan growth in higher yielding segments and greater non-lending income.

**Retail banking loans** increased 0.8% QoQ and 3.8% YoY with growth from **Loans to individuals** that increased 1.6% QoQ and 4.7% YoY. **Mortgage loans** increased 1.9% QoQ and 6.0% YoY and **Consumer loans** increased 0.8% QoQ and 2.1% YoY. Loan growth among middle and high-income earners increased 1.9% QoQ and 5.9% YoY. At the end of 2017, the Bank launched **Santander Life**, our new business model for the mass consumer market. At the end of March 2018, Life had 15,200 clients, 60% of which are new clients to the Bank. Approximately 30% of new account plans are Life plans.

**Loans to SMEs** decreased 2.5% QoQ and increased 0.2% YoY. In our SMEs segment, the Bank also continues to focus on growing the loan book among larger, less riskier SMEs due to risk considerations and also due to the fact that larger SMEs generate higher *non-lending* revenues.

**Positive demand deposit growth in the quarter. Cost of funds[2]continues to improve**

In 1Q18, the Bank's total deposits grew 2.3% QoQ, led by a 5.2% rise in non-interest bearing demand deposits. YoY growth was slower at 0.2% due to the Bank's funding strategy in 2017, which focused on lowering deposits rates in tandem with the lower Central Bank rates, and optimizing liquidity levels, leading to an improvement in the cost of funding. The total average cost of deposits including demand and time deposits decreased from 2.1% in 3M17 to 1.7% in 3M18.

**Solid core capital[3]ratio of 11.1% as of March 2018.**

The Bank's **Core capital ratio** reached 11.1% as of March 2018, 12bp higher than the level at year-end 2017 and 31bp higher than March 2017. The total **BIS ratio**[4]reached 14.0% as of March 2018 compared to 13.9% at year-end 2017. **Risk weighted assets (RWA)** increased 2.2% in 1Q18 compared to a growth of 3.4% in core shareholders equity. This allowed the Bank's Board to propose the distribution of 75% of 2017 earnings as a dividend, which was approved by shareholders on April 24, 2018. The dividend yield, considering the register date in Chile on April 19, 2018, was 4.2%.

**Total NII increases 8.8% YoY**

In 1Q18, **Net interest income, NII,** increased 0.1% QoQ and 8.8% YoY. Compared to 1Q17, **NIM**[5] increased from 4.2% to 4.5% as a result of our focus on volume growth based on profitability during 2017, along with a lower a cost of funding and a higher inflation rate. The 10bp decrease in NIM on a QoQ basis was mainly due to the mix of loan growth, which was led by corporate and middle-market lending.

**Cost of credit remains stable at 1.1% in 1Q18**

**Provision for loan losses** increased 2.1% YoY and decreased 1.8% QoQ in 1Q18. The Bank's **cost of credit** remained stable at 1.1% of loans. The **total NPL ratio** reached 2.3% as of March 2018, flat compared to 4Q17 and 10bp higher than in 1Q17. The impaired loan ratio increased 30bp compared to 1Q17, but decreased 10bp QoQ to 6.4%. The YoY rise in both the NPL and impaired loan ratio reflect of the weak economic growth experienced through most of 2017. At the same time, the stable QoQ evolution of both these indicators is mainly a result of the better economic trends seen in the current quarter.

**Greater customer loyalty & satisfaction fueling fee growth**

In 1Q18, fee income increased 13.9% QoQ and 3.7% YoY driven by **retail banking fees** that increased 15.4% QoQ and 13.4% YoY. 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 grew 10.9% YoY. Among Mid-income earners, loyal customers increased 4.4% YoY. By products, the biggest contributors to fee income growth were credit and debit card fees, asset management and checking account fees.

**Continued improvements in productivity leads to an efficiency ratio of 38.7% in 3M18**

The Bank's **efficiency ratio**[6] reached 38.7% in 3M18 compared to 40.0% in the same period of last year. The improvement of the efficiency ratio is due to an increase in operating income and a low growth of costs as a direct consequence of the various initiatives that the Bank has been implementing to improve commercial productivity and efficiency. In 1Q18, **operating expenses** increased 1.2% YoY (the QoQ decrease is mainly a seasonal effect). This controlled increase in costs was mainly due to a decrease in personnel expenses of 3.4% YoY in 1Q18.

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[1]. ROAE: Return on average equity: annualized net income attributable to shareholders divided by average equity attributable to shareholders. Averages calculated using monthly figures.

[2] Interest expense divided by sum of average interest bearing liabilities and demand deposits

[3]. Core capital ratio = Shareholders' equity divided by risk-weighted assets according to SBIF BIS I definitions.

[4]. BIS ratio: Regulatory capital divided by Risk Weighted Assets.

[5] Annualized Net interest income divided by average interest earning assets.

[6]. Efficiency ratio: Operating expenses excluding impairment and other operating expenses divided by Operating income. Operating income = Net interest income + Net fee and commission income + Total financial transactions, net + Other operating income minus other operating expenses.