Banco Santander-Chile Announces First Quarter 2019 Earnings

April 30, 2019

Santiago, Chile, April 30, 2019. Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results[1] for the three month period ended March 31, 2019 (3M19) and first quarter 2019 (1Q19).

Net income attributable to shareholders totaled Ch$125,430 million with ROAE of 15.3%

Net income attributable to shareholders in 1Q19 totaled Ch$125,430 million (Ch$0.67 per share and US$0.39 per ADR), decreasing 19.9% compared to 4Q18 (from now on QoQ) and decreasing 16.9% compared to 1Q18 (from now on YoY). ROAE in 1Q19 was 15.3%. The Bank's lower result was mainly due to the low inflation rate in the quarter. This was partially mitigated by loan growth, positive evolution of asset quality, as well as an increase of 6.1% QoQ and 10.9% YoY of non-interest income (fees and treasury income), reflecting the overall positive business environment that continues in the Chilean market. As the year progresses, we expect ROEs to recover given positive business growth, higher inflation rates and a stable rate outlook.

3-year investment plan totaling US$380 million for 2019-2021 announced

The Bank has announced a 3-year investment plan totaling US$380 million for 2019-2021 assigned for digital transformation, investment in cyber security (US$25 million for 2019) and to increase access of unbanked clients to financial services mainly through digital transactional products.

In this regard, the Bank announced its intentions to enter the acquiring business in 2020 with the aim of significantly modernizing and expanding the access of SMEs to POS terminals. In 2Q19 the Bank will also launch a new prepaid card, Superdigital, which aims to give the unbanked population greater access to the digital economy, enabling them to make online purchases. We calculate that 70% of small commerce in Chile do not have a POS and that 4 million people in the workforce do not have a credit card.

Expansion into the automotive financing business announced

In order to enter the fast growing auto loan business, in March 2019 the Bank announced it has entered into an agreement with SKBergé Financiera S.A. to acquire its 49% share ownership in Santander Consumer Chile S.A., for Ch$59,063 million. Currently, Banco Santander S.A. (Spain), parent company of the Bank owns 51% of the shares of Santander Consumer Chile S.A., and the remaining 49% is owned by SKBergé Financiera S.A. The final outcome of the operation will depend on the conclusion of the contractual agreements and the time it takes to achieve the necessary regulatory authorizations. At the end of 2018, Santander Consumer S.A. obtained a net profit of Ch$10,996 million and ranked second in the new car financing industry. Meanwhile, Return on Equity (ROE) reached 20% in 2018. As of December 31, 2018, the total loan book of Santander Consumer Chile was Ch$388,425 million.

Loan growth driven by Individuals and Middle-market in the quarter

Total loans increased 8.0% YoY and 1.1% QoQ, led by retail banking and the Middle-Market and offset by a fall in low yielding Corporate loans.

In 1Q19, **Loans to individuals** increased 1.4% QoQ and 9.6% YoY. **Consumer loans** increased 7.1% YoY and 0.9% QoQ. The growth of consumer loans was mainly driven by loans to high-income earners which grew 1.7% QoQ. Loans in the Santander Life group of products also expanded 21% during the year. **Mortgage loans** continued to grow healthily and increased 1.8% QoQ and 11.5% YoY. The Bank also maintained the loan-to-value ratio at origination below 80%.

Middle-market loans grew 2.5% QoQ and 13.0% YoY with the positive growth of investment driving loan growth in this segment. **Loans toSMEs** increased 2.7% YoY and decreased 0.8% QoQ. The Bank continues to maintain a conservative stance regarding loan growth in this segment by focusing our lending to larger, less risky SMEs while increasing transactional services for all of our SME clients that will generate *non-lending* revenues. We expect an acceleration of loan growth in these two segments during the rest of the year, in line with our expectations for the economy.

Loans in SCIB decreased 5.4% in the quarter, leading to a YoY decrease of 15.7%. However SCIB's overall contribution to income increased by 17.6% with a strong rise in non-interest revenue while optimizing capital usage.

Active management of funding costs to limit impact of rising rates and low inflation in 1Q19

In 1Q19, the Bank's funding strategy was centered on minimizing the impact of the lower inflation and higher interest rate environment. **Total deposits** increased 6.5% YoY and decreased 1.6% QoQ. In 1Q19, **time deposits** grew 8.1% YoY and decreased 1.0% QoQ. In the first quarter of 2019, the Central Bank raised the short term interest rate by 25 bp to 3% despite a low inflationary environment. Therefore, the Bank focused on controlling the cost of funding, leading once again our peers in nominal peso deposit costs. Moreover, the Bank achieved record low spreads in the bond market in the period, as long and medium term rates declined heavily in the quarter. The Bank also continues to maintain healthy liquidity levels with the LCR ratio at 125.8% and the NSFR at 108.8% as of March 31, 2019.

Lower margin due to low inflation and rising interest rates

In 1Q19, **Net interest income, NII,** decreased 9.8% QoQ and 6.9% YoY. As a reminder, the Bank is asset sensitive to inflation, since the Bank has more assets than liabilities linked to inflation. The Bank is also liability sensitive to short-term rates, since the Bank's deposits are mainly comprised of nominal peso, which have a shorter duration than interest earning assets. During the quarter, the variation of the UF[2] was 0.0% in the quarter compared to 0.8% in 4Q18 and 0.6% in 1Q18 contributed to a lower **interest earning assets yield**. At the same time, the Central Bank also increased its policy rate by 25bp in January, despite the lower inflation. As a result, the Bank's **NIM** in 1Q19 was 3.9%, lower than the 4.4% in 4Q18 and 4.5% in

1Q18.

As the year progresses, the acceleration of growth in higher yielding retail loans, a normalization of inflation rates, along with stable interest rates should help raise margins in coming quarters. We are expecting UF inflation rates of approximately 0.7%-0.8% per quarter and a stable monetary policy rate of 3% until year-end. This outlook is subject to modifications depending on possible future changes to our inflation and GDP growth forecast.

Positive evolution of asset quality in the quarter

During the quarter provisions increased 1.2% compared to 1Q18 and 4.1% compared to 4Q18. **Cost of credit** in 1Q19 remained stable at 1.0%. The **impaired loan ratio** also remained stable at 5.9% and the **total NPL ratio** improved to 2.0% as of March 31, 2019. The **total Coverage ratio** improved to 130.6% in the quarter. The **Bank's NIM, net of cost of credit** was 3.0% in 1Q19 as stable asset quality and cost of credit partially mitigated the weaker margins in the quarter.

Non-interest income up 6.1% QoQ and 10.9% YoY partially offsetting lower margins

In 1Q19, **non-interest income** (fee income plus financial transactions, net) increased 6.1% QoQ and 10.9% YoY, partially offsetting the lower NIM in the quarter. This was mainly due to positive client revenues in fee income and our Treasury business. **Fee income** increased 4.8% compared to 4Q18 and decreased 6.4% compared to 1Q18. The positive QoQ growth of fees was mainly driven by **fees from retail banking**, with growth being driven by credit card fees that increased 9.8% QoQ, checking account fees that increased 1.4% QoQ and debit and ATM fees that increased 21.8% QoQ. The lower fees compared to 1Q18 was mainly due to lower collection of insurance fees due to a change in methodology for estimating refund of insurance premiums collected and lower fees from ATM usage. The Bank has been actively eliminating and relocating ATMs that have a low profitability in order to produce cost efficiencies and push the use of digital payment methods.

Results from Total financial transactions, net was a gain of Ch$38,845 million in 1Q19, an increase of 67.3% compared to 1Q18 and an increase of 8.6% compared to 4Q18. Demand for **Client treasury services** such as Debt Capital Markets and Market Making continued to perform well. At the same time, and even though short-term rates increased in the quarter, medium and long-term rates came down. The Bank's fixed income portfolio, mainly comprised of Chilean Central Bank and sovereign bonds, as well as US treasuries, benefitted as a result of this flattening of the yield curve in the quarter, resulting in a rise in realized mark-to-market gains.

Costs rise 5.4% due to investments and implementation of IFRS 16

In 1Q19, operating expenses increased 5.4% YoY and decreased 1.8% QoQ with the Bank's **efficiency ratio** reaching 42.5% in 1Q19 compared to 38.7% in the same period of last year. The QoQ decline is mainly due to seasonal factors. The YoY increase in costs was mainly due to the various initiatives that the Bank has been implementing to improve productivity through digitalization, higher severance costs and the net effect of the implementation of IFRS 16 in the quarter. IFRS 16 increased depreciation costs by Ch$7.8 billion and reduced administrative expenses by Ch$7.3 billion with a net effect of Ch$500 million in the quarter. Going forward we expect cost growth for the year to stabilize at ~4%.

About Banco Santander

Banco Santander Chile is the largest bank in the Chilean market in terms of loans and assets. As of March 31, 2019, the Bank had total assets of Ch$ 39,668 billion, net loans of provisions of Ch$ 29,779 billion, deposits of Ch$ 21,462 billion, and total equity of Ch$ 3,368 billion. The BIS capital ratio as of March 2019 was 13.6%, with a core capital ratio of 10.8%. 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 Fitch, A from Standard and Poor's, and A+ from Japan Credit Rating Agency.

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[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] UF or Unidad de Fomento, an inflation indexed unit used in Chile

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