



Banco Santander-Chile Announces Second Quarter 2020 Earnings

July 30, 2020

SANTIAGO, Chile, July 30, 2020 (GLOBE NEWSWIRE) -- Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results¹ for the six month period ended June 30, 2020 and second quarter 2020 (2Q20).

Adjusted ROAE of 12.0% in the quarter. Gross income up 7.1% YoY in 2Q20

Net income attributable to shareholders in 2Q20 decreased 41.1% QoQ and 50.4% YoY, totaling Ch\$84,859 million (Ch\$ 0.45 per share and US\$ 0.22 per ADR). It is important to point out that 2Q20 results include an additional provision of Ch\$30,000 million recognized in order to increase coverage ratios considering the uncertainty surrounding the potential impacts on credit quality of the COVID-19 crisis. Excluding the additional provisions, the **adjusted net income** was Ch\$106,759 million and the **adjusted quarterly ROAE** was 12.0%.

Total gross income (Net interest income, Fees and Results from financial transactions) remained strong, growing 7.1% compared to 1Q20 and 6.7% compared to 2Q19, demonstrating the Bank's ability to continue to provide solid income even during this pandemic. Furthermore, **operating expenses** increased just 1.7% QoQ and 1.5% YoY and the **efficiency ratio** reached the world class level of 38.9% in 2Q20.

Net income attributable to shareholders in 6M20 decreased 22.9% YoY, totaling Ch\$228,879 million (Ch\$1.21 per share and US\$0.59 per ADR) with the Bank's **ROAE** in 6M20 at 13.0%. Excluding the additional provisions, the **adjusted net income** was Ch\$250,773 million and the **adjusted ROAE** in the first half of 2020 was 14.3%.

Loan growth driven by FOGAPE and Corporate lines of credit in 2Q20

Total loans increased 13.5% YoY and 2.7% QoQ, driven by higher demand for commercial loans from the Middle-market and CIB segment in the quarter with the onset of the COVID-19 crisis, as many companies began to takedown their approved credit lines driving loan growth in the quarter. Simultaneously, the Bank disbursed approximately Ch\$1,484,935 million (or US\$1.8 billion) of state guaranteed FOGAPE loans with the state guarantees covering around 77% of loans on average.

Loans to individuals increased 8.1% YoY and decreased 1.3% QoQ. The quarterly decrease was mainly due to the contraction of **Consumer loans** which decreased 7.0% QoQ as clients have become more restrictive in their consumption behavior and have focused on paying back their loans.

Increasing coverage to 154% with Ch\$30,000 million additional provisions recognized in the quarter

During the quarter, **provision for loan losses** increased 150.3% YoY and 85.7% QoQ as the Bank is proactively increasing provisions to anticipate the risk of the loan portfolio due to the economic crisis in Chile. The **total coverage ratio**, including the additional provisions for consumer loans, reached 154.1% in 2Q20 and the **expected loan loss ratio** (Loan loss allowance over total loans) rose from 2.7% in 1Q20 to 2.9% in 2Q20. Since March the Bank has offered grace periods to clients with good payment behavior to ease their financial burden in the crisis. The regulator has temporarily eased provisioning requirements for reprogrammed loans, but Santander Chile has decided to maintain a high cost of risk in order to minimize future provision needs. As a result, the Bank decided to establish **additional provisions** in the quarter amounting to Ch\$30,000 million which are allocated equally between the consumer, mortgage and commercial portfolio. Including these Ch\$30,000 million additional provisions, the **cost of credit** in 2Q20 reached 2.2%. In July 2020, the Bank will recognize an additional Ch\$30,000 million in additional provisions.

Strong deposit growth driven by a 39.3% YoY rise in non-interest bearing demand deposits

The Bank's **total deposits** increased 20.5% YoY and 5.1% QoQ in 2Q20. In the quarter, **non-interest bearing demand deposits** grew 12.3% QoQ and 39.3% YoY due to high growth of retail checking accounts and continued strength in the Bank's transactional banking services for companies as clients looked to increase their liquidity to confront the months of quarantine. This also led to a high liquidity ratio with the Bank's **LCR** and **NSFR** reaching 198% and 105%, respectively at the end of June 2020.

Time deposits increased 7.8% YoY and decreased 0.5% QoQ. In March, the Central Bank continued to lower its Monetary Policy Rate, which serves as the reference rate for most CLP denominated deposits. At the same time the Bank continued to enforce time deposit price discipline, improving our time deposit funding cost in nominal pesos in absolute terms and in comparison, to our main peers. The low rate environment also drove the 24.3% YoY and 11.6% QoQ rise in **mutual funds** brokered through the Bank as clients searched for higher yielding investments.

Solid capital ratios

The Bank's **core capital ratio**¹ was 10.0% and the total **BIS ratio**² was 14.6% as of June 30, 2020. In April, the Bank's shareholders agreed to distribute a dividend payout of 30%, in line with the regulatory minimum and lower than previous years, to ensure healthy capital ratios during the pandemic.

As of the date of this report the CMF has published for consultation a new treatment of the FOGAPE loans for capital purposes. According to the proposal, the state guarantees will no longer be considered in Tier II, and the **risk weighting of FOGAPE loans will be lowered from 100% to 10%**. This regulatory change would increase our core capital ratio by around 30bp when enacted.

¹ Core Capital ratio = Shareholders' equity divided by Risk-weighted Assets (RWA) according to CMF BIS I definitions.

² BIS ratio: Regulatory capital divided by RWA.

Life and Superdigital driving digital account openings

Santander Life continues to be the main contributor to new client growth due to the success of this product's Merit Program and Digital On-boarding process. Total new clients in Life in the first half of 2020 increased 274% compared to 1H19. The lockdowns have increased the demand for online banking services and Santander Life's attractive product offer has continued to drive demand for this product. Life already has more than 215,000 clients, 75% of which were digitally onboarded. Santander Life received an NPS score of 71, the highest in the Bank.

In April, Superdigital was fully launched to the public and had a record amount of accounts opened in the quarter, rapidly reaching more than 70,000 clients. Superdigital is an attractive and economical alternative for unbanked Chileans to manage the money received from the government initiatives during the COVID-19 crisis.

The Bank's current account opening market share reaches 44%

The Bank's market share in traditional checking accounts remained strong in the first half. According to the latest publicly available information, our market share in new account openings reached 44%. These figures do not include the additional clients entering the Bank through Santander Life and Superdigital.

Our digital channels have proven vital during the COVID-19 crisis providing clients with an easy access to our transactional products.

Investment plan moves forward. Branch transformation program to be accelerated

The Bank continues moving forward with its 3-year investment plan totaling US\$380 million for 2019-2021 assigned for digital transformation, which includes new digital products, expanding the transformation of branches and back-office functions, investment in cyber security and increasing access of clients and non-clients to financial services, mainly through digital channels.

This strategy has been further validated by the COVID-19 lockdowns, driving our clients to the digital channels we have been developing. This has led to improving the digitalization and automatization process for loan approvals, especially for SMEs and the new FOGAPE loan.

In the second half of 2020, we will accelerate our branch transformation process. During 2019, we started to pilot the Workcafés 2.0 which is a more compact version of the original Workcafé branches and like its predecessor have minimal back office personnel, no tellers and high productivity levels. With the COVID-19 pandemic, we have decided to accelerate our branch transformation plan and these branches will become the building block for our future branches. These new branches have shown promising results in terms of profitability and efficiency.

Another part of our strategy is the payments systems. During July the Bank officially created the Getnet subsidiary, which has been approved by the regulator and so will be up and running shortly.

In April, Klare was officially launched (www.klare.cl). This is an online digital platform for brokering insurance products of an insurtech that Santander supports. In the first stage, it will be offering mainly life insurance and expects to add on more products in the future. In this site individuals can easily compare and shop for a life insurance that suits their needs and budget.

Margins impacted by growth in lower risk assets and supported by lower cost of funds

In 2Q20, **Net interest income, NII**, increased 2.7% compared to 2Q19 and decreased 2.0% compared to 1Q20. The Bank's **NIM** in 2Q20 was 3.8%, lower compared to the 4.2% in 1Q20 and 4.4% in 2Q19.

The low Central Bank rate of 0.5% had a positive impact on deposit costs denominated in nominal pesos which comprise most of our time deposits. Furthermore, in 2Q20 the 12.3% increase in non-interest-bearing demand deposits in the quarter also had a positive impact on margins. These positive effects were offset by the abovementioned lower inflation of just 0.3% in the quarter and growth in lower yielding but lower risk interest earning assets.

Non-NII up 43.4% QoQ and 19.2% YoY

Total non-interest income, which is the sum of fee income and financial transactions, net totaled Ch\$139,483 million in 2Q20 and increased 43.4% QoQ and 19.2% YoY.

Results from Total financial transactions, net was a gain of Ch\$77,223 million in 2Q20, an increase of 57.5% compared to 2Q19 and 238.0% compared to 1Q20. **Client treasury services** revenues reached a gain of Ch\$45,537 million in the quarter, an increase of 26.6% compared to 2Q19 and 49.8% compared to 1Q20, reflecting the demand on behalf of clients for treasury products, mainly for their hedging needs and market making. **Non-client treasury** totaled a gain of Ch\$31,686 million in the quarter. The Bank's fixed income liquidity portfolio is solely composed of Chilean sovereign risk and U.S. treasuries. During the quarter, as inflation expectations rapidly decelerated, rates declined across the yield curve. This fall in inflation lowered margins but was offset by the realized gains from the available for sale portfolio (AFS).

Fee income decreased 8.4% compared to 2Q19 and 16.3% compared to 1Q20. Fees in the quarter were mainly affected by ongoing quarantines and lower economic activity due to the COVID-19 crisis, especially in our card business. We expect this trend to reverse as lockdowns are eased. As mentioned above, client acquisition remains strong which will also help to fuel future fee growth.

Productivity continues to rise. Efficiency ratio of 38.9% in the quarter

In 2Q20 operating expenses increased 1.5% YoY and 1.7% QoQ with the Bank's **efficiency ratio** reaching 38.9% in 2Q20 demonstrating good cost control. Productivity continues to rise with volumes (loans plus deposits) per branch increasing 20.5% YoY and volumes per employee rising 18.0% YoY despite the widespread lockdown throughout the quarter. YTD operating expenses to total assets improved to 1.4% in 2Q20 compared to 1.8% in 2Q19.

Banco Santander Chile is the largest bank in the Chilean market in terms of loans and assets. As of June 30, 2020, the Bank had total assets of US\$ 74.3 billion, loans net of provisions of US\$ 41.8 billion, deposits of US\$ 32.3 billion, and total equity of US\$ 4.5 billion. The BIS capital ratio as of June 30, 2020 was 14.6%, with a core capital ratio of 10.0%. 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 Financial Markets Commission (CMF).



Source: Banco Santander Chile