Banco Santander-Chile Announces Third Quarter 2023 Earnings

October 31, 2023

SANTIAGO, Chile, Oct. 31, 2023 (GLOBE NEWSWIRE) -- Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its results[i] for the nine-month period ended September 30, 2023, and third quarter 2023 (3Q23).

ROAE[1] of 10,4% in 9M23[2], with a solid net contribution from business segments that increases 33.0%.

As of September 30, 2023, net income attributable to shareholders reached Ch$319,486 million ($1.70 per share and US$ 0.76 per ADR), decreasing 54.8% compared to the same period last year and with an ROAE of 10.4%. This lower result was mainly due to the impacts perceived in the NIM[3] produced by the deceleration of inflation, especially in the third quarter, and higher interest rates that reduced the return on assets in UF and increased the funding costs.

The net contribution of our business segments continues to be very strong, increasing 33.0% YoY[4]. Specifically, the Retail Banking segment increased 21.6% YoY with total revenues increasing 20.8% YoY. The net contribution of the Middle-market segment increased 27.3% YoY, with an increase in total revenues of 18.8% YoY. Finally, the net contribution of our Corporate and Investment Banking (CIB) unit grew 68.3% YoY, driven by a 43.6% YoY increase in total revenues.

Net income from fees increases 29.6% in 9M23, with the recurrence[5] ratio reaching 56.8%.

Net commissions have followed a positive trajectory in recent years, strongly influenced by the increase in customers, both individuals and Small and Medium sized companies (SMEs), which have boosted the cross-selling of our products. During 9M23, net commissions increased 29.6% YoY, with positive variations in all lines, but to a greater extent in card fees, insurance brokerage, Getnet and others. Within this last item, commissions for financial advisory services are considered, which have increased in recent months due to good business from CIB. During 3Q23[6], commissions fell 10.6% QoQ[7]mainly due to one-time commissions due to good CIB business and a release of provisions related to the insurance brokerage contract in the “Others” item.

Top 1 in NPS among our main Chilean peers

The first pillar of our strategy is based on cutting-edge technology and customer-focused processes and products. We are building a bank with strengths in digital channels that already allows digital onboarding in a safe, fast and user-friendly way, offering our Life and Más Lucas accounts for the mass segment and the PYME (SME) Life account and payment services through Getnet for small and medium-sized businesses and entrepreneurs. These initiatives not only encourage our clients to become more digital, they are also managing to increase financial inclusion in these segments and supporting them with transaction services, with the potential to extend the offer of other products and financing options.

As a result of all our efforts, our clients are the most satisfied with us. As of September 30, 2023 our NPS reached 58 points, and our digital channels continue to be our strength, with our website with an NPS of 71 and the App with 70.

Issuance of the first green bond under our ESG Framework to finance green mortgages

In mid-October, the bank placed its first green bond under its ESG Framework which incorporates ESG criteria focusing on the green mortgage product. The objective of the transaction is to refinance or finance new operations of this product, which is offered by the Bank for the purchase of homes, based on energy efficiency certifications existing in the industry, and which benefits clients with a preferential rate. This is the first green bond with use of funds for green mortgages in the country. The issue was for JPY 8,000 million, equivalent to US$ 53 million, with a rate of 0.845% and a term of two years.

Loan growth led by retail banking
Retail banking loans grew 1.6% QoQ and 4.1% YTD. Consumer loans increased 0.5% QoQ and 3.0% YTD. Between the end of 2019 and 2021 credit card loans decreased 7.0% as clients reduced large purchases such as travel and hotels which fuels credit card loans. At the same time many clients paid off credit card debt with the liquidity obtained from government transfers and pension fund withdrawals. At the end of 2022, as household liquidity levels returned to normal and holiday travel resumed credit card loans began to grow again, increasing the total balance compared to pre pandemic levels. In the last quarter we have seen a slight decrease in loans through credit cards, because clients are preferring consumer installment loans, reflecting a better planning of their debt.

Origination of new mortgage loans has fallen as inflation and rates remain high, however, in the quarter mortgage loans once again grew stronger than inflation, reaching a growth of 1.5% QoQ and 5.9% YTD in the way clients adjust to market conditions.

Total deposits increase 1.4% QoQ as the Bank takes advantage of the inverted yield curve
The Bank's total deposits increased 1.4% QoQ and 5.5% YTD. The increase was driven by time deposits that increased 5.1% QoQ and 20.6% YTD, mainly in the CIB segment, because high rates led our clients to switch to more attractive deposits explaining the decrease of 2.8% QoQ and 8.4% YTD of demand deposits. Our clients' investments through mutual funds intermediated by the Bank also grew in the quarter, reaching an increase of 8.7% QoQ and 19.1% YTD.

The bonds increased 3.5% QoQ and 8.6% YTD. During the first 9M23, the Bank has placed bonds for UF3.9 million, CLP $403,150 million, US $30 million and JPY $17,500 million, taking advantage of attractive opportunities in the different fixed income markets at a national and international level.
The Bank's Liquidity Coverage Ratio (LCR), which measures the percentage of liquid assets over net cash outflows, as of September 30, 2023, was 192.8%, well above the minimum. As of the same date, the Bank's Net Stable Funding Ratio (NSFR), which measures the percentage of illiquid assets

financed through stable funding sources, reached 104.4%, also well above the current regulatory minimum established for this index.

Solid capital levels with a CET1 of 10.7%
Our CET1 ratio remains solid at 10.7% and the total Basel III ratio reaches 17.1% at the end of September 2023.

Risk-weighted assets (RWA) increased 4.9% YTD and 2.9% QoQ. We are actively seeking to reduce our market risk-weighted assets through netting and novation of our derivatives portfolio, resulting in a 2.3% decrease this quarter. This was offset by higher credit risk-weighted assets due to the effect of the depreciation of the Chilean peso on our foreign currency portfolio.

At the same time, basic capital increased slightly by 0.6% QoQ mainly due to lower growth in results and an increase of 1.5% YTD which considers the payment of dividends authorized at the last shareholders meeting in the month of April.

Income from interest and readjustment fall QoQ due to lower inflation (UF variation)
Year to date net interest income and readjustments (NII) as of September 2023 decreased by 43.8% compared to the same period in 2022. This decrease in NII was mainly due to lower inflation in the period, a higher funding cost caused by a higher MPR and to a lesser extent by our financial investments held to maturity that are at a fixed rate. The above is partially offset by a higher spread earned on deposits.

Net income from readjustments decreased 43.8% in 9M23 compared to the same period in 2022, given that the variation in the UF reached 3.1% in 9M23 compared to 10.5% in the same period in 2022. The UF GAP is significantly lower in 9M23 compared to 9M22, decreasing 21.8%, in line with lower inflation expectations.

The Bank has a shorter duration of interest-bearing liabilities than interest-bearing assets, so our liabilities recognize the change in prices more quickly than our assets. During the third quarter of 2023, the Central Bank began to cut the MPR from 11.25% to 10.25% at the end of July to 9.50% in September. Given this, net interest income increased by 3.9% in 9M23 compared to 9M22. Despite the above, the effect of a lower inflation has been significantly greater, decreasing the MIN from 3.7% as of September 30, 2022 to 2.0% as of September 30, 2023.

Cost of credit of 1.20% YTD and coverage of 158.0%
During the Covid-19 pandemic, asset quality benefited from state aid and pension fund withdrawals, resulting in a positive evolution of asset quality during that period. Currently, with an economy that continues to slow down and with the excess household liquidity that we had during the pandemic almost completely drained, asset quality is returning to pre-pandemic levels. Given the above, in 3Q23, the non-performing loan ratio (NPL) increases from 1.7% in 3Q22 to 2.3% in 3Q23. On the other hand, the impaired portfolio ratio increases from 4.4% in 3Q22 to 5.5% in 3Q23. Finally, the expected loss ratio (provisions for credit risk divided by total loans) remains more stable, increasing to 2.8% in 3Q23, from 2.6% in 3Q22 as a result of higher provisions made in the last periods.

In the quarter, the expense for credit losses increased 2.9% QoQ due to special provisions for credit risk established in the quarter, which was partially offset by an increase in recoveries by 9.5% QoQ. Finally, the expense of provisions for credit risk for banks and loans and accounts receivable from clients remains stable. With these results, the cost of credit in 3Q23 increased slightly from 1.19% in 2Q23 to 1.22% in 3Q23. The non-performing loan coverage ratio decreased to 158.0% in 3Q23.

Solid client treasury income with net financial results increasing 51.5% in 9M23
Net financial results recorded a profit of Ch$ 243,545 million in 9M23, an increase of 51.5% compared to 9M22, mainly due to higher gains on financial assets and liabilities for trading. In 3Q23, net financial results decreased 4.4% QoQ due to a higher loss on financial assets and liabilities for trading in the quarter, which was offset by a higher gain on exchanges, readjustments and foreign currency hedge accounting.

Operating expenses decreased 7.7% in 9M23, demonstrating the solid cost control in the year
Operating expenses decreased 7.7% in 9M23 compared to the same period in 2022 demonstrating solid cost control in the quarter as the Bank continues to improve its productivity levels. In 3Q23 operating expenses increased 4.4% QoQ due to higher personnel expenses.

The Bank's efficiency ratio reached 48.0% as of September 30, 2023, higher than the 40.4% in the same period last year, due to lower growth of our operating income. On the other hand, the ratio of costs to assets is 1.3% in 9M23.

The Bank continues to advance in the execution of its investment plan of US$260 million for the years 2023-2025 with a focus on digital initiatives both on the front and back-end.

Our earnings webcast will be held on Friday, November 3, 2023 at 10am New York time. For more information please visit our website.

Banco Santander Chile is the largest bank in the Chilean market in terms of loans and assets. As of September 30, 2023, we had total assets of Ch$ 72,490,744 million (U.S.$ 81,500 million), outstanding gross loans (including interbank loans) at amortized cost of Ch$ 40,139,445 million (U.S.$ 45,128 million), total deposits of Ch$ 28,555,320 million (U.S.$ 32,104 million) and shareholders' equity of Ch$ 4,192,619 million (U.S.$ 4,714 million). The BIS capital ratio as of September 30, 2023, was 17.1%, with a core capital ratio of 10.7%. Banco Santander Chile is one of the companies with the highest risk classifications in Latin America with an A2 rating from Moody's, A- from Standard and Poor's, A+ from Japan Credit Rating Agency, AA- from HR Ratings and A from KBRA. All ratings have a Stable Outlook.

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[1.] Return on Average Equity. Annualized net income attributable to shareholders divided by average equity attributable to shareholders.

[2.] Nine months accumulated as of September 30, 2023.

[3.] NIM: Net interest margin. Annualized net income from interest and readjustments divided by interest earning assets.

[4.] Year on year, the nine months accumulated as of September 30, 2023 compared to the nine months accumulated as of September 30, 2022.

[5.] Recurrence: Net fees divided by operating expenses.

[6.] Third quarter of 2023.

[7.] Current quarter compared with last quarter.

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[i] The information contained in this report is presented in accordance with Chilean Bank GAAP as defined by the Financial Markets Commission (CMF).