



Banco Santander Chile Announces Second Quarter 2014 Earnings

July 31, 2014

Santiago, Chile, July 31, 2014. Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results for the second quarter of 2014. These results are reported on a consolidated basis in accordance with Chilean Bank GAAP.

Net income up 12.5% QoQ and 85.8% YoY in 2Q14. ROAE reaches 26.7%

In 2Q14, Banco Santander Chile's Net income attributable to shareholders reached a record level for a quarter and totaled Ch\$159,616 million (Ch\$0.85 per share and US\$0.62/ADR), increasing 12.5% compared to 1Q14 (from now on QoQ) and 85.8% compared to 2Q13 (YoY from now on). The Bank's ROAE reached 26.7% in 2Q14 compared to 16.0% in 2Q13.

Strong operating trends in 2Q14: Operating income up 9.4% QoQ and 73.8% YoY

Net operating profit from the Bank's business segments totaled Ch\$300,108 million in 2Q14, increasing 4.0% QoQ and 9.4% YoY. These results exclude our Corporate Center and the results from Financial Management, which includes, among other items, the impact of the inflation gap on results. Operating profit in individuals increased 11.7%, +19.5% in the middle-market and +32.7% in the Corporate segment YoY in 2Q14. The QoQ improvement in profitability of our business segment was led by the 10.5% QoQ rise in operating profits in individuals and the 6.8% QoQ increase in profits from the middle-market segment.

The Bank's total **operating income**, reached Ch\$183,833 million in 2Q14, increasing 9.4% QoQ and 73.8% YoY. This result was due to positive evolution of our business segments, plus the additional impact of the higher inflation rate in the quarter.

Loan growth up 10.2% YoY, especially in segments with higher risk-adjusted contribution

In 2Q14, **Total loans** increased 1.5% QoQ and 10.2% YoY. In the quarter, the Bank continued to expand the loan book among those clients and segments with the highest risk adjusted returns in an economic environment that remains healthy, but with growth decelerating. **Lending to individuals** increased 2.0% QoQ and 11.7% YoY in the quarter. Loans in the high-income segment increased 2.4% QoQ and 15.9% YoY. In the lower income segments, the Bank's loan portfolio decreased 3.2% QoQ and 11.8% YoY. **Lending in the middle-market segment** (companies with sales between Ch\$1,200 million and Ch\$10,000 million per year), loans increased 1.1% QoQ and 7.1% YoY.

Funding mix improving. 9.2% YoY growth of non-interest bearing demand deposits

Total deposits fell 1.8% QoQ and increased 2.5% YoY. In the quarter, the Bank continued to focus on increasing cheaper retail deposits and lowering deposits from wholesale sources. This is reflected in the 1.0% QoQ and 9.2% YoY increase in non-interest bearing **demand deposits** compared to a decrease of 3.4% QoQ and 1.2% YoY of **time deposits**. Wholesale time deposits decreased 14.8% QoQ and 16.8% since the beginning of the year.

NIM at 6.0% in 2Q14. Continuous growth of NIMs, net of provisions

In 2Q14, **Net interest income** increased 11.0% QoQ and 40.0% YoY. The **Net interest margin (NIM)** in 2Q14 reached 6.0% compared to 5.4% in 1Q14 and 4.7% in 2Q13. A central point of our current strategy is to achieve a higher **NIM, net of provision expenses**. In 2Q14, the Bank's NIM, net of provisions reached 4.5% compared to 4.0% in 1Q14 and 3.1% in 2Q13. This in line with the Bank's focus towards a less risky loan mix and the improvements in funding costs, which has also minimized the negative impact of the new regulation that lowered maximum lending rates

Provision expense decreases 3.0% YoY in 2Q14

Net provision for loan losses increased 3.4% QoQ and decreased 3.0% YoY in 2Q14. The **Cost of credit** (Provision expenses annualized divided by total loans) reached 1.55% in 2Q14 compared to 1.53% in 1Q14 and 1.79% in 2Q13. **Net provisions in consumer loans**, which represented half of total provision expense, decreased 3.7% QoQ and 11.2% YoY. Direct charge-offs of consumer loans decreased 32.0% YoY. The Bank's total **NPLs ratio** reached 2.9% in 2Q14 compared to 2.7% in 1Q14 and 3.1% in 2Q13. **Total Coverage of NPLs** in 2Q14 reached 102.3%.

Efficiency ratio improves to 36.4% in 2Q14

Operating expenses in 2Q14 totaled Ch\$153,465 million. The **efficiency ratio** reached 36.4% in 2Q14 compared to 42.5% in 2Q13 as income continues to rise faster than expenses. On a YoY basis, operating expenses increased 8.1%. **Personnel expenses** increased 8.8% YoY. This rise was

mainly due to the higher CPI adjustment in salaries. **Administrative expenses** increased 10.1% and this was mainly due to: (i) greater business activity that has resulted in higher system and data processing costs and (ii) the effects of a higher inflation rate over costs indexed to inflation, like rent expenses.

Core capital ratio reaches 10.7% in 2Q14.

The **Core Capital** ratio reached 10.7% as of June 2014. Chilean regulations only permit the inclusion of voting common shareholders' equity as Tier I capital. The Bank's **BIS ratio** reached 13.9% at the same date.

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