Santander
INVESTOR RELATIONS

Banco Santander Chile Announces Third Quarter 2014 Earnings

November 4, 2014

Santiago, Chile, November 4, 2014. Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results for the third quarter of 2014. These results are reported on a consolidated basis in accordance with Chilean Bank GAAP.

Net income up 53.6% in the nine-month period ended Sept. 30, 2014. ROAE reached 22.8%

Banco Santander Chile's **net income** attributable to shareholders in the nine-month period ended September 30, 2014 (9M14) totaled Ch$411,590 million (Ch$2.18 per share and US$1.45/ADR), increasing 53.6% compared to 9M13. Therefore, the Bank's **ROAE in the same period was 22.8%** compared to 16.6% in 9M13. The **net interest margin** in 9M14 was 5.5% compared to 4.9% in 9M13, benefiting from the stronger commercial activity of the Bank and higher inflation levels observed between both periods. The **efficiency ratio** reached 36.7% in 9M14 compared to 41.2% in 9M13.

In 3Q14, net income attributable to shareholders totaled Ch$110,131 million (Ch$0.58 per share and US$0.39/ADR), decreasing 31.0% compared to 2Q14 (from now on QoQ) and increasing 8.9% compared to 3Q13 (from now on YoY). **Core revenues from our business segment** (net interest income + fees) grew 2.2% QoQ and 7.5% YoY with positive results in all segments. The Bank's **ROAE reached 18.0%** in 3Q14. As expected, the Bank's profitability was lower on a QoQ basis mainly as a result of the lower quarterly inflation rate. At the same time, the Bank's positive commercial and client profitability trends continued in the quarter.

3Q14 figures include various one-time effects. These were: (i) the Bank recognized a **one-time non-cash expense of Ch$36,577** million from the accelerated charge-off of intangibles, mainly software, (ii) **a one-time provision expense of Ch$8,578 million** from the recalibration and improvement made to the provisioning models for loans analyzed on a Group basis and, (iii) **a one-time unaudited non-cash income of Ch$35,411 million** in the line item income tax expense in September 2014 (Ch$32,822 million attributable to net income to shareholders; the difference is attributable to minority interest). Chile's new tax bill became effective in 3Q14 and the Bank had to recalculate its deferred tax assets and liabilities utilizing the new, higher statuary rates included in that bill.

Loans up 9.6% YoY. Growth focused in segments with a higher risk-adjusted profitability

In 3Q14, **Total loans** increased 2.2% QoQ and 9.6% YoY. In the quarter, the Bank continued to focus on its strategy of expanding the loan book in less riskier segments in an economic environment that remains healthy, but with growth decelerating. **Lending to individuals** increased 2.7% QoQ and 12.0% YoY. The Bank focused on expanding its loan portfolio in higher income segments, while remaining more selective in lower income segments. Loans in the high-income segment, which are mainly distributed through the Santander Select network, increased 3.9% QoQ and 17.1% YoY, continuing the loan mix shift started several quarters ago. Among companies, loan growth was led by the **middle-market segment** in which loans increased 4.1% QoQ and 9.8% YoY

Total deposits increased 8.8% YoY, with a solid expansion in the quarter

Total deposits increased 8.6% QoQ and 8.8% YoY. The Bank continued to focus on increasing its core deposit base as reflected in the 1.1% QoQ and 8.9% YoY rise in **non-interest bearing demand deposits**. Simultaneously in the quarter, various institutional investors and large corporate clients increased their deposits with the Bank given the high level of liquidity in the economy. This was reflected in the 13.1% QoQ and 8.7% YoY increase in **time deposits** in 3Q14.

Sustained growth of Client net interest income

As expected, in 3Q14 **Net interest income** decreased 14.1% QoQ and increased 4.0% YoY mainly because of the lower quarterly inflation rate. The **Net interest margin** (NIM) in 3Q14 reached 5.0% compared to 6.0% in 2Q14 and 5.3% in 3Q13. The Bank has more assets than liabilities linked to inflation and, as a result, margins have a positive sensitivity to variations in inflation. In 3Q14, the variation of the Unidad de Fomento (an inflation indexed currency unit), was 0.60% compared to 1.76% in 2Q14 and 1.04% in 3Q13. Excluding the negative impact of a lower inflation rate, the Bank's **Client NIMs** remained stable at 5.5% in 3Q14 compared to 5.5% in 2Q14 and 5.6% in 3Q13. Client NIMs have remained relatively stable since 3Q13, despite the change in loan mix to less risky segments. This has been mainly due to the better funding mix and stable loan spreads.

Stable asset quality. Coverage ratio of NPLs increased to 104.1%

The Bank's total **Non-performing loans (NPLs) ratio** remained stable at 2.9% QoQ and decreased from 3.0% in 3Q13. **Total Coverage of NPLs** in 3Q14 reached 104.1% compared to 102.3% in 2Q14 and 94.8% in 3Q13.

Provision for loan losses increased 18.2% QoQ and 3.0% YoY in 3Q14. In the quarter, the Bank recognized a **one-time provision expense of Ch$8,578 million** from the re-calibration and improvement of the risk models for loans analyzed on a Group basis. This re-calibration was performed in order to proactively increase coverage of NPLs in the SME segment. This explains a big part of the 28.1% QoQ and the 11.8% YoY rise in gross provisions. **Charge-offs**, on the other hand, increased 0.2% QoQ and decreased 8.7% YoY in 3Q14. As a result, the **Cost of credit** (Provision expenses annualized divided by total loans) reached 1.80% in 3Q14. The Bank's total **net provision expense** has decreased 4.1% in 9M14 and the cost of credit reached 1.63% compared to 1.89% in 9M13.

Efficiency ratio reached 36.7% in 9M14

Operating expenses, excluding impairment charges, in 3Q14 decreased 6.4% QoQ and increased 0.5% YoY. As mentioned, in 3Q14, the Bank recognized a **one-time impairment of intangibles charge of Ch$36,577 million.** Excluding the charge for impairment, the **efficiency ratio** reached 36.7% in 9M14.

The QoQ reduction in operating expenses was mainly due to the 68.7% QoQ decrease in amortization and depreciations as the Bank recognized lower depreciation and amortization expenses following the charge-off of intangibles. **Personnel expenses** decreased 0.4% QoQ, as headcount remained stable, and increased 10.1% YoY. The YoY increase in personnel expenses was mainly due to the impact of a higher inflation rate over salaries. **Administrative expenses** increased 1.7% QoQ and 7.9% YoY. This was mainly due to greater business activity and the effects of a higher inflation rate over costs indexed to inflation.

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