



Banco Santander Chile Announces Second Quarter 2015 Earnings

July 30, 2015

Santiago, Chile, July 30, 2015. Banco Santander Chile (NYSE: BSAC; SSE: B santander) announced today its unaudited results for the second quarter of 2015^[1].

ROE reached 18.2% in 1H15

In the first half of 2015 (1H15), Banco Santander Chile's **Net income attributable to equity holders** of the Bank totaled Ch\$235,841 million (Ch\$1.25 per share and US\$0.79/ADR), decreasing 21.8% compared to the first half of 2014. In line with our guidance, the Bank's sound core trends were partially offset by the negative impacts of a lower inflation rate on margins and the higher tax rate. In 1H15, **net operating profit from the Bank's business segments**^[2] increased 8.1% YoY. This was achieved with positive loan growth, a better funding mix and steady improvements in asset quality.

The Bank's **ROAE** reached 18.2% in 1H15 compared to 25.3% in 1H14. The **ROAE, adjusted for the difference in inflation in both period**^[3], reached 18.6% in 1H15 compared to 18.5% in 1H14, reflecting the stability of the Bank's core profitability trends.

ROE reached 21.8% in 2Q15

Banco Santander Chile's **Net income attributable to equity holders in 2Q15** totaled Ch\$140,364 million (Ch\$0.74 per share and US\$0.47/ADR) increasing 47.0% QoQ and decreasing 12.1% YoY. The Bank's ROAE reached 21.8% in the quarter. As was the case in the first half results, recurring operating trends were robust in the quarter. In 2Q15, the **net operating profit from the Bank's business segments**² increased 1.9% QoQ and 7.6% YoY.

Loans up 11.2% YoY. Growth focused in segments with a higher risk-adjusted profitability

Total loans increased 2.7% QoQ and 11.2% YoY in 2Q15. Loan growth continued to be focused among mid-high income individuals and the middle-market of corporates, segments with a higher risk-adjusted profitability. **Total loans to individuals** increased 3.1% QoQ and 14.1% YoY. Loans in the Mid-high income segment increased 4.5% QoQ and 17.3% YoY. In the same period, loans in the **Middle-market segment** increased 7.2% QoQ and 16.3% YoY.

Asset quality remained stable in the quarter

The Bank's total **Non-performing loans (NPLs) ratio** remained stable at 2.7% in 2Q15 compared to 1Q15 and improved from 2.9% seen in 2Q14. The stability of the majority of the Bank's asset quality metrics continued to reflect the change in the loan mix, the focus on pre-approved loan through our CRM, the improvements in asset quality in SMEs and the strengthening of our collections area.

Provision for loan losses increased 3.0% QoQ and decreased 2.9% YoY in 2Q15. The cost of credit (annualized provision expense / average loans) reached 1.4% in 2Q15, a similar level compared to 1Q15 and improving from 1.6% in 2Q14.

Total deposits increased 22.5% YoY. High liquidity in the market lowered funding costs

Total deposits increased 3.8% QoQ and 22.5% YoY. Non-interest bearing **demand deposits** increased 3.4% QoQ and 17.6% YoY. Demand deposits have grown at healthy rates in all business segments: Individuals +21.9%, SMEs +13.9%, Middle-market +19.0% and Corporate +13.8% YoY. The Bank also experienced a short-term increase in institutional funding in 2Q15, mainly through time deposits. **Time deposits** increased 4.0% QoQ and 25.5% YoY. The high levels of liquidity in the local market led to an improvement in spreads earned over deposits from institutional sources.

Client NIMs, net of provisions increased 10 bp. YoY to 3.6% in 2Q15

In 2Q15, **Net interest income** increased 21.3% QoQ and decreased 4.7% YoY. The **Net interest margin**^[4] (NIM) reached 5.1% in the same period, compared to 4.4% in 1Q15 and 6.0% in 2Q14. The YoY fall in margins was mainly due to the lower inflation rate in 2Q15 compared to 2Q14. **Client NIMs**^[5], which excludes the impact of inflation, reached 4.9% in 2Q15 compared to 5.0% in 1Q15 and 5.1% in 2Q14. Client NIMs declined due to the shift in the loan mix to less riskier segments.

More importantly, this shift towards less riskier assets is leading to a rise in **Client NIMs, net of provisions**. These reached 3.6% in 2Q15 compared 3.5% in 2Q14 and were stable compared to 1Q15. This evolution of client margins, net of risk was mainly due to an improved funding mix coupled with a sound evolution of asset quality indicators.

Greater cross-selling and product usage boosts retail fees

Net fee and commission income increased 5.1% QoQ and 4.4% YoY in 2Q15. On a YoY basis, fees in the individuals segment grew 9.0% and in SMEs fees increased 7.1%. This rise in retail fees was mainly due to greater product usage and cross-selling.

Efficiency ratio reached 41.1% in 1H15 and 40.3% in 2Q15

In 2Q15, operating expenses increased 7.8% YoY. This rise in costs was mainly due to: (i) the higher YoY inflation rate, which affected salaries and certain administrative expenses, such as rental costs, that are indexed to inflation, (ii) higher severance costs and (iii) the on-going investments to improve the productivity of our branch network. As a result, the **Efficiency ratio** reached 41.1% in 1H15 and 40.3% in 2Q15.

Core capital ratio reached 10.0%

The Bank's **Core capital** ratio reached 10.0% as of June 30, 2015. The Bank's shareholders approved on April 28, 2015 the Bank's annual dividend equivalent to 60% of 2014 net income (Ch\$1.75/share). This was equivalent to a dividend yield of 5.1% on the dividend record date in Chile (April 13, 2015). The dividend increased 24.5% compared to the dividend paid in 2014. The prudent management of the Bank's capital ratios and solid yearly profitability has allowed the Bank to continue paying attractive dividends without issuing new shares since 2002.

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[1] The information contained in this report is unaudited and is presented in Chilean Bank GAAP as defined by the Superintendency of Banks of Chile (SBIF).

[2] Net operating profits business segments: Net interest income + fee income + financial transactions, net + provision expense. These results exclude our Corporate Center and the results from Financial Management, which includes, among other items, the impact of the inflation on results.

[3] Adjusted ROAE = Annualized quarterly income adjusting net interest income by using a quarterly UF inflation rate of 0.75% (3% annualized inflation) for both periods being compared divided by average equity.

[4] Net interest margin, NIM: annualized net interest income (NI), divided by average interest earning assets.

[5] Client NIM = annualized NI from our business segments (exclude the impact of inflation), divided by average loans.