



## Banco Santander Chile Announces Third Quarter 2015 Earnings

October 29, 2015

**Santiago, Chile, October 29, 2015.** Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results for the third quarter of 2015<sup>[1]</sup>.

### ROE reached 18.7% in 9M15 and 19.8% in 3Q15

In the nine-month period ended September 30, 2015 (9M15), Banco Santander Chile's **Net income attributable to shareholders** totaled Ch\$365,095 million (Ch\$1.94 per share and US\$1.12/ADR), decreasing 11.3% compared to the same period of 2014 (9M14). The Bank's sound core trends were partially offset by the negative impacts of a lower year-to-date inflation rate on margins and the higher tax rate. The Bank's **ROAE** reached 18.7% in 9M15.

**Net operating profits from business segments**<sup>[2]</sup> rises 8.6% YoY in 9M15. Net operating profit from Retail banking<sup>[3]</sup> increased 10.3% YoY and 15.7% in the Middle-market<sup>[4]</sup>. This has been achieved through positive loan growth, an improved funding mix, a rebound in fee income and lower provision expense.

Banco Santander Chile's **Net income attributable to shareholders in 3Q15** totaled Ch\$129,254 million (Ch\$0.69 per share and US\$0.40/ADR) decreasing 7.9% QoQ and increasing 17.4% YoY. The Bank's **ROAE** reached 19.8% in the quarter and the **efficiency ratio** improved to 39.6%.

The YoY growth of the Bank's quarterly results mainly reflects positive income trends in the Retail and Middle-market segment. **Net operating profits** from Retail banking increased 13.6% YoY, while results from the Middle-market rose 31.8% YoY in the quarter. This was partially offset by higher provision expenses in Global Corporate Banking<sup>[5]</sup> in 3Q15, which lowered the results in this segment both on a YoY and QoQ basis.

### Loans up 13.2% YoY. Growth focused in segments with a higher risk-adjusted profitability

**Total loans** continued to grow at a healthy pace in the quarter, increasing 4.1% QoQ and 13.2% YoY in 3Q15. Loan growth continued to be focused on higher income individuals and the Middle-market of corporates, segments with a higher risk-adjusted profitability. **Retail banking loans** (loans to individuals and SMEs) increased 3.3% QoQ and 12.2% YoY. The Bank focused on expanding its loan portfolio in mid-high income segment individuals and larger-sized SMEs, which obtain among the highest loan spreads net of risk, attract cheap funding and generate higher fees. Loans in the mid-higher income segment increased 4.5% QoQ and 17.3% YoY, led by mortgage loans. **Loans in the Middle-market segment** increased 3.5% QoQ and 15.5% YoY.

### Total deposits increased 15.3% YoY. Improving client loyalty drives demand deposit growth

**Total deposits** increased 2.2% QoQ and 15.3% YoY. The Bank continued to focus on increasing its **Core deposit base**<sup>[6]</sup>. Total Core deposits increased 2.3% QoQ and 11.3% YoY, led by a 16.1% YoY rise in non-interest bearing **demand deposits**. Demand deposits have grown at healthy rates in all segments: Individuals +17%, SMEs +14%, Middle-market +17% and Corporate +24% YoY. **Time deposits** increased 3.6% QoQ and 14.9% YoY. The high levels of liquidity in the local market led to an improvement in spreads earned over deposits from institutional investors.

### BIS Ratio at 12.8% with a Core capital ratio of 9.9%

The Bank's **Core Capital** ratio reached 9.9% as of September 30, 2015, and the Bank's **BIS ratio**<sup>[7]</sup> reached 12.8% at the same date.

### Client NIMs stable at 4.9% in 3Q15

In 3Q15, **Net interest income** was stable compared to 2Q15 and increased 10.8% YoY. The **Net interest margin**<sup>[8]</sup> (NIM) reached 4.9% in 3Q15 compared to 5.1% in 2Q15 and 5.0% in 3Q14. In 3Q15, **Client NIMs**<sup>[9]</sup>, which excludes the impact of inflation on margins, reached 4.9% compared to 4.9% in 2Q15 and 5.1% in 3Q14. The Bank has been able to maintain stable client margins QoQ despite stable loan yields by improving the funding mix. In the quarter, the Bank has also counterbalanced the relatively lower yielding asset mix in Retail banking and Middle-Market with a rebound in fees.

### Fee income continues to rebound in line with greater customer loyalty

**Net fee and commission income** increased 11.1% QoQ and 15.5% YoY in 3Q15. This rise in fees was due to greater product usage and customer loyalty. As a result, Retail fees increased 8.2% QoQ and 16.9% YoY and fees from the Middle-market grew 17.8% QoQ and 18.3% YoY. Corporate fees also rebounded in the quarter, in line with greater advisory activity in that segment.

### Efficiency ratio reached 40.6% in 9M15 and 39.6% in 3Q15

**Operating expenses**, excluding impairment and other operating expenses, decreased 0.6% QoQ and increased 14.5% YoY in 3Q15. The **Efficiency ratio** reached 40.6% in 9M15 and 39.6% in 3Q15. The YoY increase in costs was mainly attributable to higher amortization and depreciation expenses, the impacts of inflation indexation and the depreciation of the peso on various costs items (with a corresponding counterbalancing hedge in Financial transactions, net), higher severance payments and greater business activity. As mentioned in previous Earnings Report, the growth rate of expenses should begin to stabilize given the stability in headcount, lower severance payments, greater productivity in the branch network and higher usage of digital banking services.

### **Asset quality improves in the quarter. New provision guidelines set by the SBIF**

The Bank's total **Non-performing loans (NPLs) ratio** improved to 2.5% in 3Q15 compared to 2.7% in 2Q15 and 2.9% in 3Q14. **Total Coverage of NPLs** in 3Q15 reached 114% compared to 106% in 2Q15 and 104% in 3Q14. The improvement of most 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 25.8% QoQ and 3.3% YoY in 3Q15. The cost of credit (Annualized provision expense / average loans) reached 1.7% in 3Q15 compared to 1.4% in 2Q15 and 1.8% in 3Q14. **Charge-offs** remained stable in the quarter and **Loan loss recoveries** increased 2.4% QoQ and 21.3% YoY. The QoQ rise in provision expense was mainly due to the depreciation of the peso in the quarter and the downgrade of two clients in the Corporate segment. The rest of the Bank's segments continued to show steady improvements in asset quality.

In January 2016, Chilean banks in accordance with rules adopted by the SBIF, must implement a **new standard credit-provisioning model** to calculate loan loss allowances for consumer, commercial and residential mortgage loans. This new model will mainly affect mortgage loans, but will also have some impacts on loan loss allowance levels for consumer and commercial loans analyzed on a group basis. The main modification is the inclusion of greater provisions requirements for mortgage loans with a loan / collateral (LTV) ratios greater than 80%. Santander Chile is currently adjusting its model to this new requirement and expects to recognize the impact of this new regulation mostly in 4Q15, subject to regulatory approvals. We estimate that these measures will signify a net pre-tax cost of around Ch\$50,000 million. Following this charge, the coverage ratio of NPLs should rise to levels greater than 125%.

### **CONTACT INFORMATION**

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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 profit from business segments: Net interest income + Net fee and commission income + total financial transactions, net - provision for loan losses. These results exclude our Corporate Activities, which include, among other items, the impact of the inflation on results.

[3] Retail: includes individuals and SMEs: defined as companies with sales below than Ch\$1,200 million per year.

[4] Middle-market is defined as companies with sales between Ch\$1,200 million and Ch\$10,000 million per year + Companies that engage in real estate industry that sell properties with annual sales exceeding Ch \$800 million with no ceiling + Other companies such as large corporations with annual sales exceeding Ch\$10.000 million and Institutional companies that serve institutions like universities, government entities and local and regional governments.

[5] Global corporate banking: defined as companies with sales over Ch\$10,000 million per year or which are part of a large foreign or local economic group.

[6] Core deposits: all checking accounts plus non-Wholesale time deposits. Wholesale time deposits include deposits from: (i) banks and other financial institutions, (ii) economic groups with greater than 1% of short-term time deposits, (iii) economic groups with time deposits representing more than 2.5% of Core capital and, (iv) any other client defined as Wholesale.

[7] BIS ratio: Regulatory capital divided by risk-weighted assets according to SBIF BIS I definitions.

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

[9] Client net interest income divided by average loans. Client net interest income is Net interest income from all client activities such as loans and deposits minus the internal transfer rate and the spread earned over the Bank's capital.