



## Banco Santander Chile Announces First Quarter 2016 Earnings

April 28, 2016

**Santiago, Chile, April 28<sup>th</sup>, 2016.** Banco Santander Chile (NYSE: BSAC; SSE: B santander) announced today its unaudited results for the First quarter of 2016.

### **Net income increased 31.4% YoY in 1Q16. ROAE reached 18.1%**

**Net income attributable to shareholders**<sup>[1]</sup> in 1Q16 totaled Ch\$125,439 million (Ch\$0.67 per share and US\$0.39/ADR), increasing 49.7% QoQ and 31.4% YoY. The **Bank's ROAE**<sup>[2]</sup> reached 18.1% in the quarter. The YoY increase in the Bank's results was due to higher net interest income because of loan growth, an improved funding mix and higher inflation rates. At the same time, the Bank experienced solid fee income growth and a lower provision expense. The QoQ growth of results was due to similar factors and to the one-time charges recognized in 4Q15 related to regulatory changes in provisioning requirements.

The Bank's business units showed positive operating trends in the quarter. **Net operating profits from our business segments**<sup>[3]</sup> rose 6.2% YoY in 1Q16. This was led by an 8.2% increase in core revenues<sup>[4]</sup>, which was partially offset by lower client treasury activities in the quarter.

### **Loans up 9.0% YoY. Growth focused in segments with a higher risk-adjusted profitability**

**Total loans** increased 1.6% QoQ and 9.0% YoY in 1Q16. The Bank continued to focus loan growth on segments with a higher risk-adjusted profitability. **Retail banking loans** (loans to individuals and small and middle-sized enterprises, SMEs) increased 2.6% QoQ and 13.0% YoY. The Bank focused on expanding its loan portfolio in Mid-to-high income individuals and larger-sized SMEs within this segment, which obtain attractive loan spreads net of risk, attract cheap funding and generate higher fees. Loans in the **Middle-market** increased 1.0% QoQ and 8.1% YoY. In **Global corporate banking (GCB) loans** decreased 3.8% QoQ and 14.7% YoY. This segment generally has a volatile evolution of loan growth, due in part, to large transactions that are not recurring between one quarter and the next.

### **Total deposits increased 12.1% YoY. Improving client loyalty drives deposit growth**

**Total deposits** increased 12.1% YoY with **time deposits** growing 13.3% YoY. This growth came from our business segments as well as wholesale deposits from institutional sources. **Demand deposit** increased 9.9% YoY as the Bank continues to lead the market in cash management services for companies and to generate higher customer loyalty in retail banking. The Middle-market segment, with a 10.8% YoY growth, led demand deposit growth. Demand deposits in Retail banking and GCB increased 8.4% and 6.8% YoY, respectively.

### **BIS Ratio at 13.5% with a Core capital<sup>[5]</sup> ratio of 10.6%. Dividend yield at 5.3%**

The Bank's **Core capital** ratio reached 10.6% and the Bank's **BIS ratio** was 13.5% at the same date. The Bank's capital ratios continued to be among the most robust among the larger banks in Chile. As of January 2016, the latest date available, the average core capital ratio of the Bank's main competitors was 8.0%.

The Bank's Board agreed to propose to shareholders an increase in the payout ratio over 2015 earnings to 75%, considering the Bank's robust levels of capital. This new proposal does not represent a change in the Bank's medium-term payout ratio, which will be revised annually by the Board. The dividend approved by shareholders was **Ch\$1.79/share**. The dividend yield, using the closing share price on the record date, which was April 21, 2016 in the local market, was 5.3%.

### **Stable client margins and higher inflation drives NIMs in 1Q16**

In 1Q16, **Net interest income** decreased 1.8% QoQ and increased 14.4% YoY. The **Net interest margin (NIM)**<sup>[6]</sup> reached 4.5% in 1Q16 compared to 4.7% in 4Q15 and 4.4% in 1Q15. In 1Q16, the variation of the *Unidad de Fomento* (an inflation indexed currency unit), was 0.7% compared to 1.1% in 4Q15 and -0.02% in 1Q15. The Bank has more assets than liabilities linked to inflation and, as a result, margins go up when inflation accelerates. **Client net interest income**<sup>[7]</sup> increased 1.5% QoQ and 6.6% YoY, driven mainly by loan growth and the improved funding mix. **Client NIMs**<sup>[8]</sup>, which excludes the impact of inflation, reached 4.8% in 1Q16 compared to 4.8% in 4Q15 and 5.0% in 1Q15. On a QoQ basis, stable loan spreads and an improved funding mix drove the stability of the Bank's Client NIMs. On a YoY basis, the decline in client margins was mainly due to the shift in the asset mix to less riskier segments, which is gradually producing an improvement in the Bank's cost of credit.

### **Improved asset quality metrics. Cost of credit falls to 1.2%**

The Bank's asset quality metrics improved in the quarter. This result was mainly due to the change in the loan mix, which has more than offset the negative impact of slower economic growth. The Bank's total **Non-performing loans (NPLs) ratio** remained stable at 2.5% in 1Q16 compared to 2.5% in 4Q15 and improved from 2.7% in 1Q15. **Total Coverage of NPLs** in 1Q16 reached 122.5% compared to 117.3% in 4Q15 and 111.3% in 1Q15.

**Provision for loan losses** decreased 48.1% QoQ and 1.6% YoY in 1Q16. As a reminder, in January 2016, Chilean banks, in accordance with rules adopted by the SBIF, adopted a **new standard credit-provisioning model** to calculate loan loss allowances for impaired consumer and commercial loans and for residential mortgage loans with loan-to-value ratios greater than 80%. This provision was recognized as an additional provision in 4Q15 for Ch\$35,000 million. Excluding this charge, provision expense decreased 32.4% QoQ. The **cost of credit** improved to 1.2% in 1Q16 compared to 1.8% in 4Q15 and 1.4% in 1Q15.

#### **Fee income increases 13.6% YoY. Client loyalty continues to expand**

**Net fee and commission income** increased 6.5% QoQ and 13.6% YoY in 1Q16. Retail banking fees grew 2.0% QoQ and 13.6% YoY. Fees in the Middle-market also rose 8.7% QoQ and 11.2% YoY. At the same time, fees recovered in GCB and increased 51.5% YoY. This rise in fees was in part due to greater product usage and customer loyalty. Loyal individual customers (clients with >4 products plus minimum usage and profitability levels) in the Mid-high income segment increased 7.3% YoY. Among Middle-market and SME clients, total loyal customers grew 10.5% YoY. Fees in GCB also recovered due to greater investment banking activities.

#### **Efficiency ratio improves to 41.6%**

**Operating expenses**, excluding impairment and other operating expenses decreased 7.8% QoQ and grew 9.8% YoY. The QoQ decrease in costs is seasonal, especially personnel expenses that fell 14.7% QoQ. The **Efficiency ratio** improved to 41.6% in 1Q16 compared to 43.5% in 4Q15 and 42.0% in 1Q15. **Personnel salaries and expenses** increased 10.4% YoY. This was mainly due to the indexation of wages to inflation. **Administrative expenses** increased 6.1% QoQ and 7.0% YoY. Growth of administrative expenses was mainly due to greater business activity that has resulted in higher system and data processing costs in line with our digital banking strategy. In addition, the Bank has been in the process of reducing cost growth through various initiatives, which has affected costs in the short-term, but that should lower cost growth to mid-single digits by year-end 2016.

#### **CONTACT INFORMATION**

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

[2] ROAE: Return on Average Equity = Net income distributable to shareholders divided by average shareholders' equity.

[3] Net operating profit is defined as Net interest income + Net fee and commission income + Total financial transactions - provision for loan losses.

[4] Core revenues: Net interest income + fees

[5] Core capital ratio = Shareholders' equity divided by risk-weighted assets according to SBIF BIS I definitions.

[6] Net interest income annualized divided by average interest earning assets.

[7] Client net interest income is net interest income from the Bank's reporting segments that includes net interest income from the Retail, Middle-market and GCB segments, excluding GCB's Treasury division. Non-client NII is NII from Bank's inflation gap, the financial cost of hedging, the financial cost of the Bank's structural liquidity position, NII from treasury positions and the interest expense of the Bank's financial investments classified as trading, since NII from this portfolio is recognized as financial transactions net.

[8] Client net interest income divided by average loans.