Banco Santander Chile Announces Third Quarter 2016 Earnings

October 27, 2016

Santiago, Chile, October 27, 2016. Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results for the nine month period ended September 30, 2016 and the third quarter of 2016.

9M16 ROE at 17.7%. Net contribution from business segments rises 16.6% YoY

In the nine-month period ended September 30, 2016 (9M16), **Net income attributable to equity holders,** totaled Ch$363,718 million (Ch$1.93 per share and US$1.17/ADR). The **Bank's ROE**[1] reached 17.7% in 9M16, in line with previous guidance.

Core business trends remained solid, with healthy loan growth, strong client margins, expanding fees, sound asset quality indicators and controlled cost growth. This propelled a 16.6% YoY increase in the **Net contribution from our business segments**[2].

Net income was flat compared to 9M15 as this solid client trends were offset by extraordinary severance expenses, a lower inflation rate and a higher corporate tax rate.

3Q16 ROE at 17.7% despite a low annualized inflation rate

In the third quarter of 2016 (3Q16), **Net income attributable to shareholders** totaled Ch$121,979 million (Ch$0.65/share and US$0.39/ADR). The **Bank's ROE** reached 17.7% in 3Q16 despite a relatively low annualized inflation rate of 2.4% in the period. Our current guidance is that the Bank can generate ROEs in the range 17-18% with a 3% annual inflation. Therefore, we are well inside our ROE range, despite the lower inflation rate in the quarter.

The Bank's solid profitability in the quarter was mainly driven by the results from our business segments. **Net contribution from our business segments** in 3Q16 totaled Ch$154,353 million and increased 1.4% QoQ and 29.2% YoY.

Net income was up 4.9% compared to 2Q16 (2.2% lower excluding the one-time severance expenses reported in 2Q16) and decreased 5.6% compared to 3Q15. The lower quarterly inflation rate and the higher tax rate were the main factors that explain the lower results.

Loans up 1.8% QoQ and 6.2% YoY. Growth focused in segments with the highest profitability, net of risk

Total loans increased 1.8% QoQ and 6.2% YoY in 3Q16. The Bank continued to focus loan growth on segments with the highest profitability, net of risk. **Loans to individuals** increased 1.4% QoQ and 11.1% YoY. The Bank is focusing on expanding its loan portfolio in middle and high-income individuals, but with a more balanced growth between consumer and mortgage loans to boost overall spreads. As a result, **consumer loan** grew 1.7% QoQ and **mortgage loans** increased 1.8% QoQ. Consumer loan growth among middle and high-income earners grew 3.7% QoQ and 15.2% YoY, while in the low end of the market, consumer loans decreased 5.6% QoQ and 22.2% YoY. **Loans to small and middle-sized enterprises, SMEs,** also expanded at a healthy rate in the quarter, growing 1.7% QoQ (+9.3% YoY). In 3Q16, **loans in the Middle-market** accelerated QoQ and increased 2.9% (+1.5% YoY). In **Global Corporate Banking**, **GCB**, our wholesale banking unit, loans increased 0.9% QoQ, but decreased 9.2% YoY.

Strong liquidity levels leads to higher deposit spread

Total deposits decreased 1.0% QoQ and increased 6.9% YoY. Liquidity remained high in the quarter and our Liquidity Coverage Ratio (LCR) calculated under the new Chilean guidelines regarding liquidity reached 150% as of September 2016. The sound level of liquidity allowed the Bank to proactively shift customer funds from deposits to mutual funds in order to boost fee growth and improve the spread earned over deposit. As a result, **Total customer funds** (deposits plus mutual funds) managed by the Bank increased 0.8% QoQ and 8.7% YoY.

Core Capital ratio at 10.3% and BIS ratio of 13.2% in 3Q16

The Bank's **Core capital ratio**[3] reached 10.3% and the **BIS ratio** was 13.2% as of Sep. 30, 2016, both 40bp higher than in the same period of 2015, despite the higher payout ratio adopted temporarily this year. This was due to the Bank's solid profitability levels and the control of RWA growth. The YoY growth of RWAs was 1.4% compared to 6.2% for loans.

Client net interest income up 8.1% in 3Q16. Client NIM rises to 4.9%

In 3Q16, **Net interest income, NII,** decreased 1.5% QoQ and 2.4% YoY. The **Net interest margin, NIM**[4], reached 4.5% compared to 4.6% in 2Q16 and 4.9% in 3Q15. This decrease in NIM in the quarter was mainly due to the lower inflation. In 3Q16, the variation of the *Unidad de Fomento* (an inflation indexed currency unit), was 0.6% compared to 0.9% in 2Q16 and 1.5% in 3Q15. The Bank has more assets than liabilities linked to inflation. Therefore, margins fall when inflation decelerates and vice-versa.

This was partially offset by positive results from our **Client net interest income**[5]**,** which is NII from our business segments and excludes the impact of inflation. Client NII increased 3.4% QoQ and 8.1% YoY. **Client NIMs**[6] reached 4.9% in 3Q16 compared to 4.8% in 2Q16 and 4.9% in 3Q15. This 10bp QoQ rise in Client NIMs was due to: (i) a higher yielding loan mix; and (ii) the proactive management of the Bank's funding mix, which has led to an improvement in time deposit spreads.

Sound asset quality indicators in the quarter

The Bank's strategy of de-risking the asset mix continues to have a positive impact on asset quality. In 3Q16, the **Non-performing loans (NPLs) ratio** reached 2.1%, flat compared to 2Q16 and 40bp lower than in 3Q15. Total **Impaired loans**, a broader measure of asset quality that includes NPLs and renegotiated loans, improved 30bp QoQ to 5.9% and 70bp since the end of 3Q15. **Total Coverage of NPLs** (loan loss allowances over total loans) reached 145.9% in 3Q16 compared to 140.5% in 2Q16 and 114.0% in 3Q15.

Provision for loan losses increased 12.9% QoQ and decreased 8.2% YoY in 3Q16. The **Cost of credit** (provision expense over loans) in the quarter was 1.4% compared to 1.3% in 2Q16 and 1.7% in 3Q15. **Provisions for loan losses for consumer loans** increased 31.5% QoQ and 52.4% YoY in 3Q16. As mentioned in previous earnings reports, the Bank has been enforcing a strategy of lowering exposure to the low-end of the consumer loan market. This entailed an active policy of charging-off and bolstering coverage ratio in the lower income segment. The **Coverage ratio of consumer NPLs** reached 318.6% as of September 30, 2016. The **Consumer loan NPL ratio** increased 10bp QoQ to 2.2% and decreased 30bp YoY to 2.2%. **The Impaired consumer loan ratio** in 3Q16 was steady at 6.6% QoQ and improved 120bp YoY.

Provisions for loan losses for commercial loans decreased 23.4% QoQ and 50.1% YoY. Overall asset quality trends in commercial lending kept improving in the quarter. The **Coverage ratio of commercial NPLs** reached 141.9% as of September 2016.

Provisions for loan losses for residential mortgage loans recorded a reversal of Ch$1,423 million. This was mainly due to a positive evolution of recovery efforts. The **Coverage ratio of mortgage NPLs** also increased to 42.8% as of September 2016.

Positive evolution of customer loyalty and satisfaction indicators is fueling fee growth

Net fee and commission income grew 0.9% QoQ and was down 0.5% YoY in 3Q16 (3.2% adjusted by an extraordinary item recorded in 3Q15). Fee income growth was up 7.2% in 9M16 compared to 9M15 in line with our guidance for the year. The Bank's customer loyalty and satisfaction metrics continued to improve. Loyal individual customers (clients with >4 products plus minimum usage and profitability levels) in the high-income segment grew 9.3% YoY. Loyal Middle-market and SME clients grew 9.3% YoY. In addition, in October 2016, we achieved another landmark in our efforts to create a Bank that is Simple, Personal & Fair for our clients. The Bank closed the client satisfaction gap we maintained with our main peers. As of October, 77% of our clients rated us with top marks in client service, according to an independent survey conducted every April and October of each year. This improvement in customer service should be a key driver for continued growth of cross-selling and fee growth going forward

Costs under control. Operating expenses up 3.9% YoY and fall 0.7% QoQ in 3Q16

Operating expenses, excluding Impairment and Other operating expenses, grew 3.9% YoY and decreased 0.7% QoQ. As mentioned in the previous earning report, the Bank has been implementing several measures to lower cost growth to mid-single digits by year-end 2016. The QoQ decrease in costs is mainly due to these efforts. The YTD Efficiency ratio reached 42.1% in 9M16 compared to 40.6% in 9M15. The YTD Cost / Asset ratio was 1.9% as of 3Q16 compared to 2.0% in 9M15.

Personnel salaries and expenses increased 2.1% YoY in 3Q16, also the lowest growth rate in the last ten quarters. This rise was mainly due to the indexation of wages to CPI inflation, which in the last twelve months was 3.1%. The Bank has been reducing high-level management positions in order to mitigate personnel cost growth. Compared to 2Q16, personnel expenses fell 1.6%.

Administrative expenses increased 1.8% YoY. This growth was mainly driven by a rise in IT expenses partially offset by a reduction in the majority of the remaining administrative expense items. The bank has been reducing its brick-and-mortar branch network and increasing digital banking capabilities. In the last 12 months, the Bank has closed 11 branches and eliminated 150 unprofitable ATMs. An increase in transactions through channels such as internet, mobile and phone banking have replaced this. The effectiveness of the Bank's CRM has also increased productivity. Compared to 2Q16, administrative expenses fell 0.1%.

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[1]. Return on Equity, ROE = Net income attributable to shareholders divided by average shareholders' equity.

[2]. Net contribution from business segments: Net interest income + Net fee and commission income + Financial transactions, net - Provision expense - Operating expenses from our reporting segments. 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]. Core Capital ratio = Shareholders' equity divided by Risk-weighted Assets (RWA) according to SBIF BIS I definitions.

[4]. Net Interest margin, NIM: Net interest income, annualized, divided by average interest earning assets.

[5]. Client net interest income: NII from the Bank's reporting segments that includes NII from the Retail, Middle-market and GCB segments, excluding GCB's Treasury division. Non-client NII: 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.

[6]. Client NII divided by average loans.