Banco Santander Chile Announces First Quarter 2017 Earnings

April 27, 2017

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Santiago, Chile, April 27, 2017. Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results[1] for the first quarter of 2017.

Net income increased 31.1% QoQ and 13.5% YoY in 1Q17. ROAE reached 19.5% in 1Q17

Net income attributable to shareholders[1] in 1Q17 totaled Ch$142,375 million (Ch$0.76 per share and US$0.46/ADR), increasing 31.1% QoQ and 13.5% YoY. The **Bank's ROAE**[2] expanded 140bp compared to 1Q16 and reached 19.5%, well above initial guidance. This was achieved despite a lower inflation rate and the higher corporate tax rate.

The rise in the Bank's ROE was driven by a solid growth of client revenues leveraged on a lower cost of credit and improved efficiency. This is reflected in the 31.9% YoY rise in **net contribution from our business segments.**[3] This was led by a 54.3% increase in net contribution from our Retail Banking segment[4].

Loans up 6.7% YoY. Loan growth among Middle & High-income earners grew 8.8% YoY

Total loans increased 0.9% QoQ and 6.7% YoY in 1Q17. Retail banking loans increased 0.4% QoQ and 6.8% YoY. **Loans to individuals** increased 1.2% QoQ and 7.6%. **Consumer loans** increased 1.3% QoQ and 8.7% YoY and **mortgage loans** increased 1.5% QoQ and 8.0% YoY. The Bank continued to prioritize growth among middle and high-income individuals. Loan growth among middle and high-income earners increased 1.5% QoQ and 8.8% YoY.

Rate cut drives shift of time deposits towards fee generating mutual funds

Total customer funds (deposits plus mutual funds) managed by the Bank decreased 0.5% QoQ and grew 4.5% YoY. In 1Q17, the Chilean Central Bank cut interest rates 50 basis points. This resulted in lower funding costs and a switch away from time deposits to fee generating mutual funds. As a result, **time deposits** decreased 3.4% QoQ and 0.2% YoY. **Non-interest bearing demand deposits** were 1.7% down QoQ and increased 4.7% YoY, outstripping time deposit growth. **Mutual funds** brokered by the Bank increased 9.2% QoQ and 16.9% YoY.

Core capital[5] ratio reached 10.8% as of March 2017. Dividend payout of 70% approved by shareholders

The Bank's **Core capital ratio** reached 10.8% at the end of 1Q17, 30bp higher than the levels at year-end 2016 and 20bp higher than the core capital ratio in 1Q16. The total **BIS ratio**[6]reached 13.7% as of March 2017. The YoY growth of RWA was 3.3% compared to 6.7% for loans. This high level of capital and efficient growth of RWAs allowed the Bank's Board to propose the distribution of 70% of 2016 earnings as a dividend, which was approved by shareholders on April 26, 2017. The dividend yield, considering the share price on March 31, 2017, was 4.2%.

Cost of credit falls to at 1.1%. NPL ratio stable at 2.2%

Asset quality remained stable in the quarter. On a YoY basis the **NPL ratio** decreased from 2.5% in 1Q16 to 2.2% in 1Q17, in line with the Bank's loan growth strategy of focusing on those segments with the highest return, net of risk. This also had a similar effect on the cost of credit, which descend to 1.1% in the quarter compared to 1.2% in 1Q16 and 1.3% in 4Q16. Compared to 4Q16 the NPL ratio increased 10bp mainly due to seasonal factors and high growth in retail banking segments compared to a reduction in wholesale lending. In 2017, we expect Non-performing loans to rise moderately due to sluggish economic growth and a weakening job market, but the loans entering NPL status already have a high coverage ratio, therefore, the cost of credit should remain stable. For these reasons the Bank's **expected loss ratio or risk index**, measured as Loan Loss Allowances (LLA) over total loans improved to 2.9% as of March 2017 compared to 3.0% at year-end 2016 and 1Q16.

Client NIMs, net of risk rise 20bp to 3.7%.

A key driver of profitability in the quarter was the rise in client NIMs, net of risk. In 1Q17, Net interest income from our business segments (**Client NII**[7]) increased 1.2% QoQ and 6.5% YoY. **Client NIMs**[8], which excludes the impact of inflation and the ALCO's liquidity portfolio, reached 4.8% in 1Q17 compared to 4.8% in 4Q16 and 4.9% in 1Q16. Despite the change of the loan mix towards less riskier segments, the Bank has managed to sustain client NIMs by increasing the retail loan book as mentioned above. At the same time funding costs have improved, which also kept client margins elevated. In addition, the cost of credit is falling. **Provision for loan losses** decreased 15.8% QoQ and 5.2% YoY in 1Q17. The **cost of credit** in the quarter was 1.1% compared to 1.3% in 4Q16 and 1.2% in 1Q16. This is a direct result of the de-risking strategy enforced by the Bank. As a result, Client NIMs, net of risk increased 20bp in 1Q17 compared to 1Q16.

Greater customer loyalty & satisfaction indicators fueling solid fee growth

In 1Q17, **fee income** increased 15.3% QoQ and 15.6% YoY. This solid growth of fees was mainly driven by the steady improvement in customer satisfaction, which is attracting new clients and increasing cross-selling ratios. Loyal customers[9] in the high-income segment grew 11.5% YoY. Among Mid-income earners, loyal customers increased 7.9% YoY. Loyal Middle-market and SME clients grew 12.2% YoY.

Efficiency ratio improves to 40.0%. Sustained rise in productivity

The Bank's **efficiency ratio** reached 40.0% in 1Q17 compared to 41.6% in the same period of last year. **Operating expenses** growth on a YoY basis was 1.7%. The low cost growth is a direct consequence of the various initiatives that the Bank has been implementing to improve productivity and efficiency. **Personnel expenses** in 1Q17 decreased 0.3% YoY. Total headcount has decreased 4.8% in the last twelve months. **Administrative expenses** also decreased 0.4% YoY in 1Q17. The Bank's digital transformation and new branch formats have been successful in increasing productivity. In total, in the last twelve months, 11.7% of the Bank's branch network has been closed and 15.8% of our ATMs were eliminated. This has been replaced by an increase in transactions through channels such as internet, mobile and phone banking and greater productivity in the existing branch network.

CONTACT INFORMATION

Robert Moreno

Manager, Investor Relations Department

Banco Santander Chile

Bombero Ossa 1068, Piso 8

Santiago, Chile

Tel: (562) 2320-8284

Email: robert.moreno@santander.cl

Website: www.santander.cl

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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: annualized quarterly net income attributable to shareholders divided by average equity attributable to shareholders in the quarter. Averages calculated using monthly figures.

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

[4]. Retail banking = Individuals + Small and Mid-sized companies (SMEs).

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

[6]. BIS ratio: Regulatory capital divided by RWA.

[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.

[9]. Clients with >4 products plus minimum usage and profitability levels.