



## Banco Santander Chile Announces Third Quarter 2017 Earnings

October 26, 2017

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**Santiago, Chile, October 26, 2017.** Banco Santander Chile (NYSE: BSAC; SSE: Bsantander) announced today its unaudited results<sup>1</sup> for the third quarter of 2017.

### Solid results with ROAE of 19.7% for 9M17 driven by strong net contribution from business segments

**Net income attributable to shareholders** in 9M17 totaled Ch\$430,137 million, increasing 18.3%, with a **ROAE<sup>[1]</sup> of 19.7% YTD**. These positive results were driven by client activities reflected in the 21.2% YoY increase in Net contribution from business segments<sup>[2]</sup>. This was led by a 40.0% increase in net contribution from our Retail Banking segment<sup>[3]</sup>, which more than offset the negative effects of lower inflation rate on net interest margins and a higher corporate tax rate.

In the third quarter, **net income attributable to shareholders** totaled Ch\$137,326 million (Ch\$0.73 per share and US\$0.46/ADR), increasing 12.6% YoY and decreasing 8.7% QoQ. The QoQ fall in results was mainly due to the impact of a lower inflation on margins in the quarter. The YoY rise in quarterly results was mainly due to a rise in client margins, a fall in the cost of credit, greater fees and cost control. The Bank's **ROAE in the quarter** reached 18.8% in 3Q17 compared to 20.8% in 2Q16 and up from 17.7% in 3Q16.

### Loans increase 2.2% QoQ with growth in all business segments

**Total loans** increased 2.2% QoQ and 3.3% YoY in 3Q17 with growth in all segments. During the quarter, there was some improvement in various economic indicators, leading to a gradual pick up of loan growth. **Retail banking loans** increased 0.9% QoQ and 4.5% YoY. The Bank continued to prioritize growth in the mid to high income segments, while maintaining the process of downsizing Santander Banefe, our division for the mass consumer market. Loan growth among middle and high-income earners increased 1.0% QoQ and 5.7% YoY. Meanwhile, in the mass consumer market, loans decreased 10.0% QoQ and 29.5% YoY. **Loans to SMEs** increased 1.4% QoQ and grew 4.6% YoY. In this segment, the Bank focused on growing the loan book among larger, less risky SMEs. This segment continued to generate the highest margins net of risk in the Bank. **Loans in the Middle-market** increased 2.3% QoQ and 3.5% YoY. Following various quarters of subdued growth, this segment's loan portfolio experienced an acceleration of loan volumes in line with better economic growth figures. In **Global corporate Banking (GCB)**, loans growth also recovered and increased 10.3% QoQ, but is still decreasing 10.9% YoY.

### Rate cut and lower loan growth drives shift of time deposits towards fee generating mutual funds

In 2017, the Bank's funding strategy has been focused on lowering deposits rates in tandem with the lower Central Bank rates, and optimizing liquidity levels. In 3Q17, as loan growth began to accelerate, deposits also began to rise at a higher pace, but with controlled funding costs. Total deposits expanded 3.2% QoQ with time deposits rising 4.4% and Demand deposits increasing 1.0%. The cost of time deposits in the quarter decreased an additional 40 basis points QoQ to 2.6%.

### NIMs, net of risk: Lower inflation offset by lower cost of funds and stable cost of credit

**Total NIM<sup>[1]</sup>** was 4.3% in 3Q17, down 30bp QoQ YoY and 20bp YoY due to lower inflation during the quarter. The Bank has more assets linked to inflation than liabilities; therefore, in periods of lower inflation, our margins are compressed. **Client NIMs<sup>[2]</sup>** (defined as Client NII divided by average loans, which excludes the impact of inflation and the ALCO's liquidity portfolio), were stable at 5.0% in 3Q17. The Bank has managed to maintain client NIMs by enforcing a strict pricing policy on loans and a lower cost of funds.

The negative impact of a lower inflation rate in the quarter was also offset by the improvements in the cost of credit<sup>[3]</sup>. **NIM net of risk<sup>[4]</sup>** for 3Q17, was 3.3%, down from 3.6% 2Q17, however up from 3.2% in 3Q16. The **Client NIM net of risk** increased to 3.9%, up slightly by 2bp from 2Q17 and 35bp from 3Q16. In general **asset quality indicators** remained stable in the quarter. The **NPL ratio** decreased to 2.1%, with a reduction in the NPL ratio of commercial and mortgage loans. On the other hand, the low growth of the economy during most of the year has resulted in some deterioration of the **impaired loan ratio** which increased from 6.3% as of June 2017 to 6.4% as of September 2017. **Provision for loan losses** decreased 5.9% QoQ and 23.5 % YoY in 3Q17, reflecting the change in the loan mix as part of the de-risking strategy enforced by the Bank which has led to a **cost of credit** of 1.1% in 3Q17, an improvement on the 1.4% in 3Q16.

### Greater customer loyalty & satisfaction fueling solid fee growth

In 3Q17, fee income decreased 5.2% QoQ and increased 5.7% YoY. The YoY rise in fees continues to be driven by improvements in client loyalty and satisfaction. Loyal individual customers (clients with >4 products plus minimum usage and profitability levels) in the High-income segment grew 10.4% YoY. Among Mid-income earners, loyal customers increased 3.2% YoY. Loyal Middle-market and SME clients grew 7.4% YoY.

The QoQ decline in fees was mainly due to: (i) the decrease in ATM card fees income, as we have been optimizing the ATM network, which negatively affects fee income, but has a positive impact on costs and efficiency (See Operating expenses and Efficiency.) and (ii) a reduction in fees from the GCB segment, following a strong first half in investment and transactional banking activities.

### Sustained rise in productivity and digitalization. Efficiency ratio at 40.2% in 3Q17

The Bank's **efficiency ratio<sup>[1]</sup>** reached 40.2% in 3Q17 compared to 41.1% in the same period of last year. **Operating expenses** grew 2.5% QoQ and

4.8% YoY. The relatively low cost growth is a direct consequence of the various initiatives that the Bank has been implementing to improve productivity and efficiency. **Personnel expenses** decreased 0.5% QoQ in 3Q17 and increased 1.2% YoY mainly due to the rise in salaries as they are adjusted according to CPI inflation. However, this has been offset by a 4.4% decrease in total headcount in the last twelve months. **Administrative expenses** increased 7.7% YoY in 3Q17 mainly explained by expenses to re-model branches to a new multi-segment format, opening of more WorkCafé and investments in the development of new digital initiatives. This quarter we also launched another digital milestone, our 100% Digital Onboarding platform. This platform allows non-clients to become a client of the Bank vía our APP using Touch ID or the web page, ensuring automatic credit scoring and data check.

**Solid core capital<sup>[2]</sup> ratio of 10.7% as of September 2017.**

The Bank's **Core capital ratio** reached 10.7% at the end of 3Q17, 40bp higher than the levels as of September 2016. The total **BIS ratio<sup>[3]</sup>** was stable at 13.6% as of September 2017 with a YoY growth of RWA of 2.7%.

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<sup>[1]</sup> Efficiency ratio: Operating expenses excluding impairment and other operating expenses divided by Operating income. Operating income = Net interest income + Net fee and commission income + Total financial transactions, net + Other operating income minus other operating expenses.

<sup>[2]</sup> Core capital ratio = Shareholders' equity divided by risk-weighted assets according to SBIF BIS I definitions.

<sup>[3]</sup> BIS ratio: Regulatory capital divided by Risk Weighted Assets.

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<sup>[1]</sup> Annualized Net interest income divided by average interest earning assets.

<sup>[2]</sup> Net interest income from our business segments (Client NII) divided by average loans

<sup>[3]</sup> Annualized provision for loan losses / average total loans. Averages are calculated using monthly figures.

<sup>[4]</sup> Annualized Net interest income minus annualized provisions divided by average interest earning assets.

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<sup>[1]</sup> 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.

<sup>[2]</sup> Net contribution from business segments is defined as Net interest income + Net fee and commission income + Total financial transactions - provision for loan losses - operating expenses.

<sup>[3]</sup> Retail banking = Individuals + Small and Mid-sized companies (SMEs).