



## Banco Santander Chile Announces Fourth Quarter 2017 Earnings

January 31, 2018

**Santiago, Chile, January 31, 2018.** Banco Santander Chile (NYSE: BSAC; SSE: B santander) announced today its unaudited results<sup>[1]</sup> for year-end 2017 (12M17) and the fourth quarter of 2017 (4Q17).

### **Solid results with ROAE of 19.2% for 12M17 driven by strong net contribution from business segments**

**Net income attributable to shareholders** in 12M17 totaled Ch\$564,815 million, increasing 19.6%, leading to a 218bp rise in **ROAE**<sup>[2]</sup> to **19.2% YTD**. These positive results were driven by client activities reflected in the 17.0% YoY increase in Net contribution from business segments<sup>[3]</sup>. This was led by a 28.1% increase in the net contribution from our Retail Banking segment<sup>[4]</sup>, which more than offset the negative effects of lower inflation rate on net interest margins and a higher corporate tax rate.

In the fourth quarter, **net income attributable to shareholders** totaled Ch\$134,678 million (Ch\$0.71 per share and US\$0.46/ADR), increasing 24.0% YoY and decreasing 1.9% QoQ. The QoQ fall in results was mainly due to lower client treasury income and a higher tax rate. The YoY rise in quarterly results was mainly due to a rise in margins, fees and provision expense, complemented with a tight control of costs. The Bank's **ROAE in the quarter** reached 17.8% in 4Q17 compared to 18.8% in 3Q17 and 15.3% in 4Q16.

### **Retail loans grow 1.8% QoQ. Santander Life launched.**

**Total loans** increased 1.9% YoY and slightly decreased QoQ by 0.1% in 4Q17 with growth mainly coming from high yielding retail banking and the middle market segment. **Retail banking loans** increased 1.8% QoQ and 4.3% YoY. **Loans to individuals** increased 1.9% QoQ and 4.3% YoY. **Consumer loans** increased 1.8% QoQ and 2.5% YoY. **Mortgage loans** increased 1.8% QoQ and 5.5% YoY.

In the quarter, the Bank launched **Santander Life**, our new business model for the mass consumer market. This unprecedented initiative represents a new way of relating to the community and customers through a new generation of digital products designed for the mass consumer market that rewards positive credit behavior. This shift back into the mass consumer market responds to two motives. First of all, the improving economic outlook in Chile and second, and most importantly, the technological innovations the Bank has introduced that will now permit it to acquire new clients through a platform that is 100% digital.

**Loans to SMEs** increased 1.4% QoQ and grew 4.4% YoY. In this segment, the Bank focused on growing the loan book among larger, less riskier SMEs due to risk considerations and also due to the fact that larger SMEs generate higher *non-lending* revenues. **Loans in the Middle-market** increased 2.4% QoQ and 4.4% YoY. Gradually, loan volumes are accelerating in this segment as investment and growth increase in the economy. In the quarter, following the presidential elections the peso appreciated significantly resulting in a translation loss on loans denominated in U.S. dollar. Simultaneously, our GCB segment saw a reduction in low yielding interbank loans. For these reasons, loans in the **GCB segment** fell 21.0% QoQ and 25.5% YoY. As a reminder, more than 90% of income in this segment is generated by non-lending activities.

### **Improving funding mix and costs**

In 2017, the Bank's funding strategy has been focused on lowering deposits rates in tandem with the lower Central Bank rates, optimizing liquidity levels and improving the funding mix. In 4Q17, as loan growth in GCB decelerated, the Bank further optimized its funding structure by reducing time deposits and increasing non-interest demand deposits. Total deposits decreased 0.9% QoQ with demand deposits increasing 6.8%. The average cost of deposits (time plus demand deposits)<sup>[5]</sup> improved from 2.3% in 2016 to 1.9% in 2017. At the same time, the Bank's shareholders equity increased 6.9% YoY, which also reduced the need for expanding our interest bearing liabilities.

### **4Q17 NIM rise 40bp YoY to 4.6% despite similar UF inflation levels**

**Total NIM**<sup>[6]</sup> was 4.6% in 4Q17, up 30bp QoQ and 40bp YoY. Notable in the quarter was the 40bp YoY rise in margins, taking into consideration that the UF inflation in both periods was the same. This clearly reflects the Bank's strong focus on improving the asset and funding mix, as well as lowering funding costs. **Client NIMs**<sup>[7]</sup> (defined as Client NII divided by average loans, which excludes the impact of inflation and the ALCO's liquidity portfolio), fell 20bp to 4.8% QoQ and was stable compared to 4Q16. The Bank has managed to maintain client NIMs by enforcing a strict pricing policy on loans and a lower cost of funds.

**NIM net of risk**<sup>[8]</sup> for 4Q17, was 3.6%, up from 3.3% in 3Q17 and 3.1% in 4Q16. The higher NIMs in the quarter more than offset the higher cost of credit in 4Q17. In 2017, the overall evolution of asset quality was positive despite low economic growth and slightly higher unemployment levels. For 12M17 total provision expense declined 12.8% mainly due to the benefits in risk from the Bank's shifting loan mix towards middle and high income clients and the downsizing of Santander Banefe. Provision expenses in 4Q17 increased 4.6% QoQ and decreased 12.4% YoY. The cost of credit in 4Q17 reached 1.1% and for 12M17 it was 1.1%, in line with guidance. In the 4Q17, there was some deterioration of asset quality as the positive impact of the changing asset mix was outweighed by the negative impacts of lower economic growth in the year. We expect these trends to be temporary as the economy recovers. The **NPL ratio** increased slightly to 2.3% in 4Q17 and the **impaired loan ratio** from 6.4% as of September 2017 to 6.5% as of December 2017. However, the Bank's **Expected loss ratio or Risk index**, measured as Loan Loss Allowances (LLA) over total loans remained stable at 2.9% as of December 2017 and the **coverage ratio** of NPLs reached to 128.8% as of December 2017.

### **Greater customer loyalty & satisfaction fuels fee growth Fees from GCB decelerate in the quarter.**

In 4Q17, fee income decreased 2.6% QoQ and increased 5.0% YoY. The YoY rise in fees continues to be driven by improvements in client loyalty and satisfaction. Client loyalty continues to rise in retail banking. Loyal individual customers (clients with >4 products plus minimum usage and profitability levels) in the High-income segment grew 9.5% YoY. By products, the biggest contributor to fee income growth was fees from credit cards. In the

quarter, higher consumer expenditure triggered a 13.9% QoQ rise in card fees.

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 40.8% in 12M17**

The Bank's **efficiency ratio**<sup>[9]</sup> reached 40.8% in 12M17 improving from 42.7% in 12M16. In 12M17, the Bank's operating expenses, excluding impairment and other operating expenses, grew only 2.6%. The relatively low cost growth is a direct consequence of the various initiatives that the Bank has been implementing to improve commercial productivity and efficiency. In 4Q17, **operating expenses** grew 1.5% QoQ and 4.4% YoY. The QoQ rise in costs was mainly due to higher costs related to marketing and product innovations. During 4Q17, we finished closing all of the Banefe branches and accelerated the pace of openings of our new WorkCafé format, which is significantly more productive than a traditional branch. As of December we had 20 WorkCafé branches compared with 9 in September 2017. In total, in the last twelve months, 11.3% of the Bank's branch network was closed. At the same time we launched Santander Life and incremented marketing costs to promote this new line of products.

#### **Solid core capital<sup>[10]</sup>ratio of 11.0% as of December 2017.**

The Bank's **Core capital ratio** reached 11.0% at year-end 2017, 45bp higher than the level at year-end 2016. The total **BIS ratio**<sup>[11]</sup> reached 13.9% as of December 2017 compared to 13.4% in 2016. **Risk weighted assets (RWA)** increased 2.5% in 2017 compared to a growth of 6.9% in core shareholders equity.

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<sup>[1]</sup> These figures are unaudited and preliminary and are prepared according to Chilean Bank GAAP. The Bank will publish its audited financials on February 28, 2018

<sup>[2]</sup> ROAE: Return on average equity: annualized net income attributable to shareholders divided by average equity attributable to shareholders. Averages calculated using monthly figures.

<sup>[3]</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>[4]</sup> Retail banking = Individuals + Small and Mid-sized companies (SMEs).

<sup>[5]</sup> Interest expenses paid on deposits divided by the average balance of time and demand deposits.

<sup>[6]</sup> Annualized Net interest income divided by average interest earning assets.

<sup>[7]</sup> Net interest income from our business segments (Client NII) divided by average loans

<sup>[8]</sup> Annualized Net interest income minus annualized provisions divided by average interest earning assets.

<sup>[9]</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>[10]</sup> Core capital ratio = Shareholders' equity divided by risk-weighted assets according to SBIF BIS I definitions.

<sup>[11]</sup> BIS ratio: Regulatory capital divided by Risk Weighted Assets.