18-I-0082
March 29, 2019

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

Banco Santander-Chile (security code: -)

<Assignment>

Foreign Currency Long-term Issuer Rating:	A+
Outlook:	Stable

Rationale

(1) Banco Santander-Chile (Santander Chile) is the largest Chilean bank with total assets of around 39 trillion Chilean pesos at the end of 2018. Banco Santander, S.A. (Foreign Currency Long-term issuer rating: A+/stable), the largest bank in Spain, indirectly controls 67.18% of its total voting rights. Other than Chile, Banco Santander, S.A. also operates in countries in Europe, North America and Latin America through its subsidiaries, forming Santander Group composed of retail banks in various regions. It has integrated frameworks for risk control and governance on a group-wide basis. On the other hand, in accordance with the group policy, its subsidiaries operate independently in terms of capital, liquidity and funding from the viewpoint of containing crisis contagion within the group. In terms of resolution, Banco Santander, S.A. adopts a multiple-point-of-entry approach where each subsidiary is designated as a resolution entity. While Santander Chile is a strategically important subsidiary for Banco Santander, S.A. as a part of the Latin American business, JCR has conducted its credit assessment with a consideration of such characteristics of the Group's business model. The rating reflects its strong business base in Chile, high profitability and stable earnings generation capacity, and reasonable level of capital adequacy. Under the improving macroeconomic environment in Chile, JCR expects that Santander Chile will maintain its solid performance supported by the growth of loans, its strict control of operational costs and moderate level of credit costs.

(2) Santander Chile is a universal bank that operates in a wide range of business areas such as credit card, insurance, securities and investment banking on top of the traditional banking. It has an extensive branch and ATM network and a diversified customer base in Chile. While the bank focuses on retail banking, it also has a competitive edge in highly profitable non-lending business with corporate clients such as cash management. It boasts a leading position in a variety of areas, especially in mortgage loans and consumer loans for individual clients. Its market shares at the end of 2018 were 19% for loans and 18% for deposits, ranking top and second, respectively. The bank's pricing power and a sticky, low-cost deposit base on the back of its strong domestic franchise enable it to secure stable earnings even amid an intensifying market competition. In recent years, Santander Chile has been promoting commercial transformation through the initiatives such as the launch of various digital platforms and transformation of the branch network. These have led to higher customer satisfaction, contributing to enhancement of the bank's customer base and capturing more fee and commission income.

(3) Santander Chile controls risks conservatively. Its primary risk assets are customer loans, which account for approximately 75% of its total assets. JCR deems that risks in the bank's loans are reasonably high for a bank operating in an emerging market, but they are manageable given its adequate earnings capacity. The bank's loan portfolio is diversified in a broad range of segments and sectors with a focus on relatively small-lot mortgage and consumer loans, which also contributes to mitigating its credit risk. Since 2012, Santander Chile has been shifting its focus from lower-end segments to middle and high-income individuals. Against this background, the quality of its loans has continued to improve even during the period of a slowdown of the domestic economy. At the end of 2018, the bank's NPL ratio that includes loans overdue for 90 days or more was 2.1%, and the ratio of impaired loans that also include restructured loans was 5.9%. Both ratios were slightly higher than the averages for the major domestic banks given its greater focus on consumer loans and SMEs. Its credit cost ratio has been steadily declining since 2013, excluding the impact of the changes in the provisioning standards. In 2018 the ratio was around 110 bps. Santander Chile's securities investment portfolio is small in terms of total assets and is mostly comprised of products with high credibility and market liquidity, mainly Chilean government and central bank securities.

(4) Santander Chile's balance sheet has a structure where most of long-term mortgage loans, which account for the largest proportion of assets, are contracted in unidad de fomento (UF), a monetary unit linked to the inflation rate. On the other hand, its deposits are mainly denominated in nominal pesos and are short-term. The bank's assets and liabilities therefore have mismatches both in terms of the UF balances and the maturity. Changes in the nominal peso value of the bank's UF-denominated assets and liabilities are reflected in its earnings as increases or decreases in interest income and interest expense, respectively. As such, an inflationary environment generates an effect of increasing the bank's net interest income, but degree of such effect changes depending on the levels of inflation. Santander Chile controls the mismatch within a certain range by issuing UF-denominated long-term bonds or using interest swaps, thus containing inflation and interest rate risks at manageable levels.

(5) Santander Chile has maintained stable profits throughout the economic cycle supported by the diversification of its revenue sources as well as its focus on commercial banking where fluctuations of business volume are less volatile. In the mid- to long-term span, a steady increase in net interest income in line with the growth of loans has been driving the increasing trend of the bank's earnings. In the last three years, both net interest income and fee and commission income have recorded steady increases, while the growth of operating costs was kept contained thanks to the effects of various efficiency measures including the reduction of the branches and digitalization. Loans loss provisions have also remained at a moderate level. As a result, profit before tax has increased year-on-year for the last three consecutive years. The bank's solid core profitability supported by its adequate margins and strict cost control leads to high ROA as measured by income after provisioning, which averaged nearly 2% over the last 5 years. As the Central Bank of Chile has entered a tightening cycle, the bank's margins will likely be under pressure for some time given that its liabilities reprice faster than assets. Nevertheless, the bank should be able to maintain its adequate earnings capacity, given the continuation of a moderate inflation as well as the bank's efforts to increase low-cost deposits and recent focus on loans with higher yields.

(6) Santander Chile's capital base is adequate relative to its risks. At the end of 2018, its capital adequacy ratio and Tier 1 ratio based on Basel I stood at 13.4% and 10.6%, respectively, which are consistent with the A rating range. The bank's steady profit accumulation has contributed to maintaining the sound capital levels despite the increase in risk assets associated with the growth of loans. Risk-weighted asset density is also high due to the application of conservative risk weights. In Chile, Basel III is planned to be introduced in 2020, which will bring about stricter capital requirements such as the introduction of various buffers. Under the new rule, market and operational risks will be included in the capital requirements while a substantial reduction of credit risk assets is expected. All in all, JCR expects that Santander Chile will face no need to raise additional capital to meet the new capital requirements. The bank primarily relies on stable local customer deposits for its funding and retains diversified sources of wholesale funding through bond issuance and borrowing. Its loan-to-deposit ratio stood high at 138.8% at the end of 2018. However, this is a trend common to Chilean banks which finance their long-term mortgage loans with long-term bonds. If this portion of mortgage loans is excluded, the bank's loan-to-deposit ratio comes down to around 100%. The bank also has sound liquidity levels.

Atsushi Masuda, Haruna Saeki

Rating

Issuer: Banco Santander-Chile

<Assignment>

Foreign Currency Long-term Issuer Rating: A+ Outlook: Stable

Rating Assignment Date: March 28, 2019

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

Outline of methodology for determination of the credit rating is shown as "JCR's Rating Methodology" (November 7, 2014), "Banks" (May 8, 2014) and "Rating Perspectives for subsidiary companies" (December 14, 2007) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

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INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Banco Santander-Chile
Rating Publication Date:	March 29, 2019

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases
The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality
The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions
The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer
The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases
The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality
The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions
The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer
The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the order of seniority in repayment of interests and principal. JCR assumes the resultant change of the credit rating is most likely by a notch. The change could be as much as a few notches if the issuer's financial structure differs so much and thereby the balance between debts shifted so greatly. Rating change is also possible in case of the financial products for which non-payment of interest/ principal is contractually permissible, if and when the assumptions made at the time of its determination turns out to be inaccurate. The change of the credit rating is assumed to be by a notch but often as much as a few notches.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

・ The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Atsushi Masuda
General Manager of International Rating Department

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