

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

Banco Santander-Chile (security code: -)

<Affirmation>

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 51 trillion Chilean pesos (67.7 billion US dollar) at the end of 2019. It is a universal bank operating in a wide range of business areas such as credit card, insurance and securities. The rating reflects its strong business base in Chile, high earnings capacity, and reasonable level of capital adequacy. While it is a consolidated subsidiary of Spain-based Banco Santander, S.A. (Foreign Currency Long-term issuer rating: A+/stable), JCR does not factor in its rating possible support from the parent bank considering the characteristics of the Group's business model. The Chilean economy has been facing a difficult situation amid a slump of economic activity as impacts from the COVID-19 pandemic have added to the social unrest that occurred in the fall of 2019. The government and authorities have taken large scale fiscal measures along with deferral of loan repayments, loan guarantee for companies, provision of liquidity to banks and easing of capital and liquidity regulations. However, deterioration of banks' asset quality and profitability looks unavoidable amid the worsening business environment and growing unemployment. Santander Chile's financial performance will also likely come under pressure due to a rise in loan loss provisions. Nevertheless, JCR holds that the bank's high earnings capacity and capital buffers are adequate enough to absorb a possible temporary increase in loan loss provisions. Based on the above, JCR has affirmed its rating with Stable outlook. As there is great uncertainty over the economic outlook, JCR will closely monitor future developments.
- (2) 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. Santander Chile, one of the Group's core entities in Latin America, has a strong business base in the domestic market with a focus on retail and commercial banking. Its market shares at the end of 2019 were 19% for loans and 17% for deposits. The bank boasts a leading position in a variety of areas, especially in mortgage loans and consumer loans for individual clients. In the areas of corporate banking, it has a competitive edge in highly profitable non-lending business such as cash management. On the back of its strong domestic franchise the bank holds a pricing power as well as a sticky, low-cost deposit base. The bank's consumer loan business was further enhanced as Santander Consumer Chile, the second largest auto finance company in the country, became its subsidiary as a result of the acquisition of a 51% equity stake in 2019. In line with the Group's strategy, the bank has been promoting commercial transformation in recent years focused on digitalization and transformation of the branch network, capturing more income with the increase of customer satisfaction while also materializing greater efficiency.
- (3) Santander Chile's asset quality has so far remained largely stable despite the deterioration of the economic environment. Its NPL ratio and the ratio of impaired loans stood at 2.0% and 5.7%, respectively, at the end of March 2020, almost flat from the levels at the end of 2018. The bank has been improving the risk profile of its loan portfolio since 2012 mainly by shifting its focus from lower-end segments to middle and high-income individuals, which has been contributing to containing asset quality deterioration in the period of the economic downturn. In 2019, the bank's credit cost ratio reversed the declining trend in previous years and rose to around 130 bps, but its level was still contained. The ratio fell slightly in the first quarter of 2020. There is uncertainty about future development of credit costs, including the level of losses the bank may incur on its

rescheduled loans after the holiday period ends. However, an increase in credit costs can be absorbed to some extent given the bank's earnings volume. It should be also noted that the bank's loan portfolio is well diversified in a broad range of sectors, with the sectors especially hard hit by the slump of economic activity, such as commerce and tourism, accounting for minor proportions. JCR also considers that its loan concentration on the largest borrowers is not high and risks related to such borrowers are manageable.

- (4) Santander Chile's core earnings capacity as measured by pre-provisioning operating income is high supported by its adequate margins in its core deposit and loan business and its strict cost control. Its financial performance remained solid in 2019 although income before tax was down 7% from the previous year for the first decline in five years due to the social unrest. Net operating profit before provision for loan losses grew on higher treasury-related income against the backdrop of lower interest rates and growing hedging needs from corporate clients, partly offsetting an increase in loan-loss provisions. Net interest income remained almost flat as the growth of loans offset the negative impact of the decline in margins resulting from lower yield on interest earning assets. The bank's net interest margin was still high at around 4% in 2019 while its efficiency ratio remained contained in the lower 40% range. ROA as measured by operating income before provisioning remained high in the upper 2% range, providing enough buffer to absorb high level of loan loss provisions. In the first quarter of 2020, loan loss provisions showed a relatively high year-on-year growth of 35%. But income before tax gained 5% as higher loan loss provisions was more than offset by an increase in net interest income. It should be noted that net interest income in this period was boosted by an increase in the nominal peso value of assets denominated in unidad de fomento (UF), a monetary unit linked to the inflation rate.
- (5) At the end of 2019, Santander Chile's capital adequacy ratio and Tier 1 ratio based on Basel I stood at 12.9% and 10.1%, respectively, which are consistent with the A rating range. The bank's steady profit accumulation has contributed to maintaining the sound capital levels despite an increase in risk weighted assets associated with the growth of loans. The bank also maintains sound liquidity levels. Its loan-to-deposit ratio remained high at more than 130% at the end of 2019. However, this is a trend common to Chilean banks which finance their UF-denominated long-term mortgage loans with long-term bonds. The bank primarily relies on stable local customer deposits for its funding and retains diversified sources of wholesale funding through bond issuance and borrowing.

Atsushi Masuda, Haruna Saeki

Rating

Issuer: Banco Santander-Chile

<Affirmation>

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

Rating Assignment Date: July 2, 2020

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) and "Banks" (May 8, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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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:	July 7, 2020

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 Rule 17g-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.

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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

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- 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/>

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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.

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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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The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Banco Santander-Chile	Issuer(Long-term)(FC)	March 29, 2019	A+	Stable

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

I, Toshihiko Naito, 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.



Toshihiko Naito
General Manager of International Rating Department

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