Risk Management processes

Banco Santander continuously monitors the level of risks it is exposed to, both globally and for each of its defined nine key risks. For this purpose, it has the "Risk Appetite" and "Risk Profile." The Risk Appetite is represented by a set of indicators that are monitored at the highest level within the organization, with corresponding alignment towards management. The established limits represent the maximum level and type of risk that the organization is willing to undertake in order to achieve its strategic objectives. It is important to note that Banco Santander Chile aims to maintain a "Medium-Low" level of risk, which means assuming a manageable risk with an acceptable level of profitability. On the other hand, the Risk Profile is a tool that allows for self-assessment of the risk level at a given point in time. This includes quantitative variables (metrics), qualitative variables (control environment management), and prospective variables (identification of emerging risks). Having said that, the Risk Appetite is continuously monitored, and in case of deviations from the desired levels, action plans are established for correction. As an example, we will discuss the most important risks affecting the organization:

- **Credit Risk** has maintained a "Medium-Low" risk profile during 2021 and 2022. Advances in admission policies, automation of customer monitoring, and the strengthening of risk evaluation models have allowed us to consolidate the desired risk profile as defined by senior management. Mitigating actions for credit risk consist of the aforementioned measures, as well as providing more efficient channels and policies for the recovery function and having more and better information about our customers.
- **Liquidity Risk** has improved its risk profile between 2021 and 2022. In 2021, it achieved a "Medium-Low" risk profile, which further progressed towards a "Low" risk profile in 2022. This improvement is attributed to various management measures implemented in 2022 to ensure operational stability in a complex economic environment with high uncertainty. Mitigating actions for liquidity risk involve continuous monitoring of various variables that can impact the availability of immediate resources, maintaining available banking financing lines, and taking advantage of market opportunities to reduce financial costs.

Banco Santander's Global Risk reached its highest risk profile in mid-2020 when the pandemic heavily impacted all risks associated with banking activities. Since then, the bank's risk profile has evolved positively, currently reaching a "Medium-Low" level.

Risk Review

- Description of Risk Appetite or Risk Tolerance Levels: We have established risk appetite and risk tolerance levels for various risk categories/types within our organization. While the specific levels are not provided in the given text, we maintain a "Medium-Low" risk level, which demonstrates our commitment to managing risks at a manageable level while ensuring acceptable profitability.
- Prioritization of Identified Risks: We have a robust process in place for the prioritization of identified risks. This process involves assessing the potential impact and likelihood of each risk and considering their alignment with our strategic objectives. By prioritizing risks, we can allocate resources effectively and focus our mitigation efforts on the most critical areas. The risks mentioned in the text are part of 9 risks identified that can be seen in our 2022 Integrated Report p. 190.
- Description of Mitigating Actions for Identified Risks: We actively implement mitigating actions for identified risks. The provided text highlights examples of mitigating actions taken for Credit Risk and Liquidity Risk. These actions include measures such as policy enhancements, automation of customer monitoring, strengthening risk assessment models, monitoring relevant variables, maintaining available bank financing lines, and optimizing financial costs. We continuously evaluate and adjust our mitigating actions to ensure their effectiveness in managing the identified risks.

Emerging Risks

In the ever-changing landscape of business and investments, understanding "Emerging Risks" is paramount. These risks go beyond the familiar operational challenges and encompass potential threats that may not be immediately apparent but can significantly impact a company's performance and value over time. Emerging Risks originate from various sources, such as technological advancements, regulatory changes, environmental shifts, geopolitical events, market disruptions, and societal developments. The following are two examples of emerging risks that Santander Chile has identified, including its potential impacts on our operations, and mitigating actions taken.

Emerging Risk 1: Transition risk to a low carbon economy	Emerging Risk 2: Standard Consumption Provisions Model
Risk Description Climate change poses significant risks to the banking industry, affecting both business strategies and reputation. The "Global Risks Report 2023" states that four of the major threats over the next decade are climate-related, underscoring the urgency of addressing mitigation and adaptation failures. Latin America, including Chile, is especially vulnerable; projections suggest a potential 20% GDP loss by 2100 without effective countermeasures. To counteract these effects, global goals promote a low-carbon economy, incentivizing private businesses to evolve. Chile's "Framework Law on Climate Change" from June 2022 targets carbon neutrality and resilience by 2050. Transitioning will inevitably shake up product, service, and raw material markets, possibly reducing short-term profits for some sectors. For banks, assessing clients and ventures considering climate change and regulations becomes critical to safeguard institutional reputation.	**Risk Description** In August 2022, regulators introduced a draft rule for a "Standard Model for Consumption Provisions. " Under this model, Banco Santander Chile expects provisions to increase by $100 billion to $150 billion. While initially set for April 2023, the adoption of this standard has spurred industry discussions. The ABIF (Association of Banks and Financial Institutions) has asked to delay its start and is collaborating with the regulatory authority to address shared concerns. Santander is actively involved in these discussions. Consequently, the new anticipated start date for the standard is now between December 2024 and January 2025.

Emerging Risk 1: Transition risk to a low carbon economy	Emerging Risk 2: Standard Consumption Provisions Model
Potential business impact: Approximately 25% of Santander's assets are in sectors vulnerable to climate change, with 8% exposed to significant transition risks associated with a shift to a low-carbon economy. Here's how these risks could manifest: 1) **Credit Risk**: Businesses not adapting to a low-carbon transition may suffer reduced profits and market disruptions due to new regulations or market shifts. This could lead to portfolio deterioration and necessitate higher provisions due to altered risk classifications. 2) **Market Risks:** A transition may influence energy and commodity prices, corporate bonds, stocks, and certain derivatives. 3) **Reputational Risk**: Enhanced scrutiny by stakeholders like investors and regulators on our climate response can impact our brand image. 4) **Regulatory Risk:** Increased regulatory demands and inconsistency across regulations can challenge compliance. Such risks could severely impact our finances. Initial estimates suggest a one-time expense of $100 billion to $150 billion (about 18% of Banco Santander Chile's 2022 net income). However, these costs can be offset by provisions from previous periods. Additionally, there might be increased provisions in the flow of new production, whose exact impact remains uncertain. Notably, 12% of Santander's loans are in consumer lending, meaning these changes could influence Santander's financial outcomes, especially given its larger retail portfolio relative to peers. More conservative models could lead to increased consumer loan costs, tougher financing criteria, and higher spreads to maintain profitability, which might limit activity and reduce profits.	**Potential business impact:** The initial evaluation suggests a one-time cost between $100 billion and $150 billion, which is about 18% of Banco Santander Chile's 2022 net income. Fortunately, previously allocated voluntary provisions can cover this. However, additional provisions will be necessary for new operations, and the full extent of this impact is still being assessed. Risks involved may include: **1) Credit Risk:** Companies not adapting could see reduced profits due to new regulations or market dynamics. This might lead to a deteriorating portfolio and the need for higher provisions. **2) Market Risks:** This transition might affect energy prices, corporate bonds, stocks, and certain derivatives. **3) Reputational Risk:** Our handling of climate change can be under intense scrutiny, affecting our brand. **4) Regulatory Risk:** With changing regulations, compliance can become more challenging. 12% of Santander's loans focus on the Consumer product sector. Given this concentration, the revised provisions model might affect the bank's financial performance. It's significant to note that Santander has a more extensive retail portfolio than its competitors. If stricter standard models with higher provision rates are introduced, the cost of issuing consumer loans could rise. This could also lead to stricter lending criteria. As a result, the bank might need larger spreads to keep profitability in check, which may slow down activity and reduce profits.

Mitigating actions: We've proactively addressed the "Transition risk to a low-carbon economy" by embedding climate considerations into our governance, strategy, and risk management. Our Board oversees our alignment with regulatory frameworks, while our team ensures our practices meet environmental, social, and governance (ESG) standards. Through continuous monitoring, we meticulously evaluate the impact of transition climate change risks on our portfolio. To ensure adherence to regulatory frameworks, our Board of Directors diligently oversees our efforts. Our team of experts across relevant credit operations plays a pivotal role in aligning our practices with environmental, social, and governance (ESG) standards. Furthermore, we have established a specialized group of Financing Specialists with the ESG Seal, reinforcing our commitment to sustainability. To protect our reputation, a dedicated working group anticipates and manages potential controversies. We've invested in eco-efficient operations, emission reduction, and offer green financing products, like scooter and bicycle insurance, championing eco-friendly practices. Our commitment extends beyond our operations, as we actively support our customers in their sustainable ventures. Initiatives such as carbon footprint compensation, new green Commercial Banking products, and specific SME programs foster environmentally responsible practices among our clientele. We emphasize ESG bond structuring, expanding responsible investment chances and aligning our financial efforts with green goals. Committed to a circular economy, we abide by the "Clean Production - Transition to a Circular Economy" Agreement. Our ISO 14.000-certified Environmental Management System highlights our devotion to environmental leadership. Aiming for a 10% energy savings by 2022, we've established an Office Consumption Monitoring System. Through these initiatives, we lead in managing transition risks towards a low-carbon economy, championing sustainable finance, and effecting positive change for stakeholders, communities, and the planet.	**Mitigating actions:** In addressing the "Standard Consumption Provisions Model," we have undertaken a proactive approach to monitor the ongoing methodological discussions surrounding the norm. As part of our commitment to staying well-informed and actively participating in industry initiatives, Banco Santander actively engages in collaborative efforts by joining the discussions between ABIF (Asociación de Bancos e Instituciones Financieras de Chile) and CMF (Comisión para el Mercado Financiero). Drawing on our strategic foresight and prudent financial management, Banco Santander has previously established substantial levels of voluntary provisions. These provisions have been carefully designed to serve as a robust buffer capable of absorbing any potential impacts resulting from the shift in the provisions norm. By engaging in continuous monitoring and maintaining a proactive stance, we strive to ensure that our provisions model aligns seamlessly with the evolving industry standards. Our active participation in the dialogue between key industry stakeholders empowers us to anticipate and effectively address any adjustments required, thus reinforcing our resilience in an ever-changing regulatory landscape. With our strong commitment to prudent risk management and the well-being of our stakeholders, we remain agile in adapting our provisions approach as needed. This commitment allows us to maintain financial stability and confidence, underscoring our dedication to responsible and sustainable banking practices. As we navigate these evolving norms, Banco Santander remains steadfast in delivering exceptional financial services while mitigating any potential impacts that may arise from the standard consumption provisions model.