

BANCO SANTANDER CHILE  
Form 20-F  
April 30, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 20-F  
(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
for the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-14554

BANCO SANTANDER-CHILE

(d/b/a Santander, Banco Santander, Banco Santander Santiago, and Santander Santiago)  
(Exact name of Registrant as specified in its charter)

SANTANDER-CHILE BANK

(d/b/a Santander, Banco Santander, Santander Santiago Bank, and Santander Santiago)  
(Translation of Registrant's name into English)

Chile

(Jurisdiction of incorporation or organization)

Bandera 140

Santiago, Chile

Telephone: 011-562-320-2000

(Address of principal executive offices)

Robert Moreno Heimlich

Tel: 562-320-8284, Fax: 562-696-1679, email:rmorenoh@santander.cl

Bandera 140, 19th Floor, Santiago, Chile

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which  
registered

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American Depositary Shares (“ADS”), each representing the right to receive 1,039 Shares of Common Stock without par value  
New York Stock Exchange  
Shares of Common Stock, without par value\* New York Stock Exchange

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\*Santander-Chile’s shares of common stock are not listed for trading, but only in connection with the registration of the American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

7.375% Subordinated Notes due 2012

(Title of Class)

The number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2011, was:

188,446,126,794 Shares of Common Stock, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes     No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-Accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

TABLE OF CONTENTS

|  | Page |
|--|------|
| <u>CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS</u>                            | 1    |
| <u>CERTAIN TERMS AND CONVENTIONS</u>   | 2    |
| <u>PRESENTATION OF FINANCIAL INFORMATION</u>   | 3    |
| <u>PART I</u>  | 6    |
| <u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u>                         | 6    |
| <u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>                                       | 6    |
| <u>ITEM 3. KEY INFORMATION</u>   | 6    |
| <u>ITEM 4. INFORMATION ON THE COMPANY</u>  | 24   |
| <u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>  | 41   |
| <u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>                                  | 42   |
| <u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>                                    | 116  |
| <u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>                             | 130  |
| <u>ITEM 8. FINANCIAL INFORMATION</u>   | 136  |
| <u>ITEM 9. THE OFFER AND LISTING</u>   | 137  |
| <u>ITEM 10. ADDITIONAL INFORMATION</u>   | 138  |
| <u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                   | 156  |
| <u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>                       | 170  |
| <u>PART II</u>   | 171  |
| <u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>                              | 171  |
| <u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u> | 171  |
| <u>ITEM 15. CONTROLS AND PROCEDURES</u>  | 171  |
| <u>ITEM 16. [RESERVED]</u>   | 174  |
| <u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>  | 174  |
| <u>ITEM 16B. CODE OF ETHICS</u>  | 174  |
| <u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>                                      | 175  |
| <u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>                  | 175  |
| <u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>      | 175  |
| <u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>                                | 175  |
| <u>ITEM 16G. CORPORATE GOVERNANCE</u>  | 175  |
| <u>ITEM 16H. MINE SAFETY DISCLOSURE</u>  | 177  |
| <u>PART III</u>  | 177  |
| <u>ITEM 17. FINANCIAL STATEMENTS</u>   | 177  |
| <u>ITEM 18. FINANCIAL STATEMENTS</u>   | 177  |
| <u>ITEM 19. EXHIBITS</u>   | 177  |

Table of Contents

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made statements in this Annual Report on Form 20-F that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this report and include statements regarding our intent, belief or current expectations regarding:

- asset growth and alternative sources of funding
  - growth of our fee-based business
    - financing plans
    - impact of competition
    - impact of regulation
  - exposure to market risks including:
    - interest rate risk
    - foreign exchange risk
    - equity price risk
  - projected capital expenditures
    - liquidity
    - trends affecting:
      - our financial condition
      - our results of operation

The sections of this Annual Report which contain forward-looking statements include, without limitation, “Item 3: Key Information—Risk Factors,” “Item 4: C. Business Overview—Competition,” “Item 5: Operating and Financial Review and Prospects,” “Item 8: A. Consolidated Statements and Other Financial Information—Legal Proceedings,” and “Item 11: Quantitative and Qualitative Disclosures About Market Risk.” Our forward-looking statements also may be identified by words such as “believes,” “expects,” “anticipates,” “projects,” “intends,” “should,” “could,” “may,” “seeks,” “aim,” “combination,” “probability,” “risk,” “VaR,” “target,” “goal,” “objective,” “future” or similar expressions.

You should understand that the following important factors, in addition to those discussed elsewhere in this Annual Report and in the documents which are incorporated by reference, could affect our future results and could cause those results or other outcomes to differ materially from those expressed in our forward-looking statements:

-

changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies

- changes in economic conditions
  - the monetary and interest rate policies of the Banco Central de Chile (the “Central Bank”)
    - inflation
    - deflation
-

Table of Contents

- unemployment
- increases in defaults by our customers and in impairment losses
  - decreases in deposits
  - customer loss or revenue loss
  - unanticipated turbulence in interest rates
  - movements in foreign exchange rates
  - movements in equity prices or other rates or prices
  - changes in Chilean and foreign laws and regulations
  - changes in taxes
- competition, changes in competition and pricing environments
  - our inability to hedge certain risks economically
  - the adequacy of loss allowances
  - technological changes
  - changes in consumer spending and saving habits
  - increased costs
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms
  - changes in, or failure to comply with, banking regulations
- our ability to successfully market and sell additional services to our existing customers
  - disruptions in client service
  - natural disasters
  - implementation of new technologies
- an inaccurate or ineffective client segmentation model

You should not place undue reliance on such statements, which speak only as of the date at which they were made. The forward-looking statements contained in this report speak only as of the date of this Annual Report, and we do not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

CERTAIN TERMS AND CONVENTIONS

As used in this Annual Report, “Santander-Chile”, “the Bank”, “we,” “our” and “us” or similar terms refer to Banco Santander Chile together with its consolidated subsidiaries.

When we refer to “Banco Santander Spain” or “Santander Spain”, we refer to our parent company, Banco Santander, S.A.

As used in this Annual Report, the term “billion” means one thousand million (1,000,000,000).



## Table of Contents

In this Annual Report, references to “\$”, “US\$”, “U.S. dollars” and “dollars” are to United States dollars, references to “Chilean pesos,” “pesos” or “Ch\$” are to Chilean pesos and references to “UF” are to Unidades de Fomento. The UF is an inflation-indexed Chilean monetary unit with a value in Chilean pesos that changes daily to reflect changes in the official Consumer Price Index (“CPI”) of the Instituto Nacional de Estadísticas (the Chilean National Institute of Statistics) for the previous month. See “Item 5: Operating and Financial Review and Prospects”.

In this Annual Report, references to the Audit Committee are to the Bank’s Comité de Directores y Auditoría.

In this Annual Report, references to “BIS” are to the Bank for International Settlement, and references to “BIS ratio” are to the capital adequacy ratio as calculated in accordance with the Basel Capital Accord.

## PRESENTATION OF FINANCIAL INFORMATION

Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos and prepares its audited consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with Chilean accounting principles issued by the Superintendency of Banks and Financial Institutions (“Chilean Bank GAAP” and the “SBIF,” respectively). The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions. Therefore, our locally filed consolidated financial statements have been adjusted to IFRS in order to comply with the requirements of the Securities and Exchange Commission (the “SEC”). For further details and a discussion on main differences between Chilean Bank GAAP and IFRS refer to “Item 5. Operating and Financial Review and Prospects. —A. Accounting Standards Applied in 2011.”

The notes to the audited consolidated financial statements contain information in addition to that presented in the Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows. The notes provide narrative descriptions or details of these financial statements.

The audited consolidated financial statements included in this Annual Report have been prepared from accounting records maintained by the Bank and its subsidiaries.

The financial statements as of and for the years ended December 31, 2011, 2010 and 2009 were prepared in accordance with IFRS.

We have formatted our financial information according to the classification format for banks used in Chile. We have not reclassified the line items to comply with Article 9 of Regulation S-X. Article 9 is a regulation of the SEC that contains formatting requirements for bank holding company financial statements.

To achieve the strategic objectives adopted by the top management and adapt to changing market conditions, the Bank makes changes in its organization from time to time, which in turn have a greater or lesser impact on how it is managed or administered. During 2011, the Bank made certain changes in its accounting criteria and elected to apply these changes retroactively to its financial statements for the years 2010 and 2009 to make them comparable to its 2011 financial statements. As the transfer cost of liquidity has been consistently different from the referential yield curve used to calculate internal transfer prices, the Bank elected to modify the method for calculating the Internal Transfer Rate (ITR) used to determine the profitability of its different business segments. Before this change, the Bank established the ITR for each of its lending and deposit operation based on the maturity of each operation on a

case-by-case basis regardless of whether the operation was an asset or liability. Since 2011, the ITR is calculated based on the business segment. This change in method is consistent with our internal criteria for business segmentation and improves the process of establishing our operational prices as it delivers a more precise assessment of the profitability of our business segments. Implementation of these changes did not create any significant difference for the Bank's results of operations. Please see Note 4 to our 2011 financial statements for a qualitative and quantitative analysis of the changes resulting from the new accounting criteria.

## Table of Contents

Our auditors, Deloitte Auditores y Consultores Limitada, an independent registered public accounting firm, have audited our consolidated financial statements in respect of the years ended December 31, 2011, 2010, and 2009 included in this Annual Report in accordance with IFRS (our “Audited Consolidated Financial Statements”). See page F-1 to our consolidated financial statements for the 2011, 2010 and 2009 report prepared by Deloitte Auditores y Consultores Limitada.

### Functional and Presentation currency

The Chilean peso is the currency of the primary economic environment in which the Bank operates and the currency which influences its structure of costs and revenues, as such and in accordance with International Accounting Standard 21 – The Effects of Changes in Foreign Exchange Rates has been defined as the functional and presentation currency. Accordingly, all balances and transactions denominated in currencies other than the Chilean peso are treated as “foreign currency.”

For presentation purposes we have translated millions of Chilean pesos (Ch\$ million) into thousands of US dollars (ThUS\$) using the rate as indicated below under “Exchange Rates”, for the Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flow for the period ended as of December 31, 2011.

### Loans

Unless otherwise specified, all references herein (except in the Audited Consolidated Financial Statements) to loans are to loans and financial leases before deduction for loan loss allowance, and, except as otherwise specified, all market share data presented herein are based on information published periodically by the SBIF. Non-performing loans include loans for which either principal or interest is overdue, and which do not accrue interest. Restructured loans for which no payments are overdue are not ordinarily classified as non-performing loans. Past due loans include, with respect to any loan, only the portion of principal and interest that is overdue for 90 or more days, and do not include the installments of such loan that are not overdue or that are overdue for less than 90 days, unless legal proceedings have been commenced for the entire outstanding balance according to the terms of the loan, in which case the entire loan is considered past due within 90 days after initiation of such proceedings. See “Item 5: F. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower’s Payment Performance.”

According to IFRS, a loan is evaluated on each financial statement reporting date to determine whether objective evidence of impairment exists. A loan will be impaired if, and only if, objective evidence of impairment exists as a result of one or more events that occurred after the initial recognition of the loan, and such event or events have an impact on the estimated future cash flows of such loan that can be reliably estimated. It may not be possible to identify a single event that was the individual cause of the impairment.

An impairment loss relating to a loan is calculated as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the effective interest rate.

Individually significant loans are individually tested for impairment. The remaining financial assets are evaluated collectively in groups with similar credit risk characteristics.

The reversal of an impairment loss occurs only if it can be objectively related to an event occurring after the initial impairment loss was recorded. In the case of loans recorded at amortized cost, the reversal is recorded in income. See “Item 5: F. Selected Statistical Information—Analysis of Loan Loss Allowance.”

Outstanding loans and the related percentages of our loan portfolio consisting of corporate and consumer loans in the section entitled “Item 4: C. Business Overview” are categorized based on the nature of the borrower. Outstanding loans and related percentages of our loan portfolio consisting of corporate and consumer loans in the section entitled “Item 5: F. Selected Statistical Information” are categorized in accordance with the reporting requirements of the SBIF, which are based on the type and term of loans. This disclosure is consistent with IFRS.

## Table of Contents

### Effect of Rounding

Certain figures included in this Annual Report and in the Audited Consolidated Financial Statements have been rounded up for ease of presentation. Percentage figures included in this Annual Report have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this Annual Report may vary from those obtained by performing the same calculations using the figures in the Audited Consolidated Financial Statements. Certain other amounts that appear in this Annual Report may not sum due to rounding.

### Economic and Market Data

In this Annual Report, unless otherwise indicated, all macroeconomic data related to the Chilean economy is based on information published by the Central Bank, and all market share and other data related to the Chilean financial system is based on information published by the SBIF and our analysis of such information. Information regarding the consolidated risk index of the Chilean financial system as a whole is not available.

### Exchange Rates

This Annual Report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in preparing the Audited Consolidated Financial Statements, could be converted into U.S. dollars at the rate indicated, were converted or will be converted at all.

Unless otherwise indicated, all the U.S. dollar amounts at any period end, for any period have been translated from Chilean pesos based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period. On December 31, 2010 and 2011, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$467.95 and Ch\$520.35, or 0.09% and 0.21% less, respectively, than the published observed exchange rate for such date of Ch\$468.37 and Ch\$521.46, respectively, per US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate. See “Item 3: A. Selected Financial Data—Exchange Rates.”

On January 3, 2011, Chile’s Central Bank announced plans to increase its total international reserves by US\$12 billion in 2011. The Central Bank bought US\$50 million a day from January 5 to December 16 completing the program. We expect the effect of any new similar purchases will be to devalue the peso against the dollar, although actual outcomes could differ due to macroeconomic and other factors. As of April 30, 2012, there have been no further announcements from the Central Bank regarding a new program.

As of December 31, 2010 and December 31, 2011, one UF was equivalent to Ch\$21,455.55 and Ch\$22,294.03; respectively. The U.S. dollar equivalent of one UF was U.S.\$42.75 as of December 31, 2011, using the observed exchange rate reported by the Central Bank as of December 31, 2011, of Ch\$521.46 per U.S.\$1.00.

Table of Contents

## PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

## A. Selected Financial Data

The following table presents historical financial information about us as of the dates and for each of the periods indicated. The following table should be read in conjunction with, and is qualified in its entirety by reference to, our Audited Consolidated Financial Statements appearing elsewhere in this Annual Report. Our Audited Consolidated Financial Statements and notes as of and for the years ended December 31, 2011, 2010 and 2009 included in this Annual Report are prepared in accordance with IFRS and therefore differ in some respects from the financial statements at and for the years ended December 31, 2011, 2010, 2009 and 2008, previously issued locally by the Bank in Chile in accordance with Chilean Bank GAAP.

We have selected the following financial information from our Audited Consolidated Financial Statements. You should read this information in connection with, and this information is qualified in its entirety by reference to, such financial statements.

|   | 2011                    | 2011       | As of December 31,<br>2010 | 2009       | 2008       |
|---|-------------------------|------------|----------------------------|------------|------------|
|   | In US\$<br>thousands(1) |            | In Ch\$ millions(2)        |            |            |
| <b>CONSOLIDATED STATEMENT OF INCOME DATA (IFRS)</b>     |                         |            |                            |            |            |
| Net interest income                                     | 1,868,550               | 972,300    | 939,719                    | 856,516    | 892,066    |
| Provision for loan losses                               | (607,547 )              | (316,137 ) | (253,915 )                 | (333,145 ) | (287,983 ) |
| Net fee and commission income                           | 533,940                 | 277,836    | 263,582                    | 254,130    | 243,129    |
| Operating costs(3)                                      | (962,852 )              | (501,020 ) | (451,936 )                 | (407,894 ) | (428,168 ) |
| Other income, net(4)                                    | 97,777                  | 50,878     | 95,365                     | 155,927    | 61,665     |
| Income before tax                                       | 929,868                 | 483,857    | 592,815                    | 525,534    | 480,709    |
| Income tax expense                                      | (148,348 )              | (77,193 )  | (85,343 )                  | (88,924 )  | (59,742 )  |
| Net income for the period                               | 781,520                 | 406,664    | 507,472                    | 436,610    | 420,967    |
| Net income attributable to:                             |                         |            |                            |            |            |
| Bank shareholders                                       | 772,044                 | 401,733    | 505,393                    | 431,557    | 413,370    |
| Non-controlling interests                               | 9,476                   | 4,931      | 2,079                      | 5,053      | 7,597      |
| Net income attributable to Bank shareholders per share  | 0.004                   | 2.13       | 2.68                       | 2.29       | 2.19       |
| Net income attributable to Bank shareholders per ADS(5) | 4.26                    | 2,215      | 2,786                      | 2,379      | 2,279      |
| Weighted-average shares outstanding (in millions)       |                         | 188,446.13 | 188,466.13                 | 188,446.13 | 188,446.13 |

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Weighted-average ADS outstanding (in millions)           | 181.373    | 181.373    | 181.373    | 181.373    |            |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA (IFRS) |            |            |            |            |            |
| Cash and deposits in banks                               | 5,368,888  | 2,793,701  | 1,762,198  | 2,043,458  | 855,411    |
| Financial investments (6)                                | 4,005,001  | 2,084,002  | 2,024,635  | 2,642,649  | 2,746,666  |
| Loans before allowance from loan losses                  | 33,505,875 | 17,434,782 | 15,727,282 | 13,751,276 | 14,681,088 |
| Loan loss allowance                                      | (938,730 ) | (488,468 ) | (425,447 ) | (349,527 ) | (274,240 ) |
| Financial derivative contracts (assets)                  | 3,078,497  | 1,601,896  | 1,624,378  | 1,393,878  | 1,846,509  |

Table of Contents

|   | As of December 31,              |            |            |            |            |
|---|---------------------------------|------------|------------|------------|------------|
|   | 2011<br>In US\$<br>thousands(1) | 2011       | 2010       | 2009       | 2008       |
| Other assets (7)                              | 2,388,931                       | 1,243,080  | 1,377,668  | 1,291,141  | 1,229,073  |
| Total assets                                  | 47,408,462                      | 24,668,993 | 22,090,714 | 20,772,875 | 21,084,507 |
| Deposits (8)                                  | 25,626,845                      | 13,334,929 | 11,495,191 | 10,708,791 | 12,704,428 |
| Other interest bearing liabilities (9)        | 13,960,432                      | 7,264,311  | 6,235,959  | 6,232,982  | 4,769,980  |
| Financial derivative contracts (liabilities)  | 2,483,717                       | 1,292,402  | 1,643,979  | 1,348,906  | 1,469,724  |
| Total equity (10)                             | 4,025,210                       | 2,094,518  | 1,937,977  | 1,689,903  | 1,517,649  |
| Equity attributable to Bank shareholders (11) | 3,960,252                       | 2,060,717  | 1,906,168  | 1,660,104  | 1,491,770  |

|  | As of December 31, |      |      |      |      |   |      |   |
|--|--------------------|------|------|------|------|---|------|---|
|  | 2011               | 2010 | 2009 | 2008 |      |   |      |   |
| <b>CONSOLIDATED RATIOS (IFRS)</b>                          |                    |      |      |      |      |   |      |   |
| Profitability and performance:                             |                    |      |      |      |      |   |      |   |
| Net interest margin(11)                                    | 4.8                | %    | 5.4  | %    | 5.3  | % | 5.7  | % |
| Return on average total assets(12)                         | 1.7                | %    | 2.4  | %    | 2.2  | % | 2.3  | % |
| Return on average equity(13)                               | 20.4               | %    | 29.0 | %    | 27.3 | % | 32.4 | % |
| Capital:   |                    |      |      |      |      |   |      |   |
| Average equity as a percentage of average total assets(14) | 8.3                | %    | 8.4  | %    | 8.0  | % | 7.0  | % |
| Total liabilities as a multiple of equity(15)              | 10.8               |      | 10.4 |      | 11.3 |   | 12.9 |   |
| Credit Quality:  |                    |      |      |      |      |   |      |   |
| Non-performing loans as a percentage of total loans(16)    | 2.93               | %    | 2.65 | %    | 2.97 | % | 2.61 | % |
| Allowance for loan losses as percentage of total loans     | 2.80               | %    | 2.71 | %    | 2.54 | % | 1.87 | % |
| Operating Ratios:  |                    |      |      |      |      |   |      |   |
| Operating expenses /operating revenue(17)                  | 41.5               | %    | 37.0 | %    | 34.2 | % | 37.7 | % |
| Operating expenses /average total assets                   | 2.34               | %    | 2.2  | %    | 2.2  | % | 2.5  | % |

**OTHER DATA**

|  |        |   |        |    |        |    |        |   |
|--|--------|---|--------|----|--------|----|--------|---|
| CPI Inflation Rate (18)                                      | 4.4    | % | 3.0    | %  | (1.4   | )% | 7.1    | % |
| Revaluation (devaluation) rate (Ch\$/US\$) at period end(18) | 11.3   | % | (7.5   | )% | (19.5  | )% | 26.9   | % |
| Number of employees at period end                            | 11,566 |   | 11,001 |    | 11,118 |    | 11,592 |   |
| Number of branches and offices at period end                 | 499    |   | 504    |    | 498    |    | 505    |   |

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2011, have been translated from Chilean pesos at the interbank market exchange rate of Ch\$520.35 = US\$1.00 as of December 31, 2011. See “Item 3: A. Selected Financial Data—Exchange Rates” for more information on the observed exchange rate.

(2) Except per share data, percentages and ratios, share numbers, employee numbers and branch numbers.

(3) Operating costs is equal to the sum of the line items on personnel salaries and expenses, administrative expenses, depreciation and amortization and impairment within our Consolidated Statements of Income.

(4) Other income, net is the sum of the line items on other operating income, net income from financial operations (net trading income), foreign exchange transactions, income from investment in other companies less other operating expense within our Consolidated Statements of Income.



- (5) 1 ADS = 1,039 shares of common stock.
- (6) Includes the line items on trading investments, investments under resale agreements, investments available for sale and investments held to maturity within our Consolidated Statements of Financial Position.
- (7) Includes the line items on cash items in process of collection, investments in other companies, intangible assets, property, plant and equipment, current taxes, deferred taxes and other assets within our Consolidated Statements of Financial Position.
- (8) Deposits is equal to the sum of the line items on deposits and other demand liabilities and time deposits and other time liabilities within our Consolidated Statements of Income.
- (9) Other interest bearing liabilities is equal to the sum of the line items on obligations under repurchase agreements, interbank borrowings, issued debt instruments and other financial liabilities within our Consolidated Statements of Income.

Table of Contents

- (10) Equity includes equity attributable to Bank shareholders plus non-controlling interests less allowance for mandatory dividends. Provision for mandatory dividends is made pursuant to Article 79 of the Corporations Act, in accordance with the Bank's internal dividend policy, pursuant to which at least 30% of net income for the period is distributed, except in the case of a contrary resolution adopted at the respective shareholders' meeting by the unanimous vote of the outstanding shares.
- (11) Net interest income divided by average interest earning assets (as presented in "Item 5: F. Selected Statistical Information").
- (12) Net income for the period divided by average total assets (as presented in "Item 5: F. Selected Statistical Information").
- (13) Net income for the period divided by average equity (as presented in "Item 5: F. Selected Statistical Information").
- (14) This ratio is calculated using total equity including non-controlling interest.
- (15) Total liabilities divided by equity.
- (16) Non-performing loans include the aggregate unpaid principal and accrued but unpaid interest on all loans with at least one installment over 90 days overdue.
- (17) The efficiency ratio is equal to operating expenses over operating income. Operating expenses includes personnel salaries and expenses, administrative expenses, depreciation and amortization, impairment and other operating expenses. Operating income includes net interest income, net fee and commission income, net income from financial operations (net trading income), foreign exchange profit (loss), net and other operating income.
- (18) Based on information published by the Central Bank.

Exchange Rates

Chile has two currency markets, the Mercado Cambiario Formal, or the Formal Exchange Market, and the Mercado Cambiario Informal, or the Informal Exchange Market. According to Law 18,840, the organic law of the Central Bank, and the Central Bank Act (Ley Orgánica Constitucional del Banco Central de Chile), the Central Bank determines which purchases and sales of foreign currencies must be carried out in the Formal Exchange Market. Pursuant to Central Bank regulations which are currently in effect, all payments, remittances or transfers of foreign currency abroad which are required to be effected through the Formal Exchange Market may be effected with foreign currency procured outside the Formal Exchange Market. The Formal Exchange Market is comprised of the banks and other entities so authorized by the Central Bank. The Informal Exchange Market is comprised of entities that are not expressly authorized to operate in the Formal Exchange Market, such as certain foreign exchange houses and travel agencies, among others. The Central Bank is empowered to require that certain purchases and sales of foreign currencies be carried out on the Formal Exchange Market. The conversion from pesos to U.S. dollars of all payments and distributions with respect to the ADSs described in this Annual Report must be transacted at the spot market rate in the Formal Exchange Market.

Both the Formal and Informal Exchange Markets are driven by free market forces. Current regulations require that the Central Bank be informed of certain transactions and that they be effected through the Formal Exchange Market. In order to keep the average exchange rate within certain limits, the Central Bank may intervene by buying or selling foreign currency on the Formal Exchange Market.

The U.S.\$ Observed Exchange Rate (dólar observado), which is reported by the Central Bank and published daily in the Chilean newspapers, is the weighted average exchange rate of the previous business day's transactions in the Formal Exchange Market. The Central Bank has the power to intervene by buying or selling foreign currency on the Formal Exchange Market to attempt to maintain the Observed Exchange Rate within a desired range. Even though the Central Bank is authorized to carry out its transactions at the Observed Exchange Rate, it generally uses spot rates for its transactions. Other banks generally carry out authorized transactions at spot rates as well.

Purchases and sales of foreign currencies may be legally carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. In recent years, the variation between the Observed Exchange Rate and the Informal Exchange Rate has not been significant. On December 31, 2010 and 2011, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$467.95 and Ch\$520.35, or 0.09% and 0.21% less, respectively, than the published observed exchange rate for such date of Ch\$468.37 and Ch\$521.46, respectively, per US\$1.00.

Table of Contents

The following table sets forth the annual low, high, average and period-end observed exchange rate for U.S. dollars for each of the following periods, as reported by the Central Bank. We make no representation that the Chilean peso or the U.S. dollar amounts referred to herein actually represent, could have been or could be converted into U.S. dollars or Chilean pesos, as the case may be, at the rates indicated, at any particular rate or at all. The Federal Reserve Bank of New York does not report a noon buying rate for pesos.

| Year                              | Daily Observed Exchange Rate Ch\$ Per US\$(1) |         |            |               |
|-----------------------------------|---|---------|------------|---------------|
|                                   | Low(2)  | High(2) | Average(3) | Period End(4) |
| 2007                              | 493.14  | 548.67  | 522.69     | 495.82        |
| 2008                              | 431.22  | 676.75  | 521.79     | 629.11        |
| 2009                              | 491.09  | 643.87  | 559.67     | 506.43        |
| 2010                              | 468.37  | 549.17  | 510.38     | 468.37        |
| 2011                              | 455.91  | 533.74  | 483.36     | 521.46        |
| Month                             |   |         |            |               |
| October 2011                      | 492.04  | 533.74  | 511.74     | 492.04        |
| November 2011                     | 490.29  | 526.83  | 508.44     | 524.25        |
| December 2011                     | 508.67  | 522.62  | 517.17     | 521.46        |
| January 2012                      | 485.35  | 519.20  | 501.34     | 488.99        |
| February 2012                     | 475.29  | 488.75  | 481.49     | 477.41        |
| March 2012                        | 476.27  | 491.57  | 485.40     | 489.76        |
| April 2012 (until April 30, 2012) | 482.17  | 489.64  | 486.00     | 483.41        |

Source: Central Bank.

- (1) Nominal figures.
- (2) Exchange rates are the actual low and high, on a day-by-day basis for each period.
- (3) The average of monthly average rates during the year.
- (4) As reported by the Central Bank on the first business day of the following period.

## Dividends

Under the current General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted). Santander-Chile's annual dividend is proposed by its Board of Directors and is approved by the shareholders at the annual ordinary shareholders' meeting held the year following that in which the dividend is generated. For example, the 2011 dividend must be proposed and approved during the first four months of 2012. Following shareholder approval, the proposed dividend is declared and paid. Historically, the dividend for a particular year has been declared and paid no later than one month following the shareholders' meeting. Dividends are paid to shareholders of record on the fifth day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of ADSs will, to the extent practicable, be the same.

Under the General Banking Law, a bank must distribute cash dividends in respect of any fiscal year in an amount equal to at least 30% of its net income for that year, as long as the dividend does not result in the infringement of minimum capital requirements. The balances of our distributable net income are generally retained for use in our business (including for the maintenance of any required legal reserves). Although our Board of Directors currently intends to pay regular annual dividends, the amount of dividend payments will depend upon, among other factors, our then current level of earnings, capital and legal reserve requirements, as well as market conditions, and there can be no assurance as to the amount or timing of future dividends.

Dividends payable to holders of ADSs are net of foreign currency conversion expenses of JPMorgan Chase Bank, N.A., as depositary (the “Depositary”) and will be subject to the Chilean withholding tax currently at the rate of 35% (subject to credits in certain cases as described in “Item 10: E. Taxation—Material Tax Consequences of Owning Shares of Our Common Stock or ADSs”).

Under the Foreign Investment Contract (as defined herein), the Depositary, on behalf of ADS holders, is granted access to the Formal Exchange Market to convert cash dividends from Chilean pesos to U.S. dollars and to

Table of Contents

pay such U.S. dollars to ADS holders outside Chile, net of taxes, and no separate registration by ADS holders is required. In the past, Chilean law required that holders of shares of Chilean companies who were not residents of Chile to register as foreign investors under one of the foreign investment regimes contemplated by Chilean law in order to have dividends, sale proceeds or other amounts with respect to their shares remitted outside Chile through the Formal Exchange Market. On April 19, 2001, the Central Bank deregulated the Exchange Market and eliminated the need to obtain approval from the Central Bank in order to remit dividends, but at the same time this eliminated the possibility of accessing the Formal Exchange Market. These changes do not affect the current Foreign Investment Contract, which was signed prior to April 19, 2001, which grants access to the Formal Exchange Market with prior approval of the Central Bank. See “Item 10: D. Exchange Controls.”

The following table presents dividends declared and paid by us in nominal terms in the past four years:

| Year    | Dividend      |                            |                        |                       |                       |
|---------|---------------|----------------------------|------------------------|-----------------------|-----------------------|
|         | Ch\$<br>mn(1) | Per share<br>Ch\$/share(2) | Per ADR<br>Ch\$/ADR(3) | % over<br>earnings(4) | % over<br>earnings(5) |
| 2009    | 213,295       | 1.13                       | 1,176.00               | 65                    | 52                    |
| 2010    | 258,752       | 1.37                       | 1,426.63               | 60                    | 60                    |
| 2011    | 286,294       | 1.52                       | 1,578.48               | 60                    | 57                    |
| 2012(6) | 261,050       | 1.39                       | 1,439.08               | 60                    | 65                    |

(1) Million of nominal pesos.

(2) Calculated on the basis of 188,446 million shares.

(3) Calculated on the basis of 1,039 shares per ADS.

(4) Calculated by dividing dividend paid in the year by net income attributable to shareholders for the previous year as required by local regulations.

(5) Calculated by dividing dividend paid in the year by net income attributable to shareholders for the previous year under IFRS.

(6) Approved by shareholders on April 24, 2012

#### B. Capitalization and Indebtedness

Not applicable.

#### C. Reasons for the Offer and Use of Proceeds

Not applicable.

#### D. Risk Factors

You should carefully consider the following risk factors, which should be read in conjunction with all the other information presented in this Annual Report. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties that we do not know about or that we currently think are immaterial may also impair our business operations. Any of the following risks, if they actually occur, could materially and adversely affect our business, results of operations, prospects and financial condition.

We are subject to market risks that are presented both in this subsection and in “Item 5: Operating and Financial Review and Prospects” and “Item 11: Quantitative and Qualitative Disclosures about Market Risk.”

#### Risks Associated with Our Business

We are vulnerable to the current disruptions and volatility in the global financial markets and in the Eurozone.

In the past years, the global financial system has experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on our ability to access capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on our interest margins.

## Table of Contents

In 2011, the Eurozone has experienced difficult credit and liquidity conditions and market disruptions leading to less liquidity, greater volatility, and general economic weakening, including in Spain, the home of our controlling shareholder. Continued or worsening disruption and volatility in the Eurozone, especially Spain, could have a material adverse effect on our ability to access capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers. Any such increase in capital markets funding costs or deposit rates could have a material adverse effect on our profitability.

Increased competition and industry consolidation may adversely affect our results of operations.

The Chilean market for financial services is highly competitive. We compete with other private sector Chilean and non-Chilean banks, with Banco del Estado, the principal government-owned sector bank, with department stores and larger supermarket chains that make consumer loans and sell other financial products to a large portion of the Chilean population. The lower middle- to middle-income segments of the Chilean population and the small- and mid- sized corporate segments have become the target markets of several banks and competition in these segments may increase. As a result, net interest margins in these segments may decline. Although we believe that demand for financial products and services from individuals and for small- and mid-sized companies will continue to grow during the remainder of the decade, we cannot assure you that net interest margins will be maintained at their current levels.

We also face competition from non-bank (such as department stores, insurance companies, cajas de compensación and cooperativas) and non-finance competitors (principally department stores and larger supermarket chains) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non-bank finance competitors, such as leasing, factoring and automobile finance companies, with respect to credit products, and from mutual funds, pension funds and insurance companies with respect to savings products.

The increase in competition within the Chilean banking industry in recent years has led to consolidation in the industry. We expect the trends of increased competition and consolidation to continue and result in the formation of large new financial groups. Consolidation in the industry, which can result in the creation of larger and stronger competitors, may adversely affect our financial condition and results of operations by decreasing the net interest margins we are able to generate.

Our allowances for loan losses may not be adequate to cover future actual losses to our loan portfolio.

As of December 31, 2011, our allowance for loan losses were Ch\$488,468 million, and the ratio of our allowance for loan losses to total loans was 2.80%. The amount of the allowances is based on our current assessment of and expectations concerning various factors affecting the quality of our loan portfolio. These factors include, among other things, our borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Chile's economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond our control. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for loan losses and other assets require recalibration, which can lead to increased provision expense. See "Item 5: C. Operating Results—Results of Operations for the Years ended December 31, 2011, 2010 and 2009—Provision for loan losses". We believe our allowance is adequate as of the date hereof for all known losses. If our assessment of and expectations concerning the above mentioned factors differ from actual developments, or if the quality of our loan portfolio deteriorates or the future actual losses exceed our estimates of incurred losses, our allowance for loan losses may not be adequate to cover actual losses and we may need to make additional provisions for loan losses, which may materially and adversely affect our results of operations and financial condition.



Our exposure to individuals and small businesses could lead to higher levels of past due loans, allowances for loan losses and charge-offs.

A substantial number of our customers consist of individuals (approximately 53.3% of the value of the total loan portfolio as of December 31, 2011, if interbank loans are included) and, to a lesser extent, small- and mid-sized

Table of Contents

companies (those with annual revenues of less than US\$2.3 million), which comprised approximately 14.7% of the value of the total loan portfolio as of December 31, 2011. As part of our business strategy, we seek to increase lending and other services to small companies and individuals. Small companies and lower- to middle-income individuals are, however, more likely to be adversely affected by downturns in the Chilean economy than large corporations and higher-income individuals. In addition, as of December 31, 2011, our residential mortgage loan portfolio totaled Ch\$5,115,663 million, representing 29.34% of our total loans. (See Note 9: “Interbank Loans” and “Note 10: Loans and Accounts Receivables from Customers” in our Audited Consolidated Financial Statements for a description and presentation of residential mortgages in statement of financial position). If the economy and real estate market in Chile experience a significant downturn, as they may due to the global financial and economic crisis, this could materially adversely affect the liquidity, businesses and financial conditions of our customers, which may in turn cause us to experience higher levels of past due loans, thereby resulting in higher provisions for loan losses and subsequent charge-offs. This may materially and adversely affect our asset quality, results of operations and financial condition.

If we are unable to maintain the quality of our loan portfolio, our financial condition and results of operations may be materially and adversely affected.

As of December 31, 2011, our non-performing loans were Ch\$511,357 million, and the ratio of our non-performing loans to total loans was 2.93%. For additional information on our asset quality, see “Item 5: F. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower’s Payment Performance”. We seek to continue to improve our credit risk management policies and procedures. However, we cannot assure you that our credit risk management policies, procedures and systems are free from any deficiency. Failure of credit risk management policies may result in an increase in the level of non-performing loans and adversely affect the quality of our loan portfolio. In addition, the quality of our loan portfolio may also deteriorate due to various other reasons, including factors beyond our control, such as the macroeconomic factors affecting Chile’s economy. If such deterioration were to occur, it could materially adversely affect our financial conditions and results of operations.

The value of the collateral securing our loans may not be sufficient, and we may be unable to realize the full value of the collateral securing our loan portfolio.

The value of the collateral securing our loan portfolio may significantly fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting Chile’s economy. The real estate market is particularly vulnerable in the current economic climate and this may affect us as real estate represents a significant portion of the collateral securing our residential mortgage loan portfolio. We may also not have sufficiently recent information on the value of collateral, which may result in an inaccurate assessment for impairment losses of our loans secured by such collateral. If this were to occur, we may need to make additional provisions to cover actual impairment losses of our loans, which may materially and adversely affect our results of operations and financial condition.

Additionally, there are certain provisions under Chilean law that may affect our ability to foreclose or liquidate residential mortgages if the real estate in question has been declared as “family property” by a court. If any party occupying the real estate files a petition with the court requesting that such real estate be declared as family property, our ability to foreclose may be very limited.

The growth of our loan portfolio may expose us to increased loan losses.

From December 31, 2006 to December 31, 2011, our aggregate loan portfolio, excluding interbank loans, grew by 63.9% in nominal terms to Ch\$17,347,094 million (US\$33.3 billion), while our consumer loan portfolio grew by 61.8% in nominal terms to Ch\$2,943,846 million (US\$5.7 billion). From December 31, 2010 to December 31, 2011, our aggregate loan portfolio grew by 10.9% in nominal terms to Ch\$17,434,782 million (US\$33.5 billion), while our

consumer loan portfolio grew by 9.0%. The further expansion of our loan portfolio (particularly in the consumer, small- and mid-sized companies and real estate segments) can be expected to expose us to a higher level of loan losses and require us to establish higher levels of provisions for loan losses.

## Table of Contents

Our loan portfolio may not continue to grow at the same rate. An economic turmoil may lead to a contraction in our loan portfolio.

There can be no assurance that our loan portfolio will continue to grow at similar rates to the historical growth rate described above. A reversal of the rate of growth of the Chilean economy, a slowdown in the growth of customer demand, an increase in market competition or changes in governmental regulations, could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. An economic turmoil could materially adversely affect the liquidity, businesses and financial condition of our customers as well as lead to a general decline in consumer spending and a rise in unemployment. All this could in turn lead to decreased demand for borrowings in general.

The effectiveness of our credit risk management is affected by the quality and scope of information available in Chile.

In assessing customers' creditworthiness, we rely largely on the credit information available from our own internal databases, the SBIF, DICOM en Capital (a Chilean nationwide credit bureau) and other sources. Due to limitations in the availability of information and the developing information infrastructure in Chile, our assessment of credit risk associated with a particular customer may not be based on complete, accurate or reliable information. In addition, although we have been improving our credit scoring systems to better assess borrowers' credit risk profiles, we cannot assure you that our credit scoring systems collect complete or accurate information reflecting the actual behavior of customers or that their credit risk can be assessed correctly. Without complete, accurate and reliable information, we have to rely on other publicly available resources and our internal resources, which may not be effective. As a result, our ability to effectively manage our credit risk and subsequently our loan loss allowances may be materially adversely affected.

In February 2012, the Ley de DICOM was passed, which among other provisions, eliminated from the negative credit bureaus debtors who owed less than US\$4,800 as well as limiting access of the public to parts of these databases. As a result, our ability to effectively manage our credit risk and subsequently our loan loss allowances may be materially adversely affected.

Fluctuations in the rate of inflation may affect our results of operations.

High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Extended periods of deflation could also have an adverse effect on our business, financial condition and results of operations. In 2009, Chile experienced deflation of 1.4%. In 2011, CPI inflation was 4.44%, an increase from 3.0% in 2010.

Our assets and liabilities are denominated in Chilean pesos, UF and foreign currencies. The UF is revalued in monthly cycles. On each day in the period beginning on the tenth day of any given month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. For more information regarding the UF, see "Item 5: C. Operating Results—Impact of Inflation" Although we benefit from inflation in Chile, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits, or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation, including from extended periods of inflation that adversely affect economic growth or periods of deflation.

Our results of operations are affected by interest rate volatility.

Our results of operations depend to a great extent on our net interest income. Net interest income represented 71.3% of our net operating profit before loan losses in 2011 compared to 70.0% in 2010. Changes in market interest rates could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, leading to a reduction in our net interest income or a decrease in customer demand for our loan or deposit products. Interest rates are highly sensitive to many factors beyond our control, including the reserve policies of the Central Bank, deregulation of the financial sector in Chile, domestic and international economic and political conditions and other factors. Any changes in interest rates could adversely affect our

Table of Contents

business, our future financial performance and the price of our securities. The following table shows the yields on the Chilean government's 90-day notes as reported by the Central Bank of Chile at year-end 2007 to 2011.

| Year | 90-day<br>note at<br>Period<br>end<br>(%) |
|------|---|
| 2007 | 6.15                                      |
| 2008 | 7.86                                      |
| 2009 | 0.48                                      |
| 2010 | 3.40                                      |
| 2011 | 5.11 (1)                                  |

- 
- 1) As of November 2011. The Central Bank did not report a 90-day note rate for December 2011.

Source: Central Bank.

Since our principal sources of funds are short-term deposits, a sudden shortage of funds could cause an increase in costs of funding and an adverse effect on our revenues.

Customer deposits are our primary source (59.1%) of funding. As of December 31, 2011, 97.0% of our customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of our assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. If a substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, our liquidity position, results of operations and financial condition may be materially and adversely affected. We cannot assure you that in the event of a sudden or unexpected shortage of funds in the banking system, any money markets in which we operate will be able to maintain levels of funding without incurring higher funding costs or the liquidation of certain assets. If this were to happen, our results of operations and financial condition may be materially adversely affected.

The legal restrictions on the exposure of Chilean pension funds may affect our access to funding.

Chilean regulations impose a series of restrictions on how Chilean pension fund management companies (Administradora de Fondos de Pensi3n, or "AFPs") may allocate their assets. In the particular case of financial issuers' there are three restrictions, each involving different assets and different limits determined by the amount of assets in each fund and the market and book value of the issuer's equity. As a consequence, limits vary within funds of AFPs and issuers. As of December 31, 2011, each AFP can invest at least another 5.9% of the assets under management in Santander Chile's bonds, deposits and mortgage finance bonds, and at least 0.6% in Santander Chile's shares. The total amount that AFPs could additionally invest in Santander is approximately US\$23.7 billion. If the exposure of any AFP to Santander exceeds the regulatory limits, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our financial condition and results of operations.

Pension funds must also comply with other investment limits. On June 5, 2007, approved legislation in Chile (Reformas al Mercado de Capitales II, also known as "MK2") relaxed the limits on making investments abroad in order to permit pension funds to further diversify their investment portfolios. As of December 31, 2011, the limit on making investments abroad was increased up to 100%, depending on the fund. As a result, pension funds may change the composition of their portfolios, including reducing their deposits with local banks. As of December 31, 2011, 9.4% of

our liabilities were from AFPs. Although the legislation referred to above is intended to promote a gradual relaxation of the investment limits, and we may be able to substitute the reduced institutional funds with retail deposits, there can be no assurance that this occurrence will not have a materially adverse impact on our business, financial condition and results of operations.

We may be unable to meet requirements relating to capital adequacy.

Chilean banks are required by the General Banking Law to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves (“basic capital”) of at least 3% of our total assets, net of required loan loss allowances. As we are the result of the merger between two predecessors, we are currently required to maintain a minimum regulatory capital to risk-weighted

Table of Contents

assets ratio of 11%. As of December 31, 2011, the ratio of our regulatory capital to risk-weighted assets, net loan loss allowance and deductions, was 14.73%. Certain developments could affect our ability to continue to satisfy the current capital adequacy requirements applicable to us, including:

- the increase of risk-weighted assets as a result of the expansion of our business or regulatory changes;
- the failure to increase our capital correspondingly;
- losses resulting from a deterioration in our asset quality;
- declines in the value of our investment instrument portfolio;
- changes in accounting rules;
- changes in provisioning guidelines that are charged directly against our equity or net income; and
- changes in the guidelines regarding the calculation of the capital adequacy ratios of banks in Chile.

Starting in 2013, Chilean banks will most likely be required to adopt the guidelines set forth under the Basel II and III Capital Accord with adjustments incorporated by the SBIF once these changes are approved by Congress. This should result in a different level of minimum capital required to be maintained by us. According to initial estimates of the impact of market risk on regulatory capital, published by the SBIF for informational purposes only, our ratio of regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, including an initial estimate of the adjustments for market risk set forth under Basel II, was 13.38% as of December 31, 2011. No assurance can be given that the adoption of the Basel II capital requirements will not have a material impact on our capitalization ratio.

We may also be required to raise additional capital in the future in order to maintain our capital adequacy ratios above the minimum required levels. Our ability to raise additional capital may be limited by numerous factors, including: our future financial condition, results of operations and cash flows; any necessary government regulatory approvals; our credit ratings; general market conditions for capital raising activities by commercial banks and other financial institutions; and domestic and international economic, political and other conditions.

If we require additional capital in the future, we cannot assure you that we will be able to obtain such capital on favorable terms, in a timely manner or at all. Furthermore, the SBIF may increase the minimum capital adequacy requirements applicable to us. Accordingly, although we currently meet the applicable capital adequacy requirements, we may face difficulties in meeting these requirements in the future. If we fail to meet the capital adequacy requirements, we may be required to take corrective actions. These measures could materially and adversely affect our business reputation, financial condition and results of operations. In addition, if we are unable to raise sufficient capital in a timely manner, the growth of our loan portfolio and other risk-weighted assets may be restricted, and we may face significant challenges in implementing our business strategy. As a result, our prospects, results of operations and financial condition could be materially and adversely affected.

Our business is highly dependent on proper functioning and improvement of information technology systems.

Our business is highly dependent on the ability of our information technology systems to accurately process a large number of transactions across numerous and diverse markets and products in a timely manner, and on our ability to rely on our digital technologies, computer and email services, software and networks, as well as on the secure processing, storage and transmission of confidential and other information in our computer system and networks. The proper functioning of our financial control, risk management, accounting, customer service and other data processing



systems is critical to our business and our ability to compete effectively. We have backup data for our key data processing systems that could be used in the event of a catastrophe or a failure of our primary systems, and have established alternative communication networks where available. However, we do not operate all of our redundant systems on a real time basis and cannot assure you that our business activities would not be materially disrupted if there were a partial or complete failure of any of these primary information technology systems or communication networks. Such failures could be caused by, among other things, major natural catastrophes (such as earthquakes), software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any

## Table of Contents

security breach caused by unauthorized access to information or systems, or intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, could have a material adverse effect on our business, results of operations and financial condition. Although we work with our clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and prevent against cyber attacks, we routinely exchange personal, confidential and proprietary information by electronic means, and we may be the target of attempted cyber attacks. We take protective measures and continuously monitor and develop our systems to protect our technology infrastructure and data from misappropriation or corruption. Although we have not experienced any material losses to date relating to cyber attacks or other such security breaches, our systems, software and networks nevertheless may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm. Further, as cyber attacks continue to evolve, we may incur significant costs in our attempt to modify or enhance our protective measures or investigate or remediate any vulnerabilities.

In addition, there have been a number of highly publicized cases around the world involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years and we run the risk that employee misconduct could occur. This misconduct has included and may include in the future the theft of proprietary information, including proprietary software. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity have not been and may not be effective in all cases.

Our ability to remain competitive and achieve further growth will depend in part on our ability to upgrade our information technology systems and increase our capacity on a timely and cost effective basis. Any substantial failure to improve or upgrade information technology systems effectively or on a timely basis could materially and adversely affect our competitiveness, results of operations and financial condition.

Operational problems or errors can have a material adverse impact on our business, financial condition and results of operations.

Like all large financial institutions, we are exposed to many types of operational risks, including the risk of fraud by employees and outsiders, failure to obtain proper internal authorizations, failure to properly document transactions, equipment failures and errors by employees. Fraud or other misconduct by employees or third parties may be difficult to detect and prevent and could subject us to financial losses and sanctions imposed by governmental authorities as well as seriously harm our reputation. Although we maintain a system of operational controls, there can be no assurance that operational problems or errors will not occur and that their occurrence will not have a materially adverse impact on our business, financial condition and results of operations.

We are subject to regulatory risk, or the risk of not being able to meet all of the applicable regulatory requirements and guidelines.

We are also subject to various inspections, examinations, inquiries, audits and other regulatory requirements by Chilean regulatory authorities. We cannot assure you that we will be able to meet all of the applicable regulatory requirements and guidelines, or that we will not be subject to sanctions, fines, restrictions on our business or other penalties in the future as a result of noncompliance. If sanctions, fines, restrictions on our business or other penalties are imposed on us for failure to comply with applicable requirements, guidelines or regulations, our business, financial condition, results of operations and our reputation and ability to engage in business may be materially and adversely affected.

We are subject to market and operational risks associated with derivative transactions.

We enter into derivative transactions primarily for hedging purposes and, on a limited basis, on behalf of customers. These transactions are subject to market and operational risks, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of a counterparty to perform its obligations to us).

## Table of Contents

Market practices and documentation for derivative transactions in Chile may differ from those in other countries. For example, documentation may not incorporate terms and conditions of derivatives transactions as commonly understood in other countries. In addition, the execution and performance of these transactions depends on our ability to develop adequate control and administration systems and to hire and retain qualified personnel. Moreover, our ability to monitor and analyze these transactions depends on our information technology systems. These factors may further increase risks associated with derivative transactions and, if they are not adequately controlled, this could materially and adversely affect our results of operations and financial condition.

We are subject to counterparty risk in our banking business.

We are exposed to counterparty risks in addition to credit risks associated with lending activities. Counterparty risk may arise from, for example, investing in securities of third parties, entering into derivative contracts under which counterparties have obligations to make payments to us, or executing securities, futures, currency or commodity trades from proprietary trading activities that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. If these risks give rise to losses, this could materially and adversely affect our results of operations and financial condition.

Failure to protect personal information could adversely affect us.

We manage and hold confidential personal information of customers in the conduct of our banking operations. Although we have procedures and controls to safeguard personal information in our possession, unauthorized disclosures could subject us to legal actions and administrative sanctions as well as damages that could materially and adversely affect our results of operations and financial condition.

Our loan portfolios are subject to risk of prepayment, which may result in reinvestment of assets on less profitable terms.

Our loan portfolios are subject to prepayment risk which results from the ability of a borrower to pay a loan prior to maturity and which comes at a time that is inconsistent with the financing of such loan by us. Generally, in a declining interest rate environment, prepayment activity increases with the effect of reducing weighted average lives of interest earning assets and adversely affecting results. Prepayment risk also has an adverse impact on our credit card and residential mortgage portfolios, since prepayments could shorten the weighted average life of these portfolios, which may result in a mismatch in funding or in reinvestment at lower yields.

### Risks Relating to Chile

Future natural disasters may negatively affect our results of operations.

Chile lies on the Nazca tectonic plate, making it one of the world's most seismically active regions. As a result, natural disasters, especially earthquakes, such as the February 2010 earthquake, may have an adverse impact on our results of operation.

Temporary increases in the corporate tax rate in Chile to finance part of the reconstruction effort may have an adverse effect on us and our corporate clients.

The government and congress approved legislation that increased the corporate income tax rate in order to pay for part of the reconstruction following the earthquake and tsunami in February 2010. The new legislation has increased the corporate tax rate from 17% to 20% in 2011. The rate was decreased to 18.5% in 2012 and is scheduled to decrease further to 17% in 2013. Congress is currently discussing a reform to Chile's tax structure, which, among other things,

would set the corporate tax rate at 20%. This legislation may have an adverse effect on us and our corporate clients.

Our growth and profitability depend on the level of economic activity in Chile.

A substantial amount of our loans are to borrowers doing business in Chile. Accordingly, the recoverability of these loans in particular, and our ability to increase the amount of loans outstanding and our results of operations

Table of Contents

and financial condition in general, are dependent to a significant extent on the level of economic activity in Chile. Our results of operations and financial condition could be affected by changes in economic or other policies of the Chilean government, which has exercised and continues to exercise substantial influence over many aspects of the private sector, or other political or economic developments in Chile. In line with the global economic climate, Chile's economy contracted in 2009 for the first time since 1999. However, despite the earthquake, the Chilean economy recovered significantly and GDP increased by 5.2% in 2010 and greater than 6% in 2011. However, there can be no assurance that the Chilean economy will continue to grow in the future or that future developments will not negatively affect Chile's overall levels of economic activity.

Economic and political problems encountered by other countries may adversely affect the Chilean economy, our results of operations and the market value of our securities.

The prices of securities issued by Chilean companies, including banks, are to varying degrees influenced by economic and market considerations in other countries. We cannot assure you that future developments in or affecting the Chilean economy, including consequences of economic difficulties in other markets, will not materially and adversely affect our business, financial condition or results of operations.

We are directly exposed to risks related to the weakness and volatility of the economic and political situation in Asia, the United States, Europe, Brazil, Argentina and other nations. If these nations' economic conditions deteriorate, the economy in Chile, as both a neighboring country and a trading partner, could also be affected and could experience slower growth than in recent years with possible adverse impact on our borrowers and counterparties. Thus, we may need to increase our allowances for loan losses, thus affecting our financial results, our results of operations and the price of our securities. As of December 31, 2011, approximately 2.9% of our assets were held abroad. There can be no assurance that the ongoing effects of the global financial crisis will not negatively impact growth, consumption, unemployment, investment and the price of exports in Chile. The crises and political uncertainties in other Latin American countries could also have an adverse effect on Chile, the price of our securities or our business.

Chile is also involved in an international litigation with Peru regarding maritime borders and has had other conflicts with neighboring countries in the past. We cannot assure you that crisis and political uncertainty in other Latin American countries will not have an adverse effect on Chile, the price of our securities or our business.

Current economic conditions may make it more difficult for us to continue funding our business on favorable terms.

Historically, one of our principal sources of funds has been time deposits. Time deposits represented 39.5% and 36.0% of our total funding as of December 31, 2011 and 2010, respectively. Large-denominations in time deposits from institutional investors may, under some circumstances, be a less stable source of funding than savings and bonds, such as during periods of significant changes in market interest rates for these types of deposit products and any resulting increased competition for such funds. The liquidity crisis triggered by the U.S. subprime market impacted global markets and affected sources of funding, including time deposits. Although our results of operations and financial position have not suffered a significant impact as a consequence of the recent credit market instability in the U.S., future market instability in the U.S. or in European markets, specifically the Spanish market, may negatively affect our ability to continue funding our business or maintain our current levels of funding without incurring higher funding costs or having to liquidate certain assets.

Currency fluctuations could adversely affect our financial condition and results of operations and the value of our securities.

Any future changes in the value of the Chilean peso against the U.S. dollar will affect the U.S. dollar value of our securities. The Chilean peso has been subject to large devaluations and appreciations in the past and could be subject

to significant fluctuations in the future. Our results of operations may be affected by fluctuations in the exchange rates between the peso and the dollar despite our policy and Chilean regulations relating to the general avoidance of material exchange rate exposure. In order to avoid material exchange rate exposure, we enter into forward exchange transactions. The following table shows the value of the Chilean peso relative to the U.S. dollar as

Table of Contents

reported by the Central Bank at period end for the last five years and the devaluation or appreciation of the peso relative to the U.S. dollar in each of those periods.

| Year           | Exchange rate<br>(Ch\$)<br>Period end | Appreciation<br>(Devaluation)<br>(%) |
|----------------|---------------------------------------|--------------------------------------|
| 2007           | 495.82                                | (7.2 )                               |
| 2008           | 629.11                                | 26.9                                 |
| 2009           | 506.43                                | (19.5 )                              |
| 2010           | 468.37                                | (7.5 )                               |
| 2011           | 521.46                                | 11.4                                 |
| April 30, 2012 | 483.41                                | (7.3 )                               |

Source: Central Bank.

We may decide to change our policy regarding exchange rate exposure. Regulations that limit such exposures may also be amended or eliminated. Greater exchange rate risk will increase our exposure to the devaluation of the peso, and any such devaluation may impair our capacity to service foreign currency obligations and may, therefore, materially and adversely affect our financial condition and results of operations. Notwithstanding the existence of general policies and regulations that limit material exchange rate exposures, the economic policies of the Chilean government and any future fluctuations of the peso against the dollar could affect our financial condition and results of operations.

Banking regulations may restrict our operations and thereby adversely affect our financial condition and results of operations.

We are subject to regulation by the SBIF. In addition, we are subject to regulation by the Central Bank with regard to certain matters, including reserve requirements, interest rates, foreign exchange mismatches and market risks. Changes in banking regulations may materially and adversely affect our business, financial condition and results of operations. Chilean laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions are continually evolving and changing. In 2007, new regulations governing the Chilean capital markets were approved (Reformas al Mercado de Capitales II, also known as MK2). These regulations, among other things, modified certain provisions set forth in the General Banking Law. Under new legislation, the limit on the amount that a bank is allowed to grant as an unsecured loan to a single individual or entity was increased to 10% of our regulatory capital (and up to 30% of our regulatory capital if any loans granted in excess of the 10% is secured by collateral). Previously, these limits were set at 5% and 25%, respectively. Although any such increase may increase our lending activity, it may also increase the risks associated with the growth of our loan portfolio and increase competition as the number of banks that can compete in the corporate segment increases.

Chile's Congress passed a new law in August 2010 intended to increase trading in Chile, Latin America's third-largest securities market, by allowing trading of new instruments such as exchange-traded funds and covered bonds. The law also sought to ease credit access for consumers and small companies. For example, the law made it easier for foreign banks to offer loans in Chile, cut securitization costs, allowed banks to sell bonds backed by mortgages, offers tax breaks to foreign investors in Chilean mutual funds, and repealed a law that prevented foreign banks from advertising loans. The law also intended to reduce the cost of setting up mutual funds, in part by removing limits on employing non-Chileans, and created an exchange-traded funds industry by modifying mutual fund rules to allow secondary trading and enable pension funds to invest in such mutual funds. The new class of bonds authorized by the law, known as "mortgage bonds," is a debt obligation secured by a pool of mortgages, as is the case with European covered bonds. Unlike covered bonds, they may be issued by banks and non-banks.



The current Finance Minister plans another package of reforms, the Reformas al Mercado Financiero Bicentenario. These reforms are comprised of a series of administrative changes and new regulations over the next four years, including the creation of a financial consumer protection agency, the transformation of the local securities exchange regulator (SVS) into a securities commission and increasing the autonomy of the SBIF. These proposed regulations intend to expand the use of the Chilean peso, simplify taxes on fixed-income securities, increase bank penetration and household savings, reduce the pro-cyclicality of loan loss provisions and enhance solvency and liquidity (the latter must be done through a change in the General Banking Law). The reforms also

Table of Contents

intend to create new instruments that give more efficient financing alternatives to small and mid-sized companies and individuals, together with creating specific statutes for niche banks and micro-credit financing.

Pursuant to the General Banking Law, all Chilean banks may, subject to the approval of the SBIF, engage in certain businesses other than commercial banking depending on the risk associated with such business and their financial strength. Such additional businesses include securities brokerage, mutual fund management, securitization, insurance brokerage, leasing, factoring, financial advisory, custody and transportation of securities, loan collection and financial services. The General Banking Law also applies to the Chilean banking system a modified version of the capital adequacy guidelines issued by the Basel Committee on Banking Regulation and Supervisory Practices and limits the discretion of the SBIF to deny new banking licenses. There can be no assurance that regulators will not in the future impose more restrictive limitations on the activities of banks, including us. Any such change could have a material adverse effect on our financial condition or results of operations.

Historically, Chilean banks have not paid interest on amounts deposited in checking accounts. Currently, there are no applicable restrictions on the interest that may be paid on checking accounts. We have begun to pay interest on some checking accounts under certain conditions. If competition or other factors lead us to pay higher interest rates on checking accounts, to relax the conditions under which we pay interest or to increase the number of checking accounts on which we pay interest, any such change could have a material adverse effect on our financial condition or results of operations.

A bill has been introduced by some members of Congress to modify the way in which the maximum interest rate is calculated in Chile. In addition, the government has recently introduced another bill in this respect which is currently being discussed. This new legislation is aimed at loans of less than UF 200 (Ch\$ 4,458,806, US\$ 8,569) and more than 90 days, thus including consumer loans in installments, lines of credit and credit card lines. Currently, the maximum interest rate is calculated as the average rate of all operations done within the banking industry over the previous month, multiplied by a factor of 1.5 times. As of December 31, 2011, the average annual interest rate for this type of loans reached 34.26% and the maximum annual interest rate reached 51.39%. The bill proposed by the government would change the factor to 1.36. Hence, the maximum annual interest rate would drop to approximately 46%. On the other hand, the bill proposed by members of Congress would set the maximum interest rate at the equivalent of three times the MPR (Monetary Policy Rate). As of April 2011, the MPR reached 5.00%, thus, the maximum annual interest rate would reach 15.00%. Recent developments aim towards a consensus solution which could set the maximum interest rate for this type of loans at around 30% to 40%. If the proposed bill is passed as it is, the impact would be mainly on Banefe's segment, which represents less than 5% of our total loans. If the bill proposed by members of Congress is passed, it could have an adverse effect on our results of operations. Our average interest rate on loans of this category in 2011 has been 21.4%.

In March 2012, a bill aimed to give additional enforcement powers to the SERNAC (Chile's Consumer Protection Agency) regarding financial services became effective and created the SERNAC Financiero, a specific consumer protection agency for the financial industry. The SERNAC Financiero has powers to supervise and regulate Bank products and services. This could lead to additional scrutiny regarding prices and contracts for financial products and services, increasing competition among bank and non-bank competitors and adversely affecting prices.

In July 2012, new regulations regarding the selling of mandatory insurance for loans will be introduced that will increase competition and that could lower our fees from collecting these premiums. This could have a negative impact on fees, which impact has not yet been quantified.

As a result of the recent global financial crisis, there has been an increase in government regulation of the financial services industry in many countries. Such regulation may also be increased in Chile, including the imposition of higher capital requirements, heightened disclosure standards and restrictions on certain types of transaction

structures. In addition, novel regulatory proposals abound in the current environment. If enacted, new regulations could require us to inject further capital into our business as well as in businesses we acquire, restrict the type or volume of transactions we enter into, or set limits on or require the modification of rates or fees that we charge on certain loans or other products, any of which could lower the return on our investments, assets and equity. We may also face increased compliance costs and limitations on our ability to pursue certain business opportunities.

## Table of Contents

In line with the future adoption of Basel II regulations in Chile, the SBIF has recently proposed to increase the minimum regulatory capital ratio from 8% to 10%, which would require an amendment to the General Banking Law. Although we currently have a regulatory capital ratio of 14.73%, this change could require us to inject additional capital to our business in the future. According to initial estimates of the impact of market risk on regulatory capital, published for informational purposes only by the SBIF, our ratio of regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, including an initial estimate of the adjustments for market risk set forth under Basel II was 13.38% as of December 31, 2011. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

These new reforms could result in increased competition in the industry and thus may have a material adverse effect on our financial condition and results of operations.

A worsening of labor relations in Chile could impact our business.

As of December 31, 2011, on a consolidated basis we had 11,566 employees, of which 65.2% were unionized. In May 2010, a new collective bargaining agreement was signed, which became effective on January 1, 2011 and that will expire on December 31, 2014. We generally apply the terms of our collective bargaining agreement to unionized and non-unionized employees. We have traditionally had good relations with our employees and their unions, but we cannot assure you that in the future a strengthening of cross-industry labor movements will not materially and adversely affect our business, financial condition or results of operations.

Any downgrading of Chile's debt credit rating for domestic and international debt and/or our controlling shareholder's ratings by international credit rating agencies may also affect our ratings, our business, our future financial performance and the value of our securities.

In 2011, the three main rating agencies, Moody's, S&P and Fitch downgraded the Kingdom of Spain and the credit risk rating of our main shareholder, Grupo Santander, which as the date of this Annual Report continued to both have a negative outlook by the main rating agencies. Following these actions, Fitch and S&P placed Banco Santander Chile's ratings on credit watch negative. Subsequently, S&P cut Santander Chile's long-term foreign issuer credit rating by one notch to A in February 2012, removing the Bank from credit watch negative and placing all ratings on outlook stable. Fitch resolved in February 2012 not to reduce the Bank's ratings, removing the Bank from credit watch negative and placing all ratings on outlook stable. Despite this, any additional adverse revisions to our controlling shareholder's ratings and/or Chile's credit ratings for domestic and international debt by international rating agencies may adversely affect our ratings, our business, future financial performance, stockholder's equity and the price of our securities.

Chile has different corporate disclosure and accounting standards than those you may be familiar with in the United States.

Accounting, financial reporting and securities disclosure requirements in Chile differ from those in the United States. Accordingly, the information about us available to you will not be the same as the information available to shareholders of a U.S. financial institution. There are also material differences between IFRS and U.S. accounting and financial reporting standards.

As a regulated financial institution, we are required to submit to the Superintendency of Banks on a monthly basis unaudited consolidated balance sheets and income statements, excluding any note disclosure, prepared in accordance with generally accepted accounting principles in Chile and the rules of the Superintendency of Banks. Such disclosure differs in a number of significant respects from information generally available in the United States with respect to U.S. financial institutions.

The securities laws of Chile, which govern open or publicly listed companies such as us, aim to promote disclosure of all material corporate information to the public. Chilean disclosure requirements, however, differ from those in the United States in some material respects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, applicable Chilean laws are different from those in the United States and in certain respects the Chilean securities markets are not as highly regulated and supervised as the U.S. securities markets.

Table of Contents

Chile imposes controls on foreign investment and repatriation of investments that may affect your investment in, and earnings from, our ADSs.

Equity investments in Chile by persons who are not Chilean residents have generally been subject to various exchange control regulations which restrict the repatriation of the investments and earnings therefrom. In April 2001, the Central Bank eliminated the regulations that affected foreign investors except that investors are still required to provide the Central Bank with information relating to equity investments and conduct such operations within Chile's Formal Exchange Market. The ADSs are subject to a contract, dated May 17, 1994, among the Depositary, us and the Central Bank (the "Foreign Investment Contract") that remains in full force and effect. The ADSs continue to be governed by the provisions of the Foreign Investment Contract subject to the regulations in existence prior to April 2001. The Foreign Investment Contract grants the Depositary and the holders of the ADSs access to the Formal Exchange Market, which permits the Depositary to remit dividends it receives from us to the holders of the ADSs. The Foreign Investment Contract also permits ADS holders to repatriate the proceeds from the sale of shares of our common stock withdrawn from the ADR facility, or that have been received free of payment as a consequence of spin offs, mergers, capital increases, wind ups, share dividends or preemptive rights transfers, enabling them to acquire the foreign currency necessary to repatriate earnings from such investments. Pursuant to Chilean law, the Foreign Investment Contract cannot be amended unilaterally by the Central Bank, and there are judicial precedents (although not binding with respect to future judicial decisions) indicating that contracts of this type may not be abrogated by future legislative changes or resolutions of the Advisory Council of the Central Bank. Holders of shares of our common stock, except for shares of our common stock withdrawn from the ADS facility or received in the manner described above, are not entitled to the benefits of the Foreign Investment Contract, may not have access to the Formal Exchange Market, and may have restrictions on their ability to repatriate investments in shares of our common stock and earnings therefrom.

Holders of ADSs are entitled to receive dividends on the underlying shares to the same extent as the holders of shares. Dividends received by holders of ADSs will be paid net of foreign currency exchange fees and expenses of the Depositary and will be subject to Chilean withholding tax, currently imposed at a rate of 35.0% (subject to credits in certain cases). If for any reason, including changes in Chilean law, the Depositary were unable to convert Chilean pesos to U.S. dollars, investors would receive dividends and other distributions, if any, in Chilean pesos.

We cannot assure you that additional Chilean restrictions applicable to holders of our ADSs, the disposition of the shares underlying them or the repatriation of the proceeds from such disposition or the payment of dividends will not be imposed in the future, nor can we advise you as to the duration or impact of such restrictions if imposed.

ADS holders may not be able to effect service of process on, or enforce judgments or bring original actions against, us, our directors or our executive officers, which may limit the ability of holders of ADSs to seek relief against us.

We are a Chilean corporation. None of our directors are residents of the United States and most of our executive officers reside outside the United States. In addition, a substantial portion of our assets and the assets of our directors and executive officers are located outside the United States. As a result, it may be difficult for ADS holders to effect service of process outside Chile upon us or our directors and executive officers or to bring an action against us or such persons in the United States or Chile to enforce liabilities based on U.S. federal securities laws. It may also be difficult for ADS holders to enforce in the United States or in Chilean courts money judgments obtained in United States courts against us or our directors and executive officers based on civil liability provisions of the U.S. federal securities laws. If a U.S. court grants a final money judgment in an action based on the civil liability provisions of the federal securities laws of the United States, enforceability of this money judgment in Chile will be subject to the obtaining of the relevant "exequatur" (i.e., recognition and enforcement of the foreign judgment) according to Chilean civil procedure law currently in force, and consequently, subject to the satisfaction of certain factors. The most important of these factors are the existence of reciprocity, the absence of a conflicting judgment by a Chilean court relating to the

same parties and arising from the same facts and circumstances and the Chilean courts' determination that the U.S. courts had jurisdiction, that process was appropriately served on the defendant and that enforcement would not violate Chilean public policy. Failure to satisfy any of such requirements may result in non-enforcement of your rights.

## Table of Contents

Our status as a controlled company and a foreign private issuer exempts us from certain of the corporate governance standards of the New York Stock Exchange (“NYSE”), limiting the protections afforded to investors.

We are a “controlled company” and a “foreign private issuer” within the meaning of the NYSE corporate governance standards. Under the NYSE rules, a controlled company is exempt from certain NYSE corporate governance requirements. In addition, a foreign private issuer may elect to comply with the practice of its home country and not to comply with certain NYSE corporate governance requirements, including the requirements that (1) a majority of the Board of Directors consist of independent directors, (2) a nominating and corporate governance committee be established that is composed entirely of independent directors and has a written charter addressing the committee’s purpose and responsibilities, (3) a compensation committee be established that is composed entirely of independent directors and has a written charter addressing the committee’s purpose and responsibilities and (4) an annual performance evaluation of the nominating and corporate governance and compensation committees be undertaken. We currently use these exemptions and intend to continue using these exemptions. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all NYSE corporate governance requirements.

We cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this report with respect to Chile, its economy and global banking industries.

Facts, forecasts and statistics in this document relating to Chile, Chile’s economy and the Chilean banking industry, including market share information, are derived from various official and other publicly available sources that we generally believe to be reliable. However, we cannot guarantee the quality and reliability of such official and other sources of materials. In addition, these facts, forecasts and statistics have not been independently verified by us and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside of Chile and may not be complete or up to date. We have taken reasonable care in reproducing or extracting the information from such sources. However, because of possibly flawed or ineffective methodologies underlying the published information or discrepancies between the published information and market practice and other problems, these facts, forecasts or statistics may be inaccurate and may not be comparable from period to period or to facts, forecasts or statistics produced for other economies, and you should not unduly rely upon them.

## Risks Relating to Our ADSs

There may be a lack of liquidity and market for our shares and ADSs.

Our ADSs are listed and traded on the NYSE. Our common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaiso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. At December 31, 2011, we had 188,446,126,794 shares of common stock outstanding. The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. According to Article 14 of the Ley de Mercado de Valores, Ley No. 18,045, or the Chilean Securities Market Law, the Superintendencia de Valores y Seguros, or the Superintendency of Securities and Insurance, may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean Stock Exchanges for up to 30 days if, in its opinion, such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended for up to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the Superintendency of Securities and Insurance will then cancel the relevant listing in the registry of securities. In addition, the Santiago Stock Exchange may inquire as to any movement in the price of any securities in excess of 10% and suspend trading in such securities for a day if it deems necessary.



Although our common stock is traded on the Chilean Stock Exchanges, there can be no assurance that a liquid trading market for our common stock will continue to exist. Approximately 33.0% of our outstanding common stock is held by the public (i.e., shareholders other than Banco Santander Spain and its affiliates), including our shares that are represented by ADSs trading on the NYSE. A limited trading market in general and our concentrated ownership in particular may impair the ability of an ADS holder to sell in the Chilean market shares of common stock obtained

## Table of Contents

upon withdrawal of such shares from the ADR facility in the amount and at the price and time such holder desires, and could increase the volatility of the price of the ADSs.

You may be unable to exercise preemptive rights.

The Ley Sobre Sociedades Anónimas, Ley No. 18,046 and the Reglamento de Sociedades Anónimas, which we refer to collectively as the Chilean Companies Law, and applicable regulations require that whenever we issue new common stock for cash, we grant preemptive rights to all of our shareholders (including holders of ADSs), giving them the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Such an offering would not be possible in the United States unless a registration statement under the U.S. Securities Act of 1933 (“Securities Act”), as amended, were effective with respect to such rights and common stock or an exemption from the registration requirements thereunder were available.

Since we are not obligated to make a registration statement available with respect to such rights and the common stock, you may not be able to exercise your preemptive rights in the United States. If a registration statement is not filed or an applicable exemption is not available under U.S. securities law, the Depositary will sell such holders’ preemptive rights and distribute the proceeds thereof if a premium can be recognized over the cost of any such sale.

You may have fewer and less clearly defined shareholders’ rights than with shares of a company in the United States.

Our corporate affairs are governed by our estatutos, or by-laws, and the laws of Chile. Under such laws, our shareholders may have fewer or less clearly defined rights than they might have as shareholders of a corporation incorporated in a U.S. jurisdiction. For example, under legislation applicable to Chilean banks, our shareholders would not be entitled to appraisal rights in the event of a merger or other business combination undertaken by us.

Holders of ADSs may find it difficult to exercise voting rights at our shareholders’ meetings.

Holders of ADSs will not be direct shareholders of our company and will be unable to enforce directly the rights of shareholders under our by-laws and the laws of Chile. Holders of ADSs may exercise voting rights with respect to the common stock represented by ADSs only in accordance with the deposit agreement governing the ADSs. Holders of ADSs will face practical limitations in exercising their voting rights because of the additional steps involved in our communications with ADS holders. Holders of our common stock will be able to exercise their voting rights by attending a shareholders’ meeting in person or voting by proxy. By contrast, holders of ADSs will receive notice of a shareholders’ meeting by mail from the Depositary following our notice to the Depositary requesting the Depositary to do so. To exercise their voting rights, holders of ADSs must instruct the Depositary on a timely basis on how they wish to vote. This voting process necessarily will take longer for holders of ADSs than for holders of our common stock. If the Depositary fails to receive timely voting instructions for all or part of the ADSs, the Depositary will assume that the holders of those ADSs are instructing it to give a discretionary proxy to a person designated by us to vote their ADSs, except in limited circumstances.

Holders of ADSs also may not receive the voting materials in time to instruct the Depositary to vote the common stock underlying their ADSs. In addition, the Depositary and its agents are not responsible for failing to carry out voting instructions of the holders of ADSs or for the manner of carrying out those voting instructions. Accordingly, holders of ADSs may not be able to exercise voting rights, and they will have little, if any, recourse if the common stocks underlying their ADSs are not voted as requested.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

Overview

We are the largest bank in Chile in terms of total assets and equity. As of December 31, 2011, we had total assets of Ch\$24,668,993 million (US\$47,408 million), outstanding loans net of allowances for loan losses of Ch\$16,858,637 (US\$32,399 million), total deposits of Ch\$13,334,929 million (US\$25,627 million) and equity of

## Table of Contents

Ch\$2,094,518 million (US\$4,025 million). As of December 31, 2011, we employed 11,566 people and had the largest private branch network in Chile with 499 branches. Our headquarters are located in Santiago and we operate in every major region of Chile.

We provide a broad range of commercial and retail banking services to our customers, including Chilean peso and foreign currency denominated loans to finance a variety of commercial transactions, trade, foreign currency forward contracts and credit lines and a variety of retail banking services, including mortgage financing. We seek to offer our customers a wide range of products while providing high levels of service. In addition to our traditional banking operations, we offer a variety of financial services including financial leasing, financial advisory services, mutual fund management, securities brokerage, insurance brokerage and investment management.

The legal predecessor of Santander-Chile was Banco Santiago (“Santiago”). Santiago was incorporated by public deed dated September 7, 1977 granted at the Notary Office of Alfredo Astaburuaga Gálvez. Santiago received its permission to incorporate and function as a bank by Resolution No. 118 of the Superintendency of Banks on October 27, 1977. Santiago’s by-laws were approved by Resolution No. 103 of the Superintendency of Banks on September 22, 1977. In January 1997, Santiago merged with Banco O’Higgins, with Santiago being the surviving entity. In 1999, Santiago became a controlled subsidiary of Banco Santander Spain. As of June 30, 2002, Santiago was the second largest private sector bank in Chile in terms of total assets, deposits, loans and shareholders’ equity.

Old Santander-Chile was established as a subsidiary of Banco Santander Spain in 1978. In 1982, Old Santander-Chile acquired a significant portion of the assets and liabilities of Banco Español-Chile, a domestic bank that had become insolvent. In July 1996, Old Santander-Chile was merged into Banco Osorno y la Unión becoming “Banco Santander-Chile”, the third largest private bank in terms of outstanding loans at that date.

On August 1, 2002, Santiago and Old Santander Chile merged, whereby the latter ceased to exist and Santander-Chile (formerly known as Santiago) being the surviving entity.

Our principal executive offices are located at Bandera 140, Santiago, Chile. Our telephone number is +562-320-2000 and our website is [www.santander.cl](http://www.santander.cl). None of the information contained on our website is incorporated by reference into, or forms part of, this Annual Report. Our agent for service of process in the United States is Puglisi & Associates located at 850 Library Ave. Suite 204 Newark, Delaware 19711.

### Relationship with Banco Santander Spain

We believe that our relationship with our controlling shareholder, Banco Santander Spain, offers us a significant competitive advantage over our peer Chilean banks. Banco Santander Spain is one of the largest financial groups in Brazil and the rest of Latin America, in terms of total assets measured on a regional basis. It is the largest financial group in Spain and is a major player elsewhere in Europe, including the United Kingdom, Poland and Portugal, where it is the third-largest banking group. Through Santander Consumer, it also operates a leading consumer finance franchise in the United States as well as in Germany, Italy, Spain, and several other European countries.

Our relationship with Banco Santander Spain provides us with access to the group’s client base, while its multinational focus allows us to offer international solutions to our clients’ financial needs. We also have the benefit of selectively borrowing from Banco Santander Spain’s product offerings in other countries as well as benefiting from their know-how in systems management. We believe that our relationship with Banco Santander Spain will also enhance our ability to manage credit and market risks by adopting policies and know-how developed by Banco Santander Spain. Our internal auditing function has been strengthened and is more independent from management as a result of the addition of an internal auditing department that concurrently reports directly to our Audit Committee and the audit committee of Banco Santander Spain. We believe that this structure leads to improved monitoring and control of our

exposure to operational risks.

Banco Santander Spain's support includes the assignment of managerial personnel to key supervisory areas of Santander-Chile, like Risks, Auditing, Accounting and Financial Control. Santander-Chile does not pay any management or other fees to Banco Santander Spain in connection with these support services.

Table of Contents

## B. Organizational Structure

Banco Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones Ltda. and Santander-Chile Holding, which are controlled subsidiaries. In 2011, Banco Santander Spain sold 9.7% of its ownership through Teatinos Siglo XXI Inversiones Ltda in the market. This gives Banco Santander Spain control over 67.18% of our shares and actual participation when excluding non-controlling interests participating in Santander Chile Holding is 67.01%

| Shareholder                          | Number of Shares | Percentage |
|--------------------------------------|------------------|------------|
| Santander Chile Holding              | 66,822,519,695   | 35.46      |
| Teatinos Siglo XXI Inversiones Ltda. | 59,770,481,573   | 31.72      |

The chart below sets forth the names and areas of responsibility of our senior commercial managers as of April 2012.

## Commercial Structure

The chart below sets forth the names and areas of responsibilities of our operating managers.

## C. Business Overview

We have 499 total branches, 261 of which are operated under the Santander brand name, with the remaining branches under certain specialty brand names, including 98 under the Santander Banefe brand name, 46 under the SuperCaja brand name, 43 under the BancaPrime brand name and 51 as auxiliary and payment centers. We provide a full range of financial services to corporate and individual customers. We divide our clients into the following segments: (i) Commercial Banking and (ii) Global Banking and Markets.

The Commercial Banking segment is comprised of the following sub-segments:

- Individuals (Santander Banefe), consisting of individuals with monthly incomes between Ch\$150,000 (US\$288) and Ch\$400,000 (US\$769) and served through our Banefe branch network. This segment accounts for 4.6% of our total loans outstanding as of December 31, 2011. This segment offers customers a

Table of Contents

range of products, including consumer loans, credit cards, auto loans, residential mortgage loans, debit card accounts, savings products, mutual funds and insurance brokerage.

- Individuals (Commercial Banking), consisting of individuals with a monthly income greater than Ch\$400,000 (US\$769). Clients in this segment account for 48.7% of our total loans outstanding as of December 31, 2011 and are offered a range of products, including consumer loans, credit cards, auto loans, commercial loans, foreign trade financing, residential mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.
- Small and mid-sized companies, consisting of small companies with annual revenue of less than Ch\$1,200 million (US\$2.3 million). As of December 31, 2011, this segment represented approximately 14.7% of our total loans outstanding. Customers in this segment are offered a range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, savings products, mutual funds and insurance brokerage.
- Institutional, such as universities, government agencies, municipalities and regional governments. As of December 31, 2011, these clients represented 2.0% of our total loans outstanding. Customers in this sub-segment are also offered the same products that are offered to the customers in our small businesses segment. This sub-segment is included in the Retail segment because customers in this sub-segment are a potential source for new individual customers.
- Companies, consisting of companies with annual revenue over Ch\$1,200 million (US\$2.3 million) and up to Ch\$10,000 million (US\$19.2 million). Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage. As of December 31, 2011, these clients represented 9.1% of our total loans outstanding.
- Real estate, consisting of all companies in the real estate sector with annual revenue over Ch\$800 million (US\$1.5 million), including construction companies and real estate companies that execute projects for sale to third parties. As of December 31, 2011, these clients represented 3.4% of our total loans outstanding. To these clients we offer, in addition to traditional banking services, specialized services for financing, primarily residential projects, in order to increase the sale of residential mortgage loans.
- Large corporations, consisting of companies with annual revenue over Ch\$10,000 million (US\$19.2 million). Customers in this segment are also offered the same products that are offered to the customers in our mid-sized companies segment. As of December 31, 2011, these clients represented 8.4% of our total loans outstanding.

The Global Banking and Markets segment is comprised of the following sub-segments:

- Corporate, consisting of companies that are foreign multinationals or part of a larger Chilean economic group with sales of over Ch\$10,000 million (US\$19.2 million). As of December 31, 2011, these clients represented 8.5% of our total loans outstanding. Customers in this segment are offered a wide range of products, including commercial loans, leasing, factoring, foreign trade, mortgage loans, checking accounts, cash management, treasury services, financial advisory, savings products, mutual funds and insurance brokerage.
- The Treasury Division provides sophisticated financial products mainly to companies in the wholesale banking and the middle-market segments. This includes products such as short-term financing and funding, securities brokerage, interest rate and foreign currency derivatives, securitization services and other tailor made financial products. The Treasury division also manages our trading positions.

In addition, we have a Corporate Activities segment comprised of all other operational and administrative activities that are not assigned to a specific segment or product mentioned above. This segment includes the Financial Management Division, which manages global functions such as the management of our structural foreign exchange gap position, our structural interest rate risk and our liquidity risk. The Financial Management Division



Table of Contents

also oversees the use of our resources, the distribution of capital among our different units and the overall financing cost of investments

The table below sets forth our lines of business and certain statistical information relating to each of them for the year ended December 31, 2011. Please see “Note 4” to our Audited Consolidated Financial Statements for details of revenue by business segment in the last three years.

Table of Contents

As of December 31, 2011 (Ch\$ million)

|  | Loans and<br>accounts<br>receivable<br>from<br>customers<br>(1) | Net<br>interest<br>income | Net fee<br>income | Financial<br>transactions,<br>net (2) | Net loan<br>loss<br>allowances<br>(3) | Operating<br>expenses<br>(4) | Net<br>segment<br>contribution<br>(5) |
|--|---|---------------------------|-------------------|---------------------------------------|---------------------------------------|------------------------------|---------------------------------------|
| <b>SEGMENTS</b>                            |   |                           |                   |                                       |                                       |                              |                                       |
| Individuals                                | 9,289,345   | 570,293                   | 187,176           | 9,095                                 | (248,137 )                            | (322,273 )                   | 196,154                               |
| Santander Banefe                           | 804,852   | 117,154                   | 37,206            | 275                                   | (62,252 )                             | (70,719 )                    | 21,664                                |
| Commercial Banking                         | 8,484,493   | 453,139                   | 149,970           | 8,820                                 | (185,885 )                            | (251,554 )                   | 174,490                               |
| SMEs                                       | 2,560,736   | 207,008                   | 38,274            | 9,577                                 | (65,028 )                             | (74,962 )                    | 114,869                               |
| Institutional                              | 355,199   | 26,856                    | 1,831             | 859                                   | 503                                   | (11,329 )                    | 18,720                                |
| Companies                                  | 3,650,709   | 140,818                   | 24,310            | 13,427                                | (11,592 )                             | (40,680 )                    | 126,283                               |
| Companies                                  | 1,583,895   | 65,499                    | 12,785            | 7,134                                 | (10,080 )                             | (22,698 )                    | 52,640                                |
| Real estate                                | 596,367   | 18,852                    | 2,931             | 624                                   | (300 )                                | (4,486 )                     | 17,621                                |
| Large Corporations                         | 1,470,447   | 56,467                    | 8,594             | 5,669                                 | (1,212 )                              | (13,496 )                    | 56,022                                |
| Commercial banking                         | 15,855,989  | 944,975                   | 251,591           | 32,958                                | (324,254 )                            | (449,244 )                   | 456,026                               |
| Global Banking &<br>Markets                | 1,494,752   | 48,942                    | 31,908            | 68,530                                | 7,614                                 | (35,302 )                    | 121,692                               |
| Corporate                                  | 1,479,838   | 64,845                    | 30,745            | 1,368                                 | 7,614                                 | (13,790 )                    | 90,782                                |
| Treasury (6)                               | 14,914  | (15,903 )                 | 1,163             | 67,162                                | -                                     | (21,512 )                    | 30,910                                |
| Other (7)                                  | 84,041  | (21,617 )                 | (5,663 )          | (7,291 )                              | 503                                   | (16,474 )                    | (50,542 )                             |
| <b>TOTAL</b>                               | <b>17,434,782</b>   | <b>972,300</b>            | <b>277,836</b>    | <b>94,197</b>                         | <b>(316,137 )</b>                     | <b>(501,020 )</b>            | <b>527,176</b>                        |
| Other operating income                     |   |                           |                   |                                       |                                       |                              | 18,749                                |
| Other operating expenses                   |   |                           |                   |                                       |                                       |                              | (64,208 )                             |
| Income from investments in other companies |   |                           |                   |                                       |                                       |                              | 2,140                                 |
| Income tax                                 |   |                           |                   |                                       |                                       |                              | (77,193 )                             |
| Consolidated income for the year           |   |                           |                   |                                       |                                       |                              | 406,664                               |

(1) Loans and accounts receivables from customers plus interbank loans, gross of loan loss allowances.

(2) Includes net gains from trading, net mark-to-market gains and foreign exchange transactions.

(3) Includes gross provisions for loan losses, net of releases on recoveries.

(4) Equal to the sum of personnel expenses, administrative expenses, amortizations and depreciations and deterioration.

(5) Equal to the sum of the net interest revenue, net fee income and net financial transactions, minus net provision for loan losses and operating expenses.

(6) Includes the Treasury's client business and trading business.

(7) Includes Financial Management and the contribution of non-segmented items such as interbank loans, the cost of our capital and fixed assets. Net interest income and net financial transactions included in Other are mainly comprised of the results from the Financial Management Division (Gestión Financiera). The area of Financial

Management carries out the function of managing the structural interest rate risk, the structural position in inflation indexed assets and liabilities, shareholder's equity and liquidity. The aim of Financial Management is to inject stability and recurrence into the net income of commercial activities and to assure we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk.

Table of Contents

## Operations through Subsidiaries

Today, the General Banking Law permits us to directly provide the leasing and financial advisory services that we could formerly offer only through our subsidiaries, to offer investment advisory services outside of Chile and to undertake activities we could not formerly offer directly or through subsidiaries, such as factoring, securitization, foreign investment funds, custody and transport of securities and insurance brokerage services. For the year ended December 31, 2011, our subsidiaries collectively accounted for 2.4% of our total consolidated assets.

| Subsidiary  | Percentage Owned    |               |            |                     |               |            |                     |               |            |
|---|---------------------|---------------|------------|---------------------|---------------|------------|---------------------|---------------|------------|
|   | As of December 2011 |               |            | As of December 2010 |               |            | As of December 2009 |               |            |
|   | Direct<br>%         | Indirect<br>% | Total<br>% | Direct<br>%         | Indirect<br>% | Total<br>% | Direct<br>%         | Indirect<br>% | Total<br>% |
| Santander S.A.  |                     |               |            |                     |               |            |                     |               |            |
| Corredores de Bolsa                                       | 50.59               | 0.41          | 51.00      | 50.59               | 0.41          | 51.00      | 50.59               | 0.41          | 51.00      |
| Santander Corredora<br>de Seguros Ltda.                   | 99.75               | 0.01          | 99.76      | 99.75               | 0.01          | 99.76      | 99.75               | 0.01          | 99.76      |
| Santander Asset<br>Management S.A.                        |                     |               |            |                     |               |            |                     |               |            |
| Administradora<br>General de Fondos                       | 99.96               | 0.02          | 99.98      | 99.96               | 0.02          | 99.98      | 99.96               | 0.02          | 99.98      |
| Santander Agente de<br>Valores Ltda.                      | 99.03               | -             | 99.03      | 99.03               | -             | 99.03      | 99.03               | -             | 99.03      |
| Santander S.A.<br>Sociedad                                |                     |               |            |                     |               |            |                     |               |            |
| Securitizadora  | 99.64               | -             | 99.64      | 99.64               | -             | 99.64      | 99.64               | -             | 99.64      |
| Santander Servicios<br>de Recaudación y<br>Pagos Limitada | 99.90               | 0.10          | 100.00     | 99.90               | 0.10          | 100.00     | 99.90               | 0.10          | 100.00     |

Pursuant to the provisions of International Accounting Standard (IAS) 27 and Standard Interpretations Committee (SIC) 12, we must determine the existence of Special Purpose Entities (SPE), which must be consolidated with the financial results of the Bank. As a result, we have incorporated into our financial statements the following companies:

- Santander Gestión de Recaudación y Cobranza Ltda. (collection services)
  - Multinegocios S.A. (management of sales force)
- Servicios Administrativos y Financieros Ltda. (management of sales force)
  - Fiscalex Ltda. (collection services)
  - Multiservicios de Negocios Ltda. (call center)
- Bansa Santander S.A. (management of repossessed assets and leasing of properties)

## Competition

## Overview

The Chilean financial services market consists of a variety of largely distinct sectors. The most important sector, commercial banking, includes a number of privately-owned banks and one public-sector bank, Banco del Estado (which operates within the same legal and regulatory framework as the private sector banks). The private-sector banks include local banks and a number of foreign-owned banks which are operating in Chile. The Chilean banking system is comprised of 23 private-sector banks and one public-sector bank. The five largest private-sector banks along with the state-owned bank together accounted for 74.4% of all outstanding loans by Chilean financial institutions as of December 31, 2011.

The Chilean banking system has experienced increased competition in recent years largely due to consolidation in the industry and new legislation. We also face competition from non-bank and non-finance competitors (principally department stores) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non-bank finance competitors, such as leasing, factoring and automobile finance companies, with respect to credit products, and mutual funds, pension funds and insurance companies, with respect to savings products. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business has grown rapidly.

All data in the following sections is based on local Chilean Bank GAAP.

Table of Contents

|                                  | As of December 31, 2011,<br>unless otherwise noted |      |
|----------------------------------|--|------|
|                                  | Market Share                                       | Rank |
| Commercial loans                 | 17.1%  | 2    |
| Consumer loans                   | 25.6%  | 1    |
| Residential mortgage loans       | 23.3%  | 1    |
| Total loans(1)                   | 19.7%  | 2    |
| Deposits                         | 17.4%  | 3    |
| Mutual funds (assets managed)(2) | 16.7%  | 2    |
| Credit card accounts             | 25.8%  | 1    |
| Checking accounts(3)             | 24.9%  | 1    |
| Branches(4)                      | 18.7%  | 2    |

Source: SBIF

(1) Excludes interbank loans.

(2) Source: Asociación de Fondos Mutuos de Chile.

(3) According to latest data available as of October 2011.

(4) Excludes special-service payment centers.

The following tables set out certain statistics comparing our market position to that of our peer group, defined as the five largest banks in Chile in terms of total loans market share as of December 31, 2011.

## Loans

As of December 31, 2011, our loan portfolio was the second largest among Chilean banks. Our loan portfolio on a stand-alone basis represented 19.7% of the market for loans in the Chilean financial system at such date. The following table sets forth our and our peer group's market shares in terms of loans at the dates indicated.

| Loans (1)                      | As of December 31, 2011 |              |       | Market Share |  |
|--------------------------------|-------------------------|--------------|-------|--------------|--|
|                                | Ch\$ million            | US\$ million |       |              |  |
| Santander Chile                | 17,347,094              | 33,337       | 19.7  | %            |  |
| Banco de Chile                 | 17,377,793              | 33,396       | 19.8  | %            |  |
| Banco del Estado               | 12,587,222              | 24,190       | 14.3  | %            |  |
| Banco de Crédito e Inversiones | 11,377,851              | 21,866       | 12.9  | %            |  |
| Corpbanca                      | 6,814,445               | 13,096       | 7.7   | %            |  |
| BBVA, Chile                    | 6,139,803               | 11,799       | 7.0   | %            |  |
| Others                         | 16,302,292              | 31,329       | 18.6  | %            |  |
| Chilean financial system       | 87,946,500              | 169,013      | 100.0 | %            |  |

Source: SBIF

(1) Excludes interbank loans.



Table of Contents

## Deposits

On a stand-alone basis, we had a 17.4% market share in deposits, ranking third among banks in Chile at December 31, 2011. Deposit market share is based on total time and demand deposits at the respective dates. The following table sets forth our and our peer group's market shares in terms of deposits at the dates indicated.

|                                | As of December 31, 2011 |              |              |   |
|--------------------------------|-------------------------|--------------|--------------|---|
|                                | Ch\$ million            | US\$ million | Market Share |   |
| Deposits                       |                         |              |              |   |
| Santander Chile                | 13,334,929              | 25,627       | 17.4         | % |
| Banco del Estado               | 14,206,667              | 27,302       | 18.6         | % |
| Banco de Chile                 | 14,177,750              | 27,247       | 18.5         | % |
| Banco de Crédito e Inversiones | 9,921,534               | 19,067       | 13.0         | % |
| BBVA, Chile                    | 4,956,864               | 9,526        | 6.5          | % |
| Corpbanca                      | 5,507,098               | 10,583       | 7.2          | % |
| Others                         | 14,439,410              | 27,749       | 18.8         | % |
| Chilean financial system       | 76,544,252              | 147,101      | 100.0        | % |

Source: SBIF

## Total equity

With Ch\$2,035,023 million (US\$3,911 million) in equity in local Chilean Bank GAAP at December 31, 2011, we were the largest commercial bank in Chile in terms of shareholders' equity. The following table sets forth our and our peer group's shareholders' equity at December 31, 2011.

|                                | As of December 31, 2011 |              |              |   |
|--------------------------------|-------------------------|--------------|--------------|---|
|                                | Ch\$ million            | US\$ million | Market Share |   |
| Total Equity                   |                         |              |              |   |
| Santander Chile                | 2,035,023               | 3,911        | 20.7         | % |
| Banco de Chile                 | 1,739,175               | 3,342        | 17.7         | % |
| Banco del Estado               | 1,028,153               | 1,976        | 10.5         | % |
| Banco de Crédito e Inversiones | 1,222,049               | 2,349        | 12.5         | % |
| Corpbanca                      | 729,212                 | 1,401        | 7.4          | % |
| BBVA, Chile                    | 542,648                 | 1,043        | 5.5          | % |
| Others                         | 2,517,441               | 4,838        | 25.7         | % |
| Chilean financial system       | 9,813,701               | 18,860       | 100.0        | % |

Source: SBIF. Information according to local Chilean Bank GAAP.

## Efficiency

As of December 31, 2011, we were the most efficient bank in our peer group. The following table sets forth our and our peer group's efficiency ratio (defined as operating expenses as a percentage of operating revenue, which is the aggregate of net interest income, fees and income from services (net), net gains from mark-to-market and trading, exchange differences (net) and other operating income (net)) in 2011.

|                  |                       |
|------------------|-----------------------|
| Efficiency ratio | As of<br>December 31, |
|------------------|-----------------------|



|                                | 2011<br>% |
|--------------------------------|-----------|
| Santander Chile                | 37.4%     |
| Banco de Chile                 | 47.7%     |
| Banco del Estado               | 60.6%     |
| Banco de Crédito e Inversiones | 44.9%     |
| BBVA, Chile                    | 50.3%     |
| Corpbanca                      | 41.2%     |
| Chilean financial system       | 47.6%     |

Source: SBIF. Information according to local Chilean Bank GAAP.

Table of Contents

## Net income for the period attributable to shareholders

In 2011, we were the largest bank in Chile in terms of net income attributable to shareholders of Ch\$435,084 million (US\$836 million) measured under Chilean Bank GAAP. The following table sets forth our and our peer group's net income at December 31, 2011.

|                                | As of December 31, 2011 |                 |                 |   |
|--------------------------------|-------------------------|-----------------|-----------------|---|
|                                | Ch\$<br>million         | US\$<br>million | Market<br>Share |   |
| Net income for the period (1)  |                         |                 |                 |   |
| Santander Chile                | 435,084                 | 836             | 25.6            | % |
| Banco de Chile                 | 428,805                 | 824             | 25.3            | % |
| Banco de Crédito e Inversiones | 261,269                 | 502             | 15.4            | % |
| Corpbanca                      | 122,849                 | 236             | 7.2             | % |
| BBVA, Chile                    | 74,343                  | 143             | 4.4             | % |
| Banco del Estado               | 89,655                  | 172             | 5.3             | % |
| Others                         | 285,529                 | 549             | 16.8            | % |
| Chilean financial system       | 1,697,534               | 3,262           | 100.0           | % |

Source: SBIF.

(1) Net income before non-controlling interest.

## Return on equity

As of December 31, 2011, we were the second most profitable bank in our peer group (as measured by return on period-end equity under Chilean Bank GAAP) and the most capitalized bank as measured by the BIS ratio. The following table sets forth our and our peer group's return on average equity and BIS ratio at the latest available date.

|                                | Return on equity<br>as of December 31, 2011 | BIS Ratio as of<br>December 31, 2011 |
|--------------------------------|---|--------------------------------------|
| Santander Chile                | 21.6%                                       | 14.7%                                |
| Banco de Chile                 | 24.7%                                       | 12.9%                                |
| Banco del Estado               | 9.8%  | 12.6%                                |
| Banco de Crédito e Inversiones | 21.4%                                       | 13.9%                                |
| BBVA, Chile                    | 13.7%                                       | 11.7%                                |
| Corpbanca                      | 16.6%                                       | 14.5%                                |
| Chilean Financial System       | 17.4%                                       | 13.9%                                |

Source: SBIF, except Santander Chile. Calculated by dividing annual net income by period end equity, according to local bank GAAP.

## Asset Quality

As of December 31, 2011, we had the second highest non-performing loan to loan ratio in our peer group. The following table sets forth our and our peer group's non-performing loan ratio as defined by the SBIF at the dates indicated.

Non-performing loans / total

|                                | loans (1) as of December 31, 2011 |
|--------------------------------|-----------------------------------|
| Santander Chile                | 2.95                              |
| Banco de Chile                 | 1.01                              |
| Banco del Estado               | 4.16                              |
| Banco de Crédito e Inversiones | 2.15                              |
| BBVA, Chile                    | 1.88                              |
| Corpbanca                      | 1.57                              |
| Chilean financial system       | 2.32                              |

(1) Non-performing loans divided by total loans excluding interbank loans.

Source: SBIF

## Table of Contents

### Regulation and Supervision

#### General

In Chile, only banks may maintain checking accounts for their customers, conduct foreign trade operations, and together with non-banking financial institutions, accept time deposits. The principal authorities that regulate financial institutions in Chile are the Superintendency of Banks and the Central Bank. Chilean banks are primarily subject to the General Banking Law and secondarily, to the extent not inconsistent with this statute, the provisions of the Chilean Companies Law governing public corporations, except for certain provisions which are expressly excluded.

The modern Chilean banking system dates from 1925 and has been characterized by periods of substantial regulation and state intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in the adoption of a series of amendments to General Banking Law. That law, amended most recently in 2001, granted additional powers to banks, including general underwriting powers for new issues of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory and mutual fund services, administration of investment funds, factoring, securitization products and financial leasing services.

#### The Central Bank

The Central Bank is an autonomous legal entity created by the Chilean Constitution. It is subject to the Chilean Constitution and its own ley orgánica constitucional, or organic constitutional law. To the extent not inconsistent with the Chilean Constitution or the Central Bank's organic constitutional law, the Central Bank is also subject to private sector laws (but in no event is it subject to the laws applicable to the public sector). It is directed and administered by a Board of Directors composed of five members designated by the President of Chile, subject to the approval of the Senate.

The legal purpose of the Central Bank is to maintain the stability of the Chilean peso and the orderly functioning of Chile's internal and external payment system. The Central Bank's powers include setting reserve requirements, regulating the amount of money and credit in circulation, establishing regulations and guidelines regarding finance companies, foreign exchange (including the Formal Exchange Market) and banks' deposit-taking activities.

#### The Superintendency of Banks

Banks are supervised and controlled by the Superintendency of Banks, an independent Chilean governmental agency. The Superintendency of Banks authorizes the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements applicable to banks and financial companies. Furthermore, in cases of noncompliance with such legal and regulatory requirements, the Superintendency of Banks has the ability to impose sanctions. In extreme cases, it can appoint, with the prior approval of the Board of Directors of the Central Bank, a provisional administrator to manage a bank. It must also approve any amendment to a bank's by-laws or any increase in its capital.

The Superintendency of Banks examines all banks from time to time, generally at least once a year. Banks are also required to submit their financial statements monthly to the Superintendency of Banks, and a bank's financial statements are published at least four times a year in a newspaper with countrywide coverage. In addition, banks are required to provide extensive information regarding their operations at various periodic intervals to the Superintendency of Banks. A bank's annual financial statements and the opinion of its independent auditors must also be submitted to the Superintendency of Banks.

Any person wishing to acquire, directly or indirectly, 10.0% or more of the share capital of a bank must obtain the prior approval of the Superintendency of Banks. Absent such approval, the acquiror of shares so acquired will not have the right to vote. The Superintendency of Banks may only refuse to grant its approval, based on specific grounds set forth in the General Banking Law.

## Table of Contents

According to Article 35bis of the General Banking Law, the prior authorization of the Superintendency of Banks is required for:

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a banks' assets and liabilities by another bank;
- the control by the same person, or controlling group, of two or more banks; or
- a substantial increase in the existing control of a bank by a controlling shareholder of that bank.

Such prior authorization is required solely when the acquiring bank or the resulting group of banks would own a significant market share in loans, defined by the Superintendency of Banks to be more than 15.0% of all loans in the Chilean banking system. The intended purchase, merger or expansion may be denied by the Superintendency of Banks; or, if the acquiring bank or resulting group would own a market share in loans determined to be more than 20.0% of all loans in the Chilean banking system, the purchase, merger, or expansion may be conditioned on one or more of the following:

- that the bank or banks maintain regulatory capital higher than 8.0% and up to 14.0% of their risk-weighted assets;
- that the technical reserve established in Article 65 of the General Banking Law be applicable when deposits exceed one and a half times the resulting bank's paid-in capital and reserves; or
- that the margin for interbank loans be reduced to 20.0% of the resulting bank's regulatory capital.

If the acquiring bank or resulting group would own a market share in loans determined by the Superintendency of Banks to be more than 15% but less than 20%, the authorization will be conditioned on the bank or banks maintaining a regulatory capital not lower than 10% of their risks-weighted assets for the period specified by the Superintendency of Banks, which may not be less than one year. The calculation of the risk-weighted assets is based on a five-category risk classification system applied to a bank's assets that is based on the Basel Committee recommendations.

Pursuant to the regulations of the Superintendency of Banks, the following ownership disclosures are required:

- a bank is required to inform the Superintendency of Banks of the identity of any person owning, directly or indirectly, 5.0% or more of such banks' shares;
- holders of ADSs must disclose to the Depositary the identity of beneficial owners of ADSs registered under such holders' names;
- the Depositary is required to notify the bank as to the identity of beneficial owners of ADSs which such Depositary has registered and the bank, in turn, is required to notify the Superintendency of Banks as to the identity of the beneficial owners of the ADSs representing 5.0% or more of such banks' shares; and
- bank shareholders who individually hold 10.0% or more of a bank's capital stock and who are controlling shareholders must periodically inform the Superintendency of Banks of their financial condition.

## Limitations on Types of Activities

Chilean banks can only conduct those activities allowed by the General Banking Law: making loans, accepting deposits and, subject to limitations, making investments and performing financial services. Investments are restricted to real estate for the bank's own use, gold, foreign exchange and debt securities. Through subsidiaries, banks may also engage in other specific financial service activities such as securities brokerage services, equity investments, securities, mutual fund management, investment fund management, financial advisory and leasing activities. Subject to specific limitations and the prior approval of the Superintendency of Banks and the Central Bank, Chilean banks may own majority or non-controlling interests in foreign banks.

## Table of Contents

Since June 1, 2002, Chilean banks are allowed to offer a new checking account product that pays interest. The Superintendency of Banks also stated that these accounts may be subject to minimum balance limits and different interest rates depending on average balances held in the account and that banks may also charge fees for the use of this new product. For banks with a solvency score of less than A the Central Bank has also imposed additional caps to the interest rate that can be paid.

On June 5, 2007, pursuant to Law 20.190, new regulations became effective authorizing banks to enter into transactions involving a wider range of derivatives, such as futures, options, swaps, forwards and other derivative instruments or contracts subject to specific limitations established by the Central Bank of Chile. Previously, banks were able to enter into transactions involving derivatives, but subject to more restrictive guidelines.

### Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits and savings accounts held by natural persons with a maximum value of UF120 per person (Ch\$2,675,284 or US\$5,141 as of December 31, 2011) per calendar year in the entire financial system.

### Reserve Requirements

Deposits are subject to a reserve requirement of 9.0% for demand deposits and 3.6% for time deposits (with terms of less than one year). For purposes of calculating the reserve obligation, banks are authorized to deduct daily from their foreign currency denominated liabilities, the balance in foreign currency of certain loans and financial investments held outside of Chile, the most relevant of which include:

- cash clearance account, which should be deducted from demand deposit for calculating reserve requirement;
- certain payment orders issued by pension providers; and
- the amount set aside for “technical reserve” (as described below), which can be deducted from reserve requirement.

The Central Bank has statutory authority to require banks to maintain reserves of up to an average of 40.0% for demand deposits and up to 20.0% for time deposits (irrespective, in each case, of the currency in which they are denominated) to implement monetary policy. In addition, to the extent that the aggregate amount of the following types of liabilities exceeds 2.5 times the amount of a bank’s regulatory capital, a bank must maintain a 100% “technical reserve” against them: demand deposits, deposits in checking accounts, or obligations payable on sight incurred in the ordinary course of business, and in general all deposits unconditionally payable immediately.

### Minimum Capital

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch\$17,835 million or US\$34.3 million as of December 31, 2011) of paid-in capital and reserves, regulatory capital of at least 8% of its risk weighted assets, net of required allowances, and paid in capital and reserves of at least 3% of its total assets, net of required allowances.

Regulatory capital is defined as the aggregate of:

- a bank’s paid-in capital and reserves, excluding capital attributable to subsidiaries and foreign branches or capital básico;



- its subordinated bonds, valued at their placement price (but decreasing by 20.0% for each year during the period commencing six years prior to maturity), for an amount up to 50.0% of its basic capital; and
  - its voluntary allowances for loan losses for an amount of up to 1.25% of risk weighted-assets.

## Table of Contents

### Capital Adequacy Requirements

According to the General Banking Law, each bank should have regulatory capital of at least 8.0% of its risk-weighted assets, net of required allowances. The calculation of risk weighted assets is based on a five-category risk classification system for bank assets that is based on the Basel Committee recommendations. In 2009, the Superintendency of Banks postponed until 2012 the application of the third pillar of Basel II in Chile, which includes the implementation of capital limits with market risk and operational risk-weighted assets. These changes must be approved by Congress as it involves a modification to the General Banking Law.

Banks should also have capital básico, or basic capital, of at least 3.0% of their total assets, net of allowances. Basic capital is defined as including shareholders' equity.

Within the scope of Basel II in Chile, further changes in regulation may occur. See "Item 3: D. Risk Factors—Risks Relating to Chile—Banking regulations may restrict our operations and thereby adversely affect our financial condition and results of operations."

### Lending Limits

Under the General Banking Law, Chilean banks are subject to certain lending limits, including the following material limits:

- A bank may not extend to any entity or individual (or any one group of related entities), except for another financial institution, directly or indirectly, unsecured credit in an amount that exceeds 10.0% of the bank's regulatory capital, or in an amount that exceeds 30.0% of its regulatory capital if the excess over 10.0% is secured by certain assets with a value equal to or higher than such excess. These limits were raised from 5.0% and 25.0%, respectively, in 2007 by the Reformas al Mercado de Capitales II (also known as MK2). In the case of financing infrastructure projects built by government concession, the 10.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;
- a bank may not extend loans to another financial institution subject to the General Banking Law in an aggregate amount exceeding 30.0% of its regulatory capital;
- a bank may not directly or indirectly grant a loan whose purpose is to allow an individual or entity to acquire shares of the lender bank;
- a bank may not lend, directly or indirectly, to a director or any other person who has the power to act on behalf of the bank; and
  - a bank may not grant loans to related parties (including holders of more than 1.0% of its shares) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations described in the first bullet point above. In addition, the aggregate amount of loans to related parties may not exceed a bank's regulatory capital.

In addition, the General Banking Law limits the aggregate amount of loans that a bank may grant to its employees to 1.5% of its regulatory capital, and provides that no individual employee may receive loans in excess of 10.0% of this 1.5% limit. Notwithstanding these limitations, a bank may grant to each of its employees a single residential mortgage loan for personal use once during such employee's term of employment.

Allowance for Loan Losses

Chilean banks are required to provide to the Superintendency of Banks detailed information regarding their loan portfolio on a monthly basis. The Superintendency of Banks examines and evaluates each financial institution's credit management process, including its compliance with the loan classification guidelines. Banks are classified into four categories: 1, 2, 3 and 4. Each bank's category depends on the models and methods used by the bank to classify its loan portfolio, as determined by the Superintendency of Banks. Category 1 banks are those banks whose

## Table of Contents

methods and models are satisfactory to the Superintendency of Banks. Category 1 banks will be entitled to continue using the same methods and models they currently have in place. A bank classified as a category 2 bank will have to maintain the minimum levels of reserves established by the Superintendency of Banks while its Board of Directors will be made aware of the problems detected by the Superintendency of Banks and required to take steps to correct them. Banks classified as categories 3 and 4 will have to maintain the minimum levels of reserves established by the Superintendency of Banks until they are authorized by the Superintendency of Banks to do otherwise. Banco Santander Chile is categorized as a “Category 1” bank.

A detailed description of the models established for determining loan loss allowances is set forth in “Item 5: F. Selected Statistical Information—Classification of Loan Portfolio” and in Note 1 of our Audited Consolidated Financial Statements.

## Capital Markets

Under the General Banking Law, banks in Chile may purchase, sell, place, underwrite and act as paying agents with respect to certain debt securities. Likewise, banks in Chile may place and underwrite certain equity securities. Bank subsidiaries may also engage in debt placement and dealing, equity issuance advice and securities brokerage, as well as in financial leasing, mutual fund and investment fund administration, investment advisory services and merger and acquisition services. These subsidiaries are regulated by the Superintendency of Banks and, in some cases, also by the Superintendency of Securities and Insurance, the regulator of the Chilean securities market, open-stock corporations and insurance companies.

## Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its Board of Directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the Board of Directors is unable to do so, it must call a special shareholders’ meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the term and in the manner agreed to at the meeting, or if the Superintendency of Banks does not approve the Board of Directors’ proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the Board of Directors and from making any further investments in any instrument other than in instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations, or if a bank is under provisional administration of the Superintendency of Banks, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the Superintendency of Banks, but need not be submitted to the borrowing bank’s shareholders for their approval. In any event, a creditor bank cannot grant interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank’s regulatory capital. The Board of Directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, condone debts or take other measures for the payment of the debts. If the Board of Directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of regulatory capital to risk-weighted assets not to be lower than 12.0%. If a bank fails to pay an obligation, it must notify the Superintendency of Banks, which shall determine if the bank is solvent.

## Dissolution and Liquidation of Banks

The Superintendency of Banks may establish that a bank should be liquidated for the benefit of its depositors or other creditors when such bank does not have the necessary solvency to continue its operations. In such case, the

Superintendency of Banks must revoke a bank's authorization to exist and order its mandatory liquidation, subject to agreement by the Central Bank. The Superintendency of Banks must also revoke a bank's authorization if the reorganization plan of such bank has been rejected twice. The resolution by the Superintendency of Banks must state the reason for ordering the liquidation and must name a liquidator, unless the Chilean Superintendency of Banks assumes this responsibility. When a liquidation is declared, all checking accounts and other demand deposits received in the ordinary course of business, are required to be paid by using existing funds of the bank, its deposits with the Central Bank or its investments in instruments that represent its reserves. If these funds are insufficient to

Table of Contents

pay these obligations, the liquidator may seize the rest of the bank's assets, as needed. If necessary and in specified circumstances, the Central Bank will lend the bank the funds necessary to pay these obligations. Any such loans are preferential to any claims of other creditors of the liquidated bank.

## Obligations Denominated in Foreign Currencies

Santander-Chile must also comply with various regulatory and internal limits regarding exposure to movements in foreign exchange rates (See "Item 11: Quantitative and Qualitative Disclosures About Market Risk").

## Investments in Foreign Securities

Under current Chilean banking regulations, banks in Chile may grant loans to foreign individuals and entities and invest in certain securities of foreign issuers. Chilean banks may only invest in equity securities of foreign banks and certain other foreign companies which may be affiliates of the bank or which would be complementary to the bank's business if such companies were incorporated in Chile. Banks in Chile may also invest in debt securities traded in formal secondary markets. Such debt securities must be (1) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (2) bonds issued by foreign companies. A bank may invest up to 5% of its regulatory capital in securities of foreign issuers. Such securities must have a minimum rating as follows.

Table 1

| Rating Agency       | Short Term | Long Term |
|---------------------|------------|-----------|
| Moody's             | P2         | Baa3      |
| Standard and Poor's | A3         | BBB-      |
| Fitch               | F2         | BBB-      |
| Duff & Phelps       | D2         | BBB-      |

In the event that the sum of the investments in foreign securities which have a: (i) rating that is below that indicated in Table 1 above, but is equal to or exceeds the ratings mentioned in the Table 2 below; and (ii) loans granted to other entities resident abroad exceed 20% (and 30% for banks with a BIS ratio equal or exceeding 10%) of the regulatory capital of such bank, the excess is subject to a mandatory reserve of 100%.

Table 2

| Rating Agency       | Short Term | Long Term |
|---------------------|------------|-----------|
| Moody's             | P2         | Ba3       |
| Standard and Poor's | A3         | BB-       |
| Fitch               | F2         | BB-       |
| Duff & Phelps       | D2         | BB-       |

In addition, banks may invest in foreign securities for an additional amount equal to a 70% of their regulatory capital which ratings are equal or exceeds those mentioned in the following Table 3. This limit constitutes an additional margin and it is not subject to the 100% mandatory reserve.

Additionally, a Chilean Bank may invest in foreign securities whose rating is equal to or exceeds those mentioned in the following Table 3 in: (i) term deposits with foreign banks; and (ii) securities issued or guaranteed by sovereign states or their central banks or those securities issued or guaranteed by foreign entities within the Chilean State; such investment will be subject to the limits by issuer up to 30% and 50%, respectively, of the regulatory capital of the

Chilean bank that makes the investment.

Table of Contents

Table 3

| Rating Agency       | Short Term | Long Term |
|---------------------|------------|-----------|
| Moody's             | P1         | Aa3       |
| Standard and Poor's | A1+        | AA-       |
| Fitch               | F1+        | AA-       |
| Duff & Phelps       | D1+        | AA-       |

Chilean banks may invest in securities without ratings issued or guaranteed by sovereign states or their central banks and structured notes issued by investment banks with a rating equal to or above that in the immediately preceding Table 3, which return is linked with a corporate or sovereign note with a rating equal to or above that in Table 2.

Subject to specific conditions, a bank may grant loans in U.S. dollars to subsidiaries or branches of Chilean companies located abroad, to companies listed on foreign stock exchanges authorized by the Central Bank and, in general, to individuals and entities domiciled abroad, as long as the Central Bank is kept informed of such activities.

#### New Regulations for the Financial Markets

New regulations governing the Chilean capital markets are being discussed. Chile's Congress passed a new bill on June 1, 2010 that aims to increase trading in Latin America's third-biggest securities market by allowing trading of new instruments such as exchange-traded funds and covered bonds. The Chamber of Deputies, Chile's lower house, voted in favor of the bill, which also seeks to ease credit access for consumers and small companies. The bill was proposed by former Finance Minister Andres Velasco in September. His successor Felipe Larrain already plans another package of reforms to expand the use of the Chilean peso and simplify taxes on fixed-income securities. The measures passed today will make it easier for foreign banks to offer loans in Chile, cut securitization costs and allow banks to sell bonds backed by mortgages. The new law will also offer tax breaks to foreign investors in Chilean mutual funds. The bill also aims to reduce the cost of setting up mutual funds and create an exchange-traded funds industry by modifying mutual fund rules to allow secondary trading and enable pension fund to invest in them. The new law also removes limits on employing non-Chileans that may have prevented overseas fund managers from opening offices in Chile. It also strikes down a law that prevented foreign banks from advertising loans. The new class of bonds, known as "mortgage bonds," will be debt backed by the company that sells them as well as by a pool of mortgages, as in European covered bonds. Unlike covered bonds, they will not be limited to banks.

#### U.S. Anti-Money Laundering, Anti-Terrorist Financing, and Foreign Corrupt Practices Act Regulations

The Bank, as a foreign private issuer whose securities are registered under the U.S. Securities Exchange Act of 1934, is subject to the U.S. Foreign Corrupt Practices Act (the "FCPA"). The FCPA generally prohibits such issuers and their directors, officers, employees and agents from using any means or instrumentality of U.S. interstate commerce in furtherance of any offer or payment of money to any foreign official or political party for the purpose of influencing a decision of such person in order to obtain or retain business. It also requires that the issuer maintain books and records and a system of internal accounting controls sufficient to provide reasonable assurance that accountability of assets is maintained and accurate financial statements can be prepared. Penalties, fines and imprisonment of the Bank's officers and/or directors can be imposed for violations of the FCPA.

Furthermore, the Bank is subject to a variety of U.S. anti-money laundering and anti-terrorist financing laws and regulations, such as the Bank Secrecy Act of 1970, as amended, and the USA PATRIOT ACT of 2001, as amended, and a violation of such laws and regulations may result in substantial penalties, fines and imprisonment of the Bank's officers and/or directors.



D. Property, Plant and Equipment

We are domiciled in Chile and own our principal executive offices located at Bandera 140, Santiago, Chile. We also own ten other buildings in the vicinity of our headquarters and we rent five other buildings. At December 31, 2011, we owned the locations at which 30.7% of our branches were located. The remaining branches operate at rented locations. We believe that our existing physical facilities are adequate for our needs.

Table of Contents

| Main properties as of December 31, 2011 | Number |
|---|--------|
| Central Offices                         |        |
| Own                                     | 7      |
| Rented                                  | 5      |
| Total                                   | 12     |
| Branches (1)                            |        |
| Own                                     | 134    |
| Rented                                  | 302    |
| Total                                   | 436    |
| Other property (2)                      |        |
| Own                                     | 59     |
| Rented                                  | 6      |
| Total                                   | 65     |

(1) Some branches are located inside central office buildings and other properties. Including these branches the total number of branches is 499. Special payment centers are included in Other property.

(2) Consists mainly of parking lots, mini-branches and property owned by our subsidiaries.

The following table sets forth a summary of the main computer hardware and other systems-equipment that we own.

| Category    | Brand         | Application  |
|-------------|---------------|--|
| Mainframe   | IBM           | Back-end, Core-System Altair, Payment means and foreign trade. |
| Midrange    | IBM           | Interconnections between Mainframe and mid-range               |
| Midrange    | SUN/Unix      | Interconnections applications Credit & debit cards             |
|             | SUN/UNIX      | Treasury, MIS, Work Flow, Accounting                           |
| Midrange    | IBM           | WEB  |
| Desktop     | IBM/HP/Lenovo | Platform applications  |
| Call Center | Avaya         | Telephone system   |
|             | Genesys       | Integration Voice/data   |
|             | Nice          | Voice recorder   |
|             | Periphonics   | IVR  |

The main software systems that we use are:

| Category        | Product                     | Origin    |
|-----------------|-----------------------------|-----------|
| Core-System     | ALTAMIRA                    | Accenture |
| Data base       | DB2                         | IBM       |
| Data base       | Oracle                      | Oracle    |
| Data base       | SQL Server                  | Microsoft |
| WEB Service     | Internet Information Server | Microsoft |
| Message Service | MQSeries                    | IBM       |
| Transformation  | MQIntegrator                | IBM       |

ITEM 4A. UNRESOLVED STAFF COMMENTS

As of the date of the filing of this Annual Report on 20-F, we do not have any unresolved comments from the U.S. Securities and Exchange Commission.

41

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Table of Contents

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Accounting Standards Applied in 2011

Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos and prepares its consolidated financial statements in accordance with IFRS as issued by IASB, in order to comply with requirements of the SEC. As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with Chilean Bank GAAP. The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions. Therefore, our locally filed consolidated financial statements have been adjusted according to International Financial Reporting Standards. Chilean banks are subject to the regulatory supervision of the SBIF under the provisions of the General Banking Law. The General Banking Law establishes that in accordance with legal regulations, Chilean banks must abide by the accounting standards stipulated by the SBIF.

Therefore, as stated above, in order to comply with requirements of the SEC, the Bank has prepared the consolidated financial statements included in this Annual Report under IFRS-IASB. Santander-Chile's transition date to IFRS was January 1, 2008. The Bank prepared its opening balance under these standards as of such date. Consequently, the date of adoption of the new standards by the Bank and its subsidiaries was January 1, 2009.

The notes to the audited consolidated financial statements contain information in addition to that presented in the Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows. These notes provide a narrative description of such statements.

Differences between IFRS and Chilean Bank GAAP

As stated above, Chilean Bank GAAP, as prescribed by "Compendium of Accounting Standards" (the "Compendium"), differs in certain respects with IFRS. The main differences that should be considered by an investor are the following:

Suspension of Income Recognition on Accrual Basis

In accordance with the Compendium, financial institutions must suspend recognition of income on an accrual basis in their statements of income for certain loans included in the impaired portfolio. IFRS does not allow the suspension of accrual of interest on financial assets for which an impairment loss has been determined. We do not believe that this difference materially impacts our financial statements.

Charge-offs and Accounts Receivable

The Compendium requires companies to establish deadlines for the charge-off of loans and accounts receivables. IFRS does not require any such deadline for charge-offs. A charge-off due to impairment would be incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition. This is measured on an "incurred" basis. We do not believe that this difference materially impacts our financial statements.

Assets Received in Lieu of Payment

The Compendium requires that the initial value of assets received in lieu of payment be the value agreed with a debtor as a result of the loan settlement or the value awarded in an auction, as applicable. These assets are required to be written off one year after their acquisition, if the assets have not been previously disposed of.

IFRS requires that assets received in lieu of payment be initially accounted for at fair value. Subsequently, asset valuation depends on the classification provided by the entity for that type of asset. No deadline is established for charging-off an asset. The restatement of gains and losses from repossessed assets would have an impact on the restatement of financial statements under full IFRS guidelines although we would not expect it to be material.

## Table of Contents

### Goodwill and Intangible Assets

With respect to goodwill and intangible assets, the Compendium provides that:

- The value of “goodwill” and other depreciable intangible assets will be supported by two reports issued by specialists independent from the (i) bank, (ii) the bank’s external auditors, and (iii) each other.
- For assets acquired before December 31, 2008, “goodwill” will be determined according to the Compendium, and will be amortized according to the original amortization schedule for such assets.
- Goodwill arising from acquisitions before the date of transition to new Chilean Bank GAAP in January 2009 will be determined based on the previously used accounting criteria.

With respect to goodwill and intangible assets, IFRS provides that:

- The use of independent experts’ valuations is not mandatory.
- Beginning with the first full year in which IFRS applies, an entity must discontinue goodwill depreciation and is required to evaluate goodwill for impairment, in compliance with IAS 36.
- It is possible to (i) choose a retroactive application of IFRS to goodwill generated before the date of the transition to IFRS, or (ii) adopt an optional exemption to record the balance of goodwill at December 31, 2008 as an attributed cost.

Since we have no goodwill, we do not believe that this difference impacts our financial statements.

### Fair Value Option with Respect to Financial Assets and Liabilities

According to the Compendium, banks are not allowed to value assets or liabilities at their fair value in place of the depreciated cost method.

IFRS allows an entity to value a financial asset or liability (or a group of financial assets or liabilities, or both), on the official recognition date, at fair value with changes in fair value to be recognized in its financial statements. Once this option has been made, it is irrevocable. The fair value option is not applicable to investments in capital instruments without a market price available in an active market, and thus whose fair value cannot be estimated in a reliable way.

We do not believe that this difference impacts our financial statements because this accounting treatment is optional.

### Loan loss allowances

On December 29, 2009, the SBIF issued Circular No. 3,489 which incorporates changes to several provisions of the SBIF Compendium of Accounting Standards. Among other changes it states that effective January 2010, companies must complement the basis on which insolvency provisions related to contingent operations are determined, including unrestricted lines of credit, other contingent loans, and other loan commitments. In addition, companies should also apply the changes in risk exposure applicable to contingent loans, found in Chapter B-3 of the SBIF Compendium of Accounting Standards. According to specific instructions from the SBIF in Letter to Management No. 10 dated December 21, 2010, the SBIF stated that it will not be necessary to calculate the adjustment retrospectively for 2009.

On June 10, 2010, the SBIF issued Circular No. 3,502 which among other things requires that Banks maintain a 0.5% minimum provision for the non-impaired part of the loan portfolio analyzed on an individual basis. In addition, on December 21, 2010 in the Letter to Management No. 9, the SBIF specified that the accounting treatment for the effects originating from the application of this minimum provision is to record it in the income for the period.

On August 12, 2010, Circular No. 3,503 was issued which modified how we must classify loans included in Chapters B-1, B-2, B-3 and C1 of the Compendium of Accounting Standards, which are loans analyzed on an

## Table of Contents

individual basis. Such modifications were effective from January 1, 2011, except for those modifications relating to additional provisions included in the Letter to Management No. 9 relating to Chapter B-1 which took effect in 2010. As a supplement to the Circular, the Letter to Management No. 9 was issued on December 21, 2010 which specifies that adjustments resulting from the adoption of these modifications starting on January 1, 2011 could be recorded during the first quarter of 2011; however, entities may anticipate recognition of the impact of these adjustments, in whole or in part, in 2010. As of December 31, 2010, we have chosen to recognize the entire provision adjustments aforementioned.

Considering our incurred loss approach for IFRS purposes by using our internally developed models, all differences with the SBIF models have been reversed in respect to our Consolidated Financial Statements prepared under IFRS as issued by the IASB.

Santander-Chile's transition date to IFRS was January 1, 2008. The Bank prepared its opening balance under these standards as of such date. Consequently, the date of adoption of the new standards by the Bank and its subsidiaries was January 1, 2009.

The notes to the audited consolidated financial statements contain information in addition to that presented in the Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows. These notes provide a narrative description of such statements.

### B. Other Critical Accounting Policies

Our consolidated financial statements include various estimates and assumptions, including but not limited to the adequacy of the allowance for loan losses, estimates of the fair value of certain financial instruments and the selection of useful lives of certain assets.

We evaluate these estimates and assumptions on an ongoing basis. Management bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances. Actual results in future periods could differ from those estimates and assumptions, and if these differences were significant enough, our reported results of operations would be affected materially. We believe that the following are the more critical judgment areas or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations.

#### Allowance for loan losses

The Bank maintains loan loss allowances in amounts determined in accordance with its internal models. These models for rating and evaluating credit risk are approved by the Bank's Board of Directors. Our credit scoring system considers both the length of time by which the loan is overdue and the borrower's risk profile, which includes the borrower's overall indebtedness and credit behavior under the borrower's obligations to third parties. (See "Item 5: F. Selected Statistical Information—Loan Portfolio and Item 5: F. Selected Statistical Information—Classification of Loan Portfolio").

Our internal provisioning models use statistical models that take into account a borrower's credit history and indebtedness levels. Group ratings that determine loan loss allowances based only on non-performance are being phased out and replaced by statistical scoring systems. Large commercial loans are rated on an individual basis. For large commercial loans, leasing and factoring, we assign a risk category level to each borrower and its respective loans. We consider the following risk factors in classifying a borrower's risk category: (i) the borrower's industry or sector, (ii) owners or managers, (iii) financial condition, (iv) payment ability and (v) payment behavior. For a detailed



description of the models we use to determine loan loss allowances for commercial loans. See “Item 5: F. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio—Credit Approval: Loans approved on an individual basis.” Group assessment for loan loss allowances is applied for a large number of borrowers whose individual loan amounts are relatively insignificant. Currently, we use group analysis to determine loan loss allowances for certain types of loans, such as loans to small- and mid-sized companies and commercial loans to individuals. (See “Item 5: F. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio —Loans analyzed on a group basis—Small and mid-sized commercial loans”).

## Table of Contents

### Derivative activities

As of December 31, 2011, 2010, and 2009, derivatives are measured at fair value on the statement of financial position and the net unrealized gain (loss) on derivatives is classified as a separate line item within the income statement. Under IFRS, banks must mark-to-market derivatives. A derivative financial instrument held for trading purposes must be marked to market and the unrealized gain or loss recognized in the income statement. The Bank recognizes three kinds of hedge accounting: (i) cash flow hedges, (ii) fair value hedges and (iii) hedging of foreign net investments.

- When a cash flow hedge exists, the fair value movements on the part of the hedging instrument and the hedged item that is effective are recognized in equity as “valuation adjustments”. Any ineffective portion of the fair value movement on the hedging instrument and the hedged item is recognized in the income statement.
- When a fair value hedge exists, the fair value movements on the hedging instrument and the corresponding fair value movements on the hedged item are recognized in the income statement.
- When a hedge of net investment in a foreign operation exists, the fair value movements on the part of the hedging instrument and the hedged item that is effective are recognized in equity. Any ineffective portion of the fair value movement on the hedging instrument is recognized in the income statement.

### C. Operating Results

#### Chilean Economy

All of our operations and substantially all of our customers are located in Chile. Accordingly, our financial condition and results of operations are substantially dependent upon economic conditions prevailing in this country. In 2011, the Chilean economy grew approximately 6.0% compared to 5.2% in 2010 and a decrease of 1.7% in 2009.

According to the latest data available for the nine-month period ended September 30, 2011, internal demand increased 10.8%, private investment increased 17.2%, and private consumption increased 10.0%. Unemployment has also been decreasing. As of December 2011, the unemployment rate was 6.6%, compared to 7.15 in December 2010. Part of this growth can be explained by the strong rebound in economic activity compared to a weaker first half of 2010 that was negatively affected by the February 2010 earthquake. Going forward economic activity is expected to continue to increase, but possibly at a slower pace.

As a result of the economic recovery, the CPI and interest rates have been increasing. In the year ended December 31, 2011, CPI inflation reached 4.44%. CPI inflation in 2010 increased 2.97% compared to a 1.38% decrease in 2009. As a result of rising price levels and higher economic activity, interest rates also increased in 2011. The overnight interbank rate set by the Central Bank increased 200 basis points in the twelve month period ended December 31, 2011 to 5.25%. In January 2012, rates were cut 25 basis points to 5.0%.

The Chilean banking sector evolved in line with overall economic developments with an increase in the volume of loans. Total loans as of December 31, 2011 in the Chilean financial system were Ch\$87,946,500 million (US\$169.0 billion), an increase of 17.3% in the last year. Total customer deposits (defined as time deposits plus checking accounts) totaled Ch\$76,544,252 million (US\$147.1 billion) as of December 31, 2011, an increase of 17.8% in the last year. The non-performing loan ratio defined as in the Chilean banking industry decreased from 2.7% at year-end 2010 to 2.4% as of December 31, 2011.

#### Impact of Inflation

Our assets and liabilities are denominated in Chilean pesos, Unidades de Fomento (UF) and foreign currencies. The Bank no longer recognizes inflation accounting and has eliminated price-level restatement in line with IFRS, but inflation impacts our results of operations as some loan and deposit products are contracted in UF. The UF is revalued in monthly cycles. Each day in the period beginning on the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar

Table of Contents

month. One UF equaled Ch\$22,294.03 at December 31, 2011, Ch\$ 21,455.55 at December 31, 2010, and Ch\$20,942.88 at December 31, 2009. High levels of inflation in Chile could adversely affect the Chilean economy and could have an adverse effect on our business, financial condition and results of operations. Negative inflation rates also negatively impact our results. In 2011 CPI inflation was 4.44%, 2010, CPI inflation was at 3.0%, compared to a decline of 1.4% in 2009. There can be no assurance that Chilean inflation will not change significantly from the current level. Although we currently benefit from moderate levels of inflation, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation. In summary:

- UF-denominated assets and liabilities. In 2011, UF inflation was +3.9% compared to +2.5% in 2010 and -2.4% in 2009. The effect of any changes in the nominal peso value of our UF-denominated interest earning assets and interest bearing liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest income and expense, respectively. Our net interest income will be positively affected by an inflationary environment to the extent that our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected in a deflationary environment if our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be negatively affected by inflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. Our average UF-denominated interest earning assets exceeded our average UF-denominated interest bearing liabilities by Ch\$3,611,046 million, Ch\$3,171,140 million in 2010 and Ch\$2,689,614 million in 2009. See “Item 5: F. Selected Statistical Information Average Balance Sheets, Income Earned from Interest-Earning Assets and Interest Paid on Interest Bearing Liabilities.” In general, the Bank has more UF-denominated financial assets than UF-denominated financial liabilities. In the year-ended December 31, 2011, the interest earned on interest earning assets denominated in UF increased 30.8% compared to 2010 as a result of the larger gap between UF-denominated average interest-earning assets and UF-denominated average interest bearing liabilities and the increase in UF inflation. The interest paid on these liabilities increased 32.8% in 2011 compared to 2010 and reached Ch\$388,349 during the year-ended December 31, 2011.
- Inflation and interest rate hedge. A key component of our asset and liability policy is the management of interest rate risk. The Bank’s assets generally have a longer maturity than our liabilities. As the Bank’s mortgage portfolio grows, the maturity gap tends to rise as these loans, which are contracted in UF, have a longer maturity than the average maturity of our funding base. As most of our long term financial instruments and mortgage loans are contracted in UF and most of our deposits are in nominal pesos, the rise in mortgage lending increases the Bank’s exposure to inflation and to interest rate risk. The size of this gap is limited by internal and regulatory guidelines in order to avoid excessive potential losses due to strong shifts in interest rates (see “Item 11: Quantitative and Qualitative Disclosures About Market Risk”). In order to keep this duration gap below regulatory limits, the Bank issues long term bonds denominated in UF or interest rate swaps. The financial cost of the bonds and the efficient part of these hedges is recorded as net interest income. In 2011, the gain from the swaps taken in order to hedge mainly for inflation and interest rate risk totaled a loss of Ch\$58,775 million compared to a loss of Ch\$2,008 million in 2010 and a gain of Ch\$24,988 million in 2009.

| Inflation sensitive income         | As of December 31,            |           |          | % Change<br>2011/2010 | % Change<br>2010/2009 |
|------------------------------------|-------------------------------|-----------|----------|-----------------------|-----------------------|
|                                    | 2011                          | 2010      | 2009     |                       |                       |
|                                    | (In million of Chilean pesos) |           |          |                       |                       |
| Interest earned on UF assets(1)    | 703,286                       | 537,621   | 224,614  | 30.8                  | % 139.4               |
| Interest paid on UF liabilities(1) | (388,349)                     | (292,362) | (67,559) | 32.8                  | % 332.8               |
| Hedging results                    | (58,775)                      | (2,008)   | 24,988   | 2,827.0               | % –                   |

|                 |         |         |         |     |   |      |   |
|-----------------|---------|---------|---------|-----|---|------|---|
| <u>Net gain</u> | 256,162 | 243,251 | 182,043 | 5.3 | % | 33.6 | % |
|-----------------|---------|---------|---------|-----|---|------|---|

(1) Excludes results from hedging

46

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Table of Contents

- Peso-denominated assets and liabilities. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to changes to such prevailing rates varies. (See “Item 5: C. Operating Results—Interest Rates”). We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. (See “Item 11: Quantitative and Qualitative Disclosures About Market Risk”). The ratio of the average of such demand deposits and average shareholder’s equity to average interest-earning assets was 27.2%, 27.9% and 25.0% for the years ended December 31, 2011, 2010 and 2009, respectively.

## Interest Rates

Interest rates earned and paid on our assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, changes in short term interest rates set by the Central Bank and movements in long term real rates. The Central Bank manages short term interest rates based on its objectives of balancing low inflation and economic growth. Because our liabilities are generally re-priced sooner than our assets, changes in the rate of inflation or short term rates in the economy are reflected in the rates of interest paid by us on our liabilities before such changes are reflected in the rates of interest earned by us on our assets. Therefore, when short term interest rates fall, our net interest margin is positively impacted, but when short term rates increase, our interest margin is negatively affected. At the same time, our net interest margin tends to be adversely affected in the short term by a decrease in inflation rates since generally our UF-denominated assets exceed our UF-denominated liabilities. (See “Item 5: C. Operating Results—Impact of Inflation—Peso-denominated assets and liabilities”). An increase in long term rates has a positive effect on our net interest margin, because our interest earning assets generally have longer terms than our interest bearing liabilities. In addition, because our peso-denominated liabilities have relatively short re-pricing periods, they are generally more responsive to changes in inflation or short term rates than our UF-denominated liabilities. As a result, during periods when current inflation or expected inflation exceeds the previous period’s inflation, customers often switch funds from UF-denominated deposits to peso-denominated deposits, which generally bear higher interest rates, thereby adversely affecting our net interest margin.

## Foreign Exchange Fluctuations

The Chilean government’s economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. In 2011, the Chilean peso in relation to the U.S. dollar depreciated 11.3% compared to a 7.5% appreciation in 2010 and a 19.5% appreciation in 2009. (See “Item 3: A. Selected Financial Data—Exchange Rates”). A significant portion of our assets and liabilities are denominated in foreign currencies, principally the U.S. dollar, and we historically have maintained and may continue to maintain material gaps between the balances of such assets and liabilities. Our current strategy is not to maintain a significant difference between the balances of our assets and liabilities in foreign currencies. In 2011 and 2010, the Bank held more liabilities than assets in foreign currencies, mainly U.S dollars as a result of an ample supply of US\$ deposits from companies that receive export revenues, foreign correspondent bank loans and bonds issued abroad. This difference is usually hedged using forwards and cross-currency swaps. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar). The translation gain or loss over assets and liabilities (excluding derivatives held for trading) is included as foreign exchange transactions in the income statement. The translation and mark-to-market of foreign currency derivatives held for trading is recognized as a gain or loss in the net results from mark-to-market and trading.

The Bank also uses a sensitivity analysis with both internal limits and regulatory limits to seek to manage the potential loss in net interest income resulting from fluctuations of interest rates on U.S. dollar denominated assets and liabilities and a VaR model to limit foreign currency trading risk (see “Item 11: Quantitative and Qualitative Disclosures About Market Risk”).

Table of Contents

We also set an absolute limit on the size of Santander-Chile's consolidated net foreign currency trading position. At December 31, 2011, this was equal to US\$200 million. See "Item 11: Volume Limits." The limit on the size of the net foreign currency position is determined by the Asset and Liability Committee and is calculated and monitored by our Market Risk and Control Department.

The compositions of our assets, liabilities and equity at December 31, 2011, by currency are as follows:

|   | As of December 31, 2011, Ch\$ million |                  |                           |                  | Total             |
|---|---------------------------------------|------------------|---------------------------|------------------|-------------------|
|   | Ch\$(1)                               | UF               | Ch\$<br>linked to<br>US\$ | US\$             |                   |
| <b>Assets</b>                             |                                       |                  |                           |                  |                   |
| Cash and deposits                         | 1,837,088                             | –                | –                         | 956,613          | 2,793,701         |
| Unsettled transactions                    | 219,469                               | –                | –                         | 56,985           | 276,454           |
| Trading investments                       | 73,435                                | 336,328          | –                         | –                | 409,763           |
| Investments under agreements to resell    | 12,262                                | 666              | –                         | –                | 12,928            |
| Financial derivative contracts            | 1,601,896                             | –                | –                         | –                | 1,601,896         |
| Interbank loans                           | –                                     | –                | –                         | 87,677           | 87,677            |
| Loans and receivables from customers      | 6,561,443                             | 8,729,023        | 52,789                    | 1,515,382        | 16,858,637        |
| Available for sale investments            | 1,568,022                             | 81,651           | –                         | 11,638           | 1,661,311         |
| Investments held to maturity              | –                                     | –                | –                         | –                | –                 |
| Investments in other companies            | 8,728                                 | –                | –                         | –                | 8,728             |
| Intangible assets                         | 80,739                                | –                | –                         | –                | 80,739            |
| Property, plant and equipment             | 153,059                               | –                | –                         | –                | 153,059           |
| Current taxes                             | 37,253                                | –                | –                         | –                | 37,253            |
| Deferred taxes                            | 136,521                               | –                | –                         | –                | 136,521           |
| Other assets(2)                           | 301,385                               | 89,739           | 9,467                     | 149,735          | 550,326           |
| <b>Total assets</b>                       | <b>12,591,300</b>                     | <b>9,237,407</b> | <b>62,256</b>             | <b>2,778,030</b> | <b>24,668,993</b> |
| <b>Liabilities</b>                        |                                       |                  |                           |                  |                   |
| Deposits and other sight obligations      | 3,806,618                             | 179,754          | –                         | 427,443          | 4,413,815         |
| Unsettled transactions                    | 21,681                                | –                | –                         | 67,805           | 89,486            |
| Investment under agreements to repurchase | 447,230                               | 159              | –                         | 96,992           | 544,381           |
| Deposits and other time deposits          | 5,585,988                             | 2,140,400        | –                         | 1,194,726        | 8,921,114         |
| Financial derivative contracts            | 1,292,402                             | –                | –                         | –                | 1,292,402         |
| Interbank borrowings                      | –                                     | 810              | –                         | 1,919,282        | 1,920,092         |
| Issued debt instruments                   | 254,263                               | 2,707,657        | –                         | 1,661,319        | 4,623,239         |
| Other financial liabilities               | 156,461                               | 13,167           | 5,949                     | 1,022            | 176,599           |
| Current taxes                             | 1,498                                 | –                | –                         | –                | 1,498             |
| Deferred taxes                            | 5,315                                 | –                | –                         | –                | 5,315             |
| Provisions                                | 187,557                               | –                | –                         | –                | 187,557           |
| Other liabilities(2)                      | 94,796                                | 29,370           | 2,453                     | 272,358          | 398,977           |
| <b>Total liabilities</b>                  | <b>11,853,809</b>                     | <b>5,071,317</b> | <b>8,402</b>              | <b>5,640,947</b> | <b>22,574,475</b> |
| <b>Equity</b>                             |                                       |                  |                           |                  |                   |
| <b>Attributable to Bank Shareholders</b>  |                                       |                  |                           |                  |                   |
| Capital                                   | 891,303                               | –                | –                         | –                | 891,303           |
| Reserves                                  | 51,539                                | –                | –                         | –                | 51,539            |
| Valuation adjustment                      | 2,832                                 | –                | –                         | –                | 2,832             |
| Retained earnings:                        | 1,115,043                             | –                | –                         | –                | 1,115,043         |



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|  |            |           |       |           |            |
|--|------------|-----------|-------|-----------|------------|
| Retained earnings of prior periods       | 833,830    | –         | –     | –         | 833,830    |
| Net income for the period                | 401,733    | –         | –     | –         | 401,733    |
| Minus: Provision for mandatory dividends | (120,520 ) | –         | –     | –         | (120,520 ) |
| Non-controlling interest                 | 33,801     | –         | –     | –         | 33,801     |
| Total Equity                             | 2,094,518  | –         | –     | –         | 2,094,518  |
| Total liabilities and equity             | 13,948,327 | 5,071,317 | 8,402 | 5,640,947 | 24,668,993 |

48

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Table of Contents

(1) Includes the value of swap instruments and balances of executed transactions which contractually defer the payment of sales transactions or the delivery of foreign currency acquired.

(2) Other assets and liabilities include the threshold position from derivative contracts.

## Segmentation criteria

The accounting policies used to determine the Bank's income and cost by business segment are the same as those described in the summary of accounting policies in Note 1 of the Bank's Consolidated Financial Statements, and are customized to meet the needs of the Bank's management. The Bank earns most of its income in the form of interest income, fee and commission income and income from financial operations. To evaluate a segment's financial performance, the highest decision making authority bases his assessment on the segment's interest income, fee and commission income, and expenses. This assessment helps the Bank make decisions over the resources that will be allocated to each segment.

To achieve the strategic objectives adopted by the top management and adapt to changing market conditions, the Bank makes changes in its organization from time to time, which in turn have a greater or lesser impact on how it is managed or administered. During 2011, the Bank made certain changes in its accounting criteria and elected to apply these changes retroactively to its financial statements for the years 2010 and 2009 to make them comparable to its 2011 financial statements. As the transfer cost of liquidity has been consistently different from the referential yield curve used to calculate internal transfer prices, the Bank elected to modify the method for calculating the Internal Transfer Rate (ITR) used to determine the profitability of its different business segments. Before this change, the Bank established the ITR for each of its lending and deposit operation based on the maturity of each operation on a case-by-case basis regardless of whether the operation was an asset or liability. Since 2011, the ITR is calculated based on the business segment. This change in method is consistent with our internal criteria for business segmentation and improves the process of establishing our operational prices as it delivers a more precise assessment of the profitability of our business segments. Implementation of these changes did not create any significant difference for the Bank's results of operations. Please see Note 4 to our 2011 financial statements for a qualitative and quantitative analysis of the changes resulting from the new accounting criteria.

In addition, during 2011, since the transfer cost of liquidity has been consistently different than the referential yield curve used to calculate internal transfer prices, the Bank decided to modify the method for calculating the Internal Transfer Rate (ITR) used to determine the profitability of the different segments. Before this change, the Bank established the ITR for each operation based on the maturity of each operation regardless if the operation was an asset or liability. Since 2011, the ITR is calculated by the corporate center of each business unit. This change in method is lined up with the new regulations and improves the process of establishing the operation prices since it delivers a more precise assessment of their profitability. These changes did not create any significant difference for the Bank nor did they affect its profit and loss.

## Results of Operations for the Years Ended December 31, 2011, 2010 and 2009

The following discussion is based upon and should be read in conjunction with the Audited Consolidated Financial Statements. The Audited Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB. The following table sets forth the principal components of our net income for the years ended December 31, 2009, 2010 and 2011.

| 2011      | 2011         | 2010        | 2009  |
|-----------|--------------|-------------|-------|
| ThUS\$(1) | Ch\$ million | of constant | pesos |

CONSOLIDATED INCOME  
STATEMENT DATA

|                               |             |            |            |            | %<br>Change<br>2011 /<br>2010 | %<br>Change<br>2010 /<br>2009 |      |   |
|-------------------------------|-------------|------------|------------|------------|-------------------------------|-------------------------------|------|---|
| IFRS:                         |             |            |            |            |                               |                               |      |   |
| Interest income and expense   |             |            |            |            |                               |                               |      |   |
| Interest income               | 3,399,126   | 1,768,735  | 1,412,983  | 1,207,778  | 25.2                          | %                             | 17.0 | % |
| Interest expense              | (1,530,576) | (796,435 ) | (473,264 ) | (351,262 ) | 68.3                          | %                             | 34.7 | % |
| Net interest income           | 1,868,550   | 972,300    | 939,719    | 856,516    | 3.5                           | %                             | 9.7  | % |
| Fees and income from services |             |            |            |            |                               |                               |      |   |
| Fees and commission income    | 697,686     | 363,041    | 338,183    | 315,925    | 7.4                           | %                             | 7.0  | % |
| Fees and commission expense   | (163,746 )  | (85,205 )  | (74,601 )  | (61,795 )  | 14.2                          | %                             | 20.7 | % |

Table of Contents

|  | 2011        | 2011                           | 2010       | 2009       |                    |    |                    |    |
|--|-------------|--------------------------------|------------|------------|--------------------|----|--------------------|----|
|  |             |                                |            |            | %                  | %  | %                  | %  |
| CONSOLIDATED INCOME STATEMENT DATA         | ThUS\$(1)   | Ch\$ million of constant pesos |            |            | Change 2011 / 2010 |    | Change 2010 / 2009 |    |
| Total net fees and commission income       | 533,940     | 277,836                        | 263,582    | 254,130    | 5.4                | %  | 3.7                | %  |
| Other operating income                     |             |                                |            |            |                    |    |                    |    |
| Net income from financial operations       | 328,350     | 170,857                        | 38,755     | 3,887      | 340.9              | %  | 897.0              | %  |
| Foreign exchange profit (loss), net        | (147,324 )  | (76,660 )                      | 57,233     | 163,241    | –                  | %  | (64.9              | %) |
| Financial transactions, net                | 181,026     | 94,197                         | 95,988     | 167,128    | (1.9               | %) | (42.6              | %) |
| Other operating income                     | 36,032      | 18,749                         | 43,608     | 25,866     | (57.0              | %) | 68.6               | %  |
| Total other operating income               | 217,058     | 112,946                        | 139,596    | 192,994    | (19.1              | %) | (27.7              | %) |
| Net operating profit before loan losses    | 2,619,548   | 1,363,082                      | 1,342,897  | 1,303,640  | 1.5                | %  | 3.0                | %  |
| Provision for loan losses                  | (607,547 )  | (316,137 )                     | (253,915 ) | (333,145 ) | 24.5               | %  | (23.8              | %) |
| Net operating profit                       | 2,012,001   | 1,046,945                      | 1,088,982  | 970,495    | (3.9               | %) | 12.2               | %  |
| Operating expenses                         |             |                                |            |            |                    |    |                    |    |
| Personnel salaries and expenses            | (539,277 )  | (280,613 )                     | (250,265 ) | (224,484 ) | 12.1               | %  | 11.5               | %  |
| Administrative expenses                    | (320,602 )  | (166,825 )                     | (147,343 ) | (136,712 ) | 13.2               | %  | 7.8                | %  |
| Depreciation and amortization              | (102,750 )  | (53,466 )                      | (49,403 )  | (46,623 )  | 8.2                | %  | 6.0                | %  |
| Impairment                                 | (223 )      | (116 )                         | (4,925 )   | (75 )      | (97.6              | %) | 6466.7             | %  |
| Other operating expenses                   | 123,394     | (64,208 )                      | (45,402 )  | (37,364 )  | 41.4               | %  | 21.5               | %  |
| Total operating expenses                   | (1,086,246) | (565,228 )                     | (497,338 ) | (445,258 ) | 13.7               | %  | 11.7               | %  |
| Net operating income                       | 925,755     | 481,717                        | 591,644    | 525,237    | (18.6              | %) | 12.6               | %  |
| Other non-operating results                |             |                                |            |            |                    |    |                    |    |
| Income from investments in other companies | 4,113       | 2,140                          | 1,171      | 297        | 82.7               | %  | 294.3              | %  |
| Total other non-operating results          | 4,113       | 2,140                          | 1,171      | 297        | 82.7               | %  | 294.3              | %  |
| Income before tax                          | 929,868     | 483,857                        | 592,815    | 525,534    | (18.4              | %) | 12.8               | %  |
| Income tax                                 | (148,348 )  | (77,193 )                      | (85,343 )  | (88,924 )  | (9.5               | %) | (4.0               | %) |
| Consolidated net income for the period     | 781,520     | 406,664                        | 507,472    | 436,610    | (19.9              | %) | 16.2               | %  |
| Net income for the period attributable to: |             |                                |            |            |                    |    |                    |    |
| Equity holders of the Bank                 | 772,044     | 401,733                        | 505,393    | 431,557    | (20.5              | %) | 17.1               | %  |
| Non-controlling interests                  | 9,476       | 4,931                          | 2,079      | 5,053      | 137.2              | %  | (58.9              | %) |

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2011, have been translated from Chilean pesos at the exchange rate of Ch\$520.35 = US\$1.00 as of December 31, 2011. See “Item 3: A. Selected Financial Data—Exchange Rates” for more information on exchange rate.

Results of operations for the years ended December 31, 2011 and 2010. Net income for the year ended December 31, 2011, decreased 19.9% to Ch\$406,664 million. Our return on average equity was 20.4% in 2011 compared to 29.0% in 2010.

In 2011, net operating profit before loan losses was Ch\$1,363,082 million, an increase of 1.5% compared to 2010. Our net interest income increased 3.5% to Ch\$972,300 million in 2011 from Ch\$939,719 million in 2010. The average

balance of our interest-earning assets increased by 16.5% in 2011 compared to 2010. However, our net interest margin decreased 60 basis points to 4.8% in 2011 from 5.4% in 2010 mainly due to higher funding costs. As discussed in further detail below, the rise in the average rate of interest paid on time deposits due to higher short-term interest rates was a result of increased overall funding costs. This was only partially offset by higher volumes, higher asset yields and higher inflation in 2011 compared to 2010.

Net fees and commission income increased 5.4% to Ch\$277,836 million in 2011 compared to 2010. Net fees were positively affected by the growth of the Chilean economy and the Bank's marketing and promotion efforts to increase product usage. Fees from credit, debit and ATM cards increased 6.5%, fees from insurance brokerage fees increased by 3.9% and securities brokerage fees increased 15.6% in 2011. These increases were partially offset by a 5.4% decrease in fees from checking accounts and lines of credit. This decline was due to the reduction in the amount of lines of credit and overdraft lines made available to clients, following an increase in provisioning requirements for unused lines of credit under local Chilean Bank GAAP.

Table of Contents

Results of financial transactions, net, which is the sum of trading activities, fair value adjustments and foreign exchange transactions, totaled Ch\$94,197 million in 2011, a decrease of 1.9% compared to 2010. These results include the results of our Treasury Department's trading business and financial transactions with customers, Santander Global Connect (SGC), as well the results of our Financial Management Division. The results from the Financial Management Division recorded a loss of Ch\$20,072 million in 2011 compared to a loss of Ch\$597 million in 2010. Throughout 2011, the Bank has maintained above-average levels of liquidity, part of which is generated from US\$-denominated liabilities, as a conservative measure given the uncertainty surrounding global financial markets. These dollar liabilities are hedged through derivatives (short term foreign currency swaps), but the short term interest rate differential between US\$ and Ch\$ has increased and has produced a higher cost registered in financial transactions, net. This higher cost is partially offset by net interest income where the interest earned on the short-term liquid asset is registered and the interest expense of the US\$-denominated liabilities is also recorded.

The results from SGC, a specialized platform designed to facilitate the sale of derivatives to a broad range of companies in all segments through our branch network and through market-making, increased 15.0% in 2011 from Ch\$54,472 million in 2010. Our proprietary trading results totaled a gain of Ch\$16,022 million in 2011, which represented an increase of 172.5% compared to 2010. This was mainly due to positive results in the foreign exchange market.

Other operating income totaled a gain of Ch\$18,749 million in 2011, a 57.0% decrease from Ch\$43,608 million in 2010. This decline was mainly due to the gain from sale of branches recorded in 2010, which did not occur to the same extent as in 2011, as well as lower recoveries of provisions for contingencies and a decrease in insurance payments relating to the earthquake.

Provision expense, net in 2011 totaled Ch\$316,137 million and increased 24.5% from Ch\$253,915 million in 2010. This increase in net provision expense was mainly due to the increase in charge-offs. Charge-offs for non-performing loans increased 40.6% in 2011, totaling Ch\$291,088 million from Ch\$207,046 million in 2010. Consumer loan charge-offs increased 54.5% in the year ended December 31, 2011 compared to the corresponding period in 2010. The rise was mainly due to the growth in consumer lending, which in 2011 increased 9.0%. The tightening of renegotiation policies for consumer loans also led to a greater amount of impaired consumer loans entering non-performing status and subsequently being charged-off. The 27.5% rise in charge-offs in commercial loans was mainly due to greater charge-offs in the SME and middle-market segments. Charge-offs in residential mortgage loans decreased 12.2% in 2011. This was offset by the 21.3% decrease in gross provision expense to Ch\$60,847 million in 2011 compared to 2010. This decrease was mainly due to lower gross provisions in consumer lending. In the year ended December 31, 2010, we recognized Ch\$30,466 million in provisions mainly for consumer loans as a result of improvements made to our credit-scoring models. The minimum provision required for clients in most risk profiles was increased for performing consumer loans and this effect was recognized as a larger provision expenses and greater provision for loan losses. This change in our models was a non-recurring event in 2011 and the effect of this non-recurrence in 2011 was offset in part by an increase in gross provision for residential mortgage loans. In June 2011, the Bank modified its provisioning model for residential mortgage loans. As of June 2011, residential mortgage loans are assigned an allowance level based on credit risk profiles which are determined utilizing a statistical model that considers: (i) a borrower's credit history, (ii) if a client is a new client or an existing client, (iii) if the client is a Bank client or a Banefe client and (iv) if this client has been renegotiated in the system. The total impact of this change on loan loss reserves was Ch\$16,258 million or 0.3% of the Bank's total residential mortgage portfolio in 2011. The 70.7% increase in gross provisions in commercial loans from Ch\$15,994 million in 2010 to Ch\$27,298 million in 2011 was mainly due to the modification and recalibration of the Bank's provisioning model of commercial loans analyzed on a group basis which are mainly comprised of loans to small and mid-sized companies. Previously, loan loss allowance in this category of loans was mainly determined by the number of days a loan was overdue. Currently, provisions are set according to (i) performing status, (ii) if a client has been renegotiated or not, (iii) if a client is a new client or an existing client, and (iv) if the client has collateral in connection with the loan. The total

impact of this change on loan loss reserves was Ch\$16,560 million in 2011.

As a result of the factors mentioned above, net operating profit decreased 3.9% in 2011 compared to 2010 and totaled Ch\$1,046,945 million.

Table of Contents

Operating expenses increased 13.7% in 2011 compared to the corresponding period in 2010. Personnel salaries and expenses increased by 12.1% mainly due to higher headcount, as well as higher severance payments. Administrative expenses increased 13.2%. The main reasons for this rise in administrative expenses were: (i) the 18.3% rise in branch rental expenses to Ch\$22,337 million in 2011 due to the Bank having sold branches in 2010 and 2011 and these branches are now rented to us and (ii) greater business activity, as well as the expenses related to IT projects being carried out to improve productivity. Our efficiency ratio was 41.5% in 2011 compared to 37.0% in 2010.

Other operating expenses were Ch\$64,208 million in 2011, a 41.4% increase compared to 2010. The increase in other operating expenses was mainly due to: (i) higher provisions for repossessed assets, which totaled Ch\$10,050 million in 2011 and increased 179.6% from Ch\$3,594 million in 2010; (ii) provisions for contingencies, which totaled Ch\$8,144 million in 2011 and increased 950.88% from Ch\$775 million in 2010 and which were mainly provisions set aside for possible non-credit contingencies such as tax, legal and labor contingencies and other non-specific provisions; and (iii) other expenses, which increased 50.4% mainly as a result of a 104.1% rise in operational charge-offs related to ATMs and other equipment that was damaged or vandalized in 2011. This was offset by lower earthquake related expenses, lower expenses related to repossessed assets and lower credit card expenses.

Our income tax expense decreased by 9.5% in the year ended December 31, 2011 compared to 2010. The effective tax rate paid was 15.94% in 2011 compared to 14.41% in 2010. The statutory tax rate in Chile in 2011 reached 20% compared to 17% in 2010. The higher effective tax rate in 2011 is mainly due to this rise in the statutory corporate tax rate. The decline in income tax expense is mainly due to the lower income before taxes.

Results of operations for the years ended December 31, 2010 and 2009. Net income for the period ended December 31, 2010, increased 16.2% to Ch\$507,472 million from Ch\$436,610 million in the corresponding period in 2009. Net income attributable to equity holders of the Bank increased 17.1% to Ch\$505,393 million in 2010 from Ch\$431,557 million in the corresponding period in 2009. Our return on average equity was 29.0% in 2010, compared to 27.3% in 2009.

Net operating profit before loan losses was Ch\$1,342,897 million in 2010, an increase of 3.0% from 2009 when it was Ch\$1,303,640 million. Our net interest income increased 9.7% in 2010 as compared to 2009. The average balance of our interest-earning assets increased 7.5% in 2010 as compared to 2009. Net interest margin in 2010 was 5.4% compared to 5.3% in the same period in 2009, reflecting the higher inflationary environment. In 2010, the value of the UF increased by 2.5% compared to a decline of 2.4% in 2009. As we have more interest-earning assets than liabilities denominated in UF, our net interest income was positively affected by this change in inflationary trends. In 2010, the average gap between UF-denominated average interest-earning assets and UF-denominated average interest bearing liabilities was approximately Ch\$3,171,140 million compared to Ch\$2,689,614 million in 2009. This moderate inflationary trend increased our average nominal rate earned over interest earning assets to 8.1% in 2010 from 7.4% in 2009.

Net fees and commission income increased 3.7% to Ch\$263,582 million in 2010 as compared to 2009. The growth in net fees and commission income was mainly driven by higher fees from credit, debit and ATM cards, which increased by 8.2%, reflecting increased usage of these credit cards. Asset management fees increased 29.9% in 2010 as compared to 2009. Total funds under management decreased 7.0% in the period being analyzed and totaled Ch\$3,186,784 million (US\$6.8 billion). The recovery of the local and global equity markets in 2010 has resulted in an increase in equity funds of 42.9% in the period being analyzed which earn higher management fees than non-equity funds, as well as an increase in the performance of our funds under management. Insurance brokerage fees increased by 101.0% in 2010 as compared to 2009. This was mainly due to an increase in prices on behalf of insurance underwriters following the February 2010 earthquake and tsunami, greater business volumes in our insurance brokerage subsidiary and higher online sales of insurance products through our website.



This growth in fee income was partially offset by the 20.2% decrease in fees from checking accounts and lines of credit, which includes the maintenance fee for checking accounts and lines of credit and fees charged for the unauthorized overdraft of lines of credit. This decrease was in part a result of the decline in fees from unauthorized overdrafts of credit lines which were prohibited by the SBIF beginning in May 2009. In 2010, these fees totaled Ch\$0 compared to Ch\$7,992 million in the same period in 2009. Additionally, this decrease was also due in part to

Table of Contents

the February 2010 earthquake and tsunamis as some of these fees were temporarily waived in the more affected zones.

Results of Financial transactions, net, which is the sum of trading activities, fair value adjustments and foreign exchange transactions, totaled Ch\$95,988 million in 2010, a decrease of 42.6% as compared to 2009. This decline was mainly due to the higher interest rate environment which lowered the gains from fair value changes, proprietary trading and lower gain recognized by the Financial Management Division were mainly due to a fall in gains on the sale of available-for-sale fixed income instruments in a rising interest rate environment.

Other operating income totaled a gain of Ch\$43,608 million in 2010, a 68.6% increase as compared to 2009. In 2010, we sold 43 branches for a gain of Ch\$30,934 million recognized as gain on sale of our property, plant and equipment. These branches are now rented to us. We did not finance this acquisition and the acquirers were non-related parties.

Provision for loan losses decreased by 23.8% to Ch\$253,915 million in 2010 compared to 2009. Gross provision expense, which includes provisions, but excludes charge-offs and recoveries, increased 1.0% to Ch\$77,348 million. This increase was mainly due to higher gross provisions in consumer lending. We recognized Ch\$30,466 million in provisions mainly for consumer loans as a result of improvements made to our credit scoring models. Charge-offs decreased 30.0% in the periods being analyzed, totaling Ch\$207,046 million. This was mainly due to an improvement in the asset quality of our consumer loans. Recoveries on loans previously charged-off decreased by 22.4% in 2010 compared to 2009. In 2010 and prior periods, we have sold charged-off loans to third parties, recognizing a net gain in financial operations. We view this as a more efficient manner to recover value from aged stock of charged-off loans as this decreases our costs of collections; however, this leads to a decrease in recoveries recognized in this line item.

As a result of the factors mentioned above, net operating profit increased 12.2% in 2010 to Ch\$1,088,982 million as compared to 2009.

Operating expenses in 2010 increased 11.7% compared to 2009. The efficiency ratio was 37.0% in 2010 compared to 34.2% in 2009, as the increase in net operating profit before loan losses was offset by earthquake-related expenses, and greater expenses incurred as a result of stronger business activity.

Operating income, which corresponds to net operating profits less operating expenses, increased 12.6% in 2010 compared to the same period in 2009.

Our income tax expense decreased by 4.0% in 2010 compared to 2009. The effective tax rate paid was 14.4% in 2010 compared to 16.9% in 2009. The statutory tax rate in Chile has not changed in 2010 and was 17% on income before taxes. The lower effective tax rate is mainly due to the fact that Chilean tax regulations still require corporations to recognize the effects of price-level restatement on equity even though inflation accounting is no longer required by Chilean Bank GAAP. In 2009, as inflation was negative, stated net income and taxable net income were similar (where inflation is negative non-monetary items for tax purposes are not price-level restated). In 2010, the higher inflation rate has resulted in a price-level restatement loss for tax purposes for equity and thus a lower effective tax rate.

## Net interest income

|                                  | Year ended December 31,                   |         |         | % Change  |   | % Change  |    |
|----------------------------------|---|---------|---------|-----------|---|-----------|----|
|                                  | 2011                                      | 2010    | 2009    | 2011/2010 |   | 2010/2009 |    |
|                                  | (in millions of Ch\$, except percentages) |         |         |           |   |           |    |
| Individuals (Commercial banking) | 453,139                                   | 426,558 | 416,220 | 6.2       | % | 2.5       | %  |
| Individuals (Santander Banefe)   | 117,154                                   | 106,942 | 115,840 | 9.5       | % | (7.7      | %) |
| Small and mid-sized companies    | 207,008                                   | 192,825 | 228,928 | 7.4       | % | (15.8     | %) |

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|                          |           |         |           |       |    |      |    |
|--------------------------|-----------|---------|-----------|-------|----|------|----|
| Institutional            | 26,856    | 19,675  | 18,789    | 36.5  | %  | 4.7  | %  |
| Companies                | 140,818   | 126,936 | 114,932   | 10.9  | %  | 10.4 | %  |
| Total commercial banking | 944,975   | 872,936 | 894,709   | 8.3   | %  | (2.4 | %) |
| Global banking & markets | 48,942    | 60,164  | 33,238    | (18.7 | %) | 81.0 | %  |
| Other(1)                 | (21,617 ) | 6,619   | (71,431 ) | –     | %  | –    | %  |
| Net interest income      | 972,300   | 939,719 | 856,516   | 3.5   | %  | 9.7  | %  |

53

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Table of Contents

|  | Year ended December 31,                   |            |            | % Change<br>2011/2010 | % Change<br>2010/2009 |
|--|---|------------|------------|-----------------------|-----------------------|
|  | 2011                                      | 2010       | 2009       |                       |                       |
|  | (in millions of Ch\$, except percentages) |            |            |                       |                       |
| Average interest-earning assets  | 20,355,039                                | 17,479,483 | 16,265,592 | 16.5                  | 7.5                   |
| Average non-interest-bearing demand deposits   | 3,575,544                                 | 3,152,513  | 2,475,050  | 13.4                  | 27.4                  |
| Net interest margin(2)   | 4.8                                       | 5.4        | 5.3        | –                     | –                     |
| Average shareholders' equity and average non-interest-bearing demand deposits to total average interest-earning assets | 27.4                                      | 28.1       | 25.1       | –                     | –                     |

(1) Consists mainly of net interest income from the Financial Management Division and the cost of funding our fixed income trading portfolio.

(2) Each segment obtains funding from its clients. Any surplus deposits are transferred to the Financial Management Division, which in turn makes such excess available to other areas that need funding. The Financial Management Division also sells the funds it obtains in the institutional funding market at a transfer price equal to the market price of the funds.

(3) Net interest margin is net interest income divided by average interest-earning assets.

For the years ended December 31, 2011 and 2010. Our net interest income totaled Ch\$972,300 million in the year ended December 31, 2011, an increase of 3.5% from 939,719 in 2010. Average interest earning assets increased 16.5% in the same period, driven mainly by lending to individuals, companies and the global banking and markets segment. Net interest margin in 2011 was 4.8% compared to 5.4% in 2010. Net interest margins were negatively affected by the rise in average short-term interest rates. As interest-bearing liabilities generally have shorter terms than interest-earning assets, a rise in short-term rates has a negative effect on our margins. The average nominal rate we paid on our peso-denominated interest-bearing liabilities was 6.3% in 2011 compared to 2.7% in 2010. The average nominal rate we paid on our peso-denominated time deposits was 5.6% in 2011 compared to 2.3% in 2010. As a result, interest expense in 2011 increased 68.3% compared to interest expense in 2010.

The impact of interest rate increases was partially offset by a higher local inflationary environment. In 2011, the value of the UF increased by 3.9% compared to a rise of 2.5% in 2010. As we have more interest-earning assets than liabilities linked to the UF, our net interest income was positively affected by this change in inflationary trends. At the same time, the higher interest rate environment also pushed upward the nominal rate earned over our interest earning assets, albeit to a lesser extent than the rise of our funding costs. The average nominal rate earned over interest earning assets increased to 8.7% in 2011 from 8.1% in 2010.

The changes in net interest income by segment in 2011 as compared to 2010 were as follows:

- Net interest income from individuals in commercial banking increased 6.2%, mainly as a result of the 10.7% increase in loan volumes in this segment. This was partially offset by higher funding costs due to the rising short-term interest rates throughout 2011.
- Net interest income from individuals in Santander Banefe increased 9.5%, mainly as a result of the 12.6% increase in loan volumes in this segment. This was partially offset by higher funding costs due to the rising short-term interest rates throughout 2011.

- Net interest income from small and mid-sized companies increased 7.4% mainly as a result of the 7.9% increase in loans to this segment. This was partially offset by the increase in average short-term interest rates, which affected funding costs.
- Net interest income from the total Companies segment increased 10.9%, mainly as a result of the 11.1% increase in loans to this segment due to the positive evolution of the economy. This was partially offset by the rise in funding costs.
- Loans in the Global Banking and Markets segment increased 15.6% in 2011 compared to 2010. Net interest income from the Global Banking and Markets segment decreased 18.7% in the same period. This

Table of Contents

was mainly due to the higher short-term interest rates that affected funding costs and lower loan spreads due to competitive pressures.

- Other net interest income consists mainly of net interest income from the available for sale investment portfolio and deposits in the Central Bank and the financial cost of supporting our cash position and investment portfolio for trading, the interest income from which is recognized as net income from financial operations and not interest income. The net interest income included as “other” totaled a loss of Ch\$21,617 million in 2011 compared to a gain of Ch\$6,619 million in 2010. As short-term interest rates increased, the financial cost of maintaining these lower yielding assets rose. Simultaneously, the yield obtained on low yielding assets did not rise as the Bank increased its short-term liquidity as a proactive measure given the uncertainty surrounding global financial markets, since the second quarter of 2011. The nominal rate earned on the Bank’s financial investments decreased from 3.2% in 2010 to 2.5% in 2011. This segment also reflects the impact of higher funding costs that finance the Bank’s financial investments and cash position.

The following table shows our balances of loans and accounts receivables from customers and interbank loans by segment at the dates indicated.

| Loans by segment                 | As of December 31,    |            |            | % Change<br>2011/2010 | % Change<br>2010/2009 |       |
|----------------------------------|-----------------------|------------|------------|-----------------------|-----------------------|-------|
|                                  | 2011                  | 2010       | 2009       |                       |                       |       |
|                                  | (in millions of Ch\$) |            |            |                       |                       |       |
| Individuals (Commercial banking) | 8,484,493             | 7,664,070  | 6,678,117  | 10.7                  | %                     | 14.8  |
| Individuals (Santander Banefe)   | 804,852               | 714,899    | 609,808    | 12.6                  | %                     | 17.2  |
| Small and mid-sized companies    | 2,560,736             | 2,373,360  | 2,485,505  | 7.9                   | %                     | (4.5) |
| Institutional                    | 355,199               | 332,150    | 282,933    | 6.9                   | %                     | 17.4  |
| Companies                        | 3,650,709             | 3,286,920  | 2,456,321  | 11.1                  | %                     | 33.8  |
| Total Commercial banking         | 15,855,989            | 14,371,399 | 12,512,684 | 10.3                  | %                     | 14.9  |
| Global banking & markets         | 1,494,752             | 1,293,221  | 1,209,547  | 15.6                  | %                     | 6.9   |
| Other                            | 84,041                | 62,662     | 29,045     | 34.1                  | %                     | 115.7 |
| Total loans(1)                   | 17,434,782            | 15,727,282 | 13,751,276 | 10.9                  | %                     | 14.4  |

(1) Includes interbank loans.

We expect continued loan growth in 2012 and 2011. If GDP does not grow in line with forecasts this could have a negative input on us.

For the years ended December 31, 2010 and 2009. Our net interest income increased 9.7% to Ch\$939,719 million in the year ended December 31, 2010 from net interest income of Ch\$856,516 million in the corresponding period in 2009. Average interest earning assets increased 7.5% in 2010 compared to 2009. Net interest margin in 2010 was 5.4% compared to 5.3% in the same period in 2009, reflecting the higher inflationary environment. In 2010, the value of the UF increased by 2.5% compared to a decline of 2.4% in 2009. As we have more interest-earning assets than liabilities linked to the UF, our net interest income was positively affected by this change in inflationary trends. In 2010, the average gap between UF-denominated interest-earning assets and UF-denominated average interest bearing liabilities was approximately Ch\$3,171,140 million compared to Ch\$2,689,614 million in 2009. This moderate inflationary trend increased our average nominal rate earned over interest earning assets to 8.1% in 2010 from 7.4% in 2009.

Our funding mix also improved. The ratio of non-interest bearing demand deposits and shareholders’ equity to interest earning assets was 28.1% in 2010 compared to 25.1% in 2009. Average non-interest bearing demand deposits increased 27.4% in 2010 compared to 2009, mainly as a result of growth in our cash management business with

corporate clients.

These factors were partly offset by the lower interest income earned on consumer loans. The average nominal rate earned on consumer loans in 2010 was 20.4% compared to 23.7% and interest income from consumer loans decreased 4.5%, in 2010 compared to 2009. In 2009, we increased our consumer loan yields in order to compensate for the expected rise in non-performing levels and charge-offs. As the economy has rebounded and provision

Table of Contents

expense has decreased, yields on these products have normalized. See the discussion on the net provision expense in “Item 5: C. Operating Results— Results of Operations for the Years Ended December 31, 2011, 2010 and 2009.” This normalization of yields also explains, in part, the 15.8% decrease in net interest income from small and mid-sized companies (“SMEs”).

Net interest income and margins were also positively affected by the lower average short-term interest rates. As a result, the average nominal rate we paid on our peso denominated interest-bearing liabilities was 2.7% in 2010 compared to 3.9% in 2009. These factors were offset by the higher nominal rate paid on our interest bearing liabilities linked to inflation. In 2010, the average nominal rate paid on interest-bearing liabilities denominated in UFs was 6.4% compared to 1.4% in 2009. Going forward, if the Central Bank increases interest rates, this will negatively impact our funding costs in pesos and our margins.

The changes in net interest income by segment in 2010 compared to 2009 were as follows:

- Net interest income from individuals in commercial banking increased 2.5% mainly as a result of the 14.8% increase in loan volumes to individuals due to the more favorable economic environment and improvements in asset quality after the 2009 recession. The majority of residential mortgage loans are recorded in this segment of the Bank and interest income from residential mortgage loans also increased 197.2% as a result of the rise in inflation rate as the majority of these loans are linked to inflation. This increase was offset by the normalization of consumer loan yields mentioned above.
- Net interest income from individuals in Santander Banefe decreased 7.7% in 2010 compared to 2009. Despite the approximately 17.2% increase in loan volumes to individuals, loan yields decreased in Santander Banefe in 2010 as risk levels normalized following the 2009 recession and the better economic outlook in 2010 that led to higher competition in 2010.
- Net interest income from small and mid-sized companies decreased 15.8%. This segment was affected by rising funding costs while interest rate yields declined. This decline was mainly due to the normalization of loan spreads mentioned above. Loans to this segment decreased 4.5% in 2010 compared to 2009.
- Net interest income from companies increased 10.4% year-over-year, mainly as a result of the 33.8% increase in loans to this segment, which was partially offset by rising funding costs while interest rate yields declined. This decline was mainly due to the normalization of loan spreads mentioned above.
- Net interest income from the global banking and markets segment increased 81.0% in 2010 compared to 2009 mainly due to the rising interest rate environment that increased spreads in this segment, especially in the second half of the year, and the higher inflation rate, which had a positive effect on interest gained from our commercial loan book denominated in UFs. Loan volumes in this segment increased 6.9%. This segment also improved due to an improvement in our funding mix through demand deposits and cash management, as well as the movement of some of our former mid-sized clients to the global banking segment as a result of their growth.
- Net interest income from non-segmented portions of interest earning assets, which consists mainly of net interest income from the Financial Management Division’s available for sale investment portfolio improved from a loss of Ch\$71,431 million in 2009 to a gain of Ch\$6,619 million in 2010. This was mainly as a result of higher net interest revenue from financial investments that are mainly denominated in UFs and, therefore, were positively affected by the rise in inflation. This portfolio manages the largest portion of our inflation gap and generally shows greater changes than the changes in interest rates. See “Item 5: C. Operating Results—Impact of Inflation.”

Fee and commission income



The following table sets forth certain components of our income from services (net of fees paid to third parties directly connected to providing those services, principally fees relating to credit card processing and ATM network administration) in the years ended December 31, 2011, 2010 and 2009.

56

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Table of Contents

|                                       | Year ended December 31, |         |         | % Change<br>2011/2010 | % Change<br>2010/2009 |
|---------------------------------------|-------------------------|---------|---------|-----------------------|-----------------------|
|                                       | 2011                    | 2010    | 2009    |                       |                       |
|                                       | (in millions of Ch\$)   |         |         |                       |                       |
| Collections                           | 61,803                  | 60,136  | 65,782  | 2.8 %                 | (8.6 %)               |
| Checking accounts and lines of credit | 40,327                  | 42,614  | 53,388  | (5.4 %)               | (20.2 %)              |
| Credit, debit and ATM cards           | 59,525                  | 55,899  | 51,670  | 6.5 %                 | 8.2 %                 |
| Asset management                      | 37,618                  | 39,952  | 30,766  | (5.8 %)               | 29.9 %                |
| Letters of credit                     | 24,388                  | 22,852  | 24,558  | 6.7 %                 | (6.9 %)               |
| Insurance brokerage                   | 34,066                  | 32,783  | 16,307  | 3.9 %                 | 101.0 %               |
| Custody and brokerage services        | 10,517                  | 9,101   | 6,532   | 15.6 %                | 39.3 %                |
| Office banking                        | 2,267                   | 1,832   | 2,552   | 23.7 %                | (28.2 %)              |
| Other fees                            | 7,325                   | (1,587) | 2,575   | – %                   | – %                   |
| Total fees and commission income, net | 277,836                 | 263,582 | 254,130 | 5.4 %                 | 3.7 %                 |

For the years ended December 31, 2011 and 2010. Net fees and commission income increased 5.4% to Ch\$277,836 million in the year ended December 31, 2011 compared to the same period in 2010.

Fees from collections increased by 2.8% in 2011 compared to 2010. This was mainly due to a 17.1% increase in loan collection fees that totaled Ch\$15,153 million. In the second half of 2011, the Bank reorganized and augmented its collection unit resulting in greater collection fees. This was offset by the 1.8% decrease of insurance premiums for loan related insurance as loan origination decelerated in the second half of 2011. Going forward, this line item could be negatively impacted by proposed legislation to modify the mandatory loan insurance market. (See Item 3- Risk Factors—“Chile’s banking regulatory and capital markets environment is continually evolving and may change.”).

Fees from credit, debit and ATM cards increased by 6.5%, reflecting increased usage of our credit cards. Usage measured in terms of monetary purchases was up 17.8% in 2011 compared to the corresponding period in 2010. As of December 31, 2011, the Bank, which has a 25.8% market share of all bank credit cards, had generated 36.9% of all bank monetary purchases year-to-date.

Fees from checking accounts and lines of credit, which include the maintenance fee for checking accounts and lines of credit and fees charged for the unauthorized overdraft of lines of credit, decreased 5.4% in 2011 compared to 2010. This decrease was due to the 25.6% decline in fees from lines of credit and authorized overdrafts, which totaled Ch\$11,602 million in 2011. This decrease was a result of a reduction in the amount of lines of credit and overdraft lines available to clients, following an increase in Chilean Bank GAAP of provisioning requirements for unused lines of credit. Fees from checking accounts increased 6.3% in 2011 and totaled Ch\$28,725 million. This is in line with the 4.5% increase in total checking accounts to 762,472 in 2011.

Fees from our asset management business decreased 5.8% in 2011 compared to 2010. Total funds under management decreased 6.1% in 2011 and totaled Ch\$2,941,773 million (US\$5.7 billion). As global markets weakened in the second half of 2011, the rate of growth of fees from asset management and total assets under management was negatively affected.

Insurance brokerage fees increased by 3.9% in 2011. This was mainly due to greater business volumes in our insurance brokerage subsidiary and higher sales of insurance products through our website and branch network.

Fees from letters of credit and other contingent operations increased 6.7% in 2011. This was mainly due to positive performance of our international and foreign trade financing businesses with clients.

Brokerage and custody fees increased 15.6% in 2011 as compared to 2010. This was primarily due to higher stock brokerage fees, which increased 23.7% to Ch\$9,593 million as more clients have used our online and branch-network brokerage services.

Fees from office banking increased 23.7% in 2011 as more companies used this product. The rise in other fee income was mainly due to higher financial advisory and other services for corporations.

Table of Contents

The following table sets forth, for the periods indicated our fee income broken down by segment for the periods indicated:

|                                       | Year ended December 31, |          |         | % Change  |    | % Change  |    |  |
|---------------------------------------|-------------------------|----------|---------|-----------|----|-----------|----|--|
|                                       | 2011                    | 2010     | 2009    | 2011/2010 |    | 2010/2009 |    |  |
|                                       | (in millions of Ch\$)   |          |         |           |    |           |    |  |
| Individuals (Commercial banking)      | 149,970                 | 159,708  | 141,981 | (6.1      | %) | 12.5      | %  |  |
| Individuals (Santander Banefe)        | 37,206                  | 32,133   | 29,452  | 15.8      | %  | 9.1       | %  |  |
| Small and mid-sized companies         | 38,274                  | 34,460   | 41,917  | 11.1      | %  | (17.8     | %) |  |
| Institutional                         | 1,831                   | 2,452    | 1,962   | (25.3     | %) | 25.0      | %  |  |
| Companies                             | 24,310                  | 20,215   | 20,567  | 20.3      | %  | (1.7      | %) |  |
| Total commercial banking              | 251,591                 | 248,968  | 235,879 | 1.1       | %  | 5.5       | %  |  |
| Global banking and markets            | 31,908                  | 23,173   | 18,747  | 37.7      | %  | 23.6      | %  |  |
| Other                                 | (5,663 )                | (8,559 ) | (496 )  | (33.8     | %) | 1625.6    | %  |  |
| Total fees and commission income, net | 277,836                 | 263,582  | 254,130 | 5.4       | %  | 3.7       | %  |  |

Fees in the Companies segment increased by 20.3%, mainly as a result of the rise in office banking fees as more clients used the on-line banking service.

Fees from individuals in commercial banking decreased 6.1% in 2011 compared to 2010, mainly as a result of the decrease in fees for lines of credit. This decrease was due to a reduction in the amount of lines of credit and overdraft lines available to clients for credit risk reasons that resulted from a required increase under Chilean Bank GAAP in provisioning requirements for unused lines of credit.

Fees from individuals in Santander Banefe increased 15.8% in 2011 compared to 2010, mainly as a result of the increase in credit card fees due to higher usage and an increase in collection fees. In the second half of 2011, the Bank reorganized and augmented its collection unit resulting in greater fee collection.

The rise in fees by 11.1% from small and mid-sized companies and the middle market was mainly due to higher fees from office banking, brokerage and custody and foreign trade related business.

Fees from institutions decreased 25.3% primarily as a result of lower business activity with universities.

Fees from the Global Banking and Markets segment increased by 37.7%, mainly as a result of an increase in fees from investment banking activities, advisory services and brokerage services.

For the years ended December 31, 2010 and 2009. Net fees and commission income grew by 3.7% to Ch\$263,582 million in 2010 compared to the same period in 2009.

Fees from collections decreased by 8.6% in 2010 compared to 2009. This was mainly due to the impact of the February 2010 earthquake and tsunami as some collection fees were temporarily waived in the more affected zones and the collection process was disrupted due to an inability to contact appropriate parties.

Fees from credit, debit and ATM cards increased by 8.2%, reflecting increased usage of our credit cards. Usage measured in terms of monetary purchases was up 22.1% in 2010 compared to 2009. The number of cards in circulation went up by 12.0% in this period. As of December 31, 2010, the Bank, which has a 28.2% market share of all bank credit card accounts, had generated 32.9% of all purchases year-to-date.

Fees from checking accounts and lines of credit, which includes the maintenance fee for checking accounts and lines of credit and fees charged for the unauthorized overdraft of lines of credit, decreased 20.2% in 2010 compared to 2009. This decrease was in part a result of the decline in fees from unauthorized overdrafts of credit lines which were prohibited by the SBIF beginning in May 2009. In 2010, these fees totaled Ch\$0 compared to Ch\$7,992 million in the same period in 2009. Additionally, this decrease was also due in part to the February 2010 earthquake and tsunamis as some of these fees were temporarily waived in the more affected zones.

Fees from our asset management business increased 29.9% in 2010 compared to the same period in 2009. Total funds under management decreased 7.0% in the period being analyzed and totaled Ch\$3,186,784 million (US\$6.8

Table of Contents

billion). The recovery of the local and global equity markets in 2010 has resulted in an increase in equity funds which earn higher management fees than non-equity funds, as well as an increase in the performance of our funds under management. This has been partially offset by the reduction in lower yielding fixed income funds due to mark-to-market as rates have increased, and by the translation loss on foreign currency denominated funds due to the appreciation of the Chilean peso against the dollar.

Fees from letters of credit and other contingent operations decreased 6.9%. This was mainly due to a 17.0% decrease in stand-by letters of credit in our foreign trade business, which in turn resulted from lower average fees as the Chilean peso has appreciated against the dollar in 2010.

Insurance brokerage fees increased by 101.0%. This was mainly due to an increase in prices on behalf of insurance underwriters following the February 2010 earthquake and tsunami, greater business volumes in our insurance brokerage subsidiary and higher sales of insurance products through our website.

Custody and brokerage fees increased 39.3% in 2010 as compared to the corresponding period in 2009. This was primarily due to higher stock brokerage fees, which increased 47.4% to Ch\$5,264 million as equity markets had strong activity levels and also higher brokerage volumes as more clients have used our online brokerage services.

Fees from office banking decreased 28.2%. The 9.9% increase in income from office banking resulting from more clients using this product was more than offset by the 26.0% increase in costs associated with this program as we increased incentives for clients to switch to online banking services.

Other fee income totaled a net expense of Ch\$1,587 million compared to a net gain of Ch\$2,575 million in 2009. This was mainly due to higher fee expenses paid to correspondent banks and other expenses related to marketing efforts of various products and services.

Fees from individuals in commercial banking increased 12.5% in 2010 compared to the same period in 2009, mainly as a result of the increase in fees from credit and debit cards, asset management, stock brokerage and insurance brokerage. Insurance brokerage fees were positively affected by the post-earthquake demand for insurance in 2010 and greater consumer and residential mortgage loan growth, which led to a rise in loan-related insurance.

Fees from individuals in Santander Banefe increased 9.1% in 2010 compared to the same period in 2009, mainly as a result of the increase in fees from credit and debit cards and insurance brokerage. Insurance brokerage fees were positively affected by the post-earthquake demand for insurance in 2010 and greater consumer loan growth, which led to a rise in loan-related insurance.

Fees from small and mid-sized companies decreased 17.8% mainly as a result of the lower fees received from the unauthorized overdraft of checking accounts.

Fees from institutions increased 25.0% primarily as a result of our increased business activity with universities, mainly as a result of increased fees from debit cards and cash management services.

Fees from Companies decreased by 1.7%, mainly as a result of a decrease in stand-by letters of credit in our foreign trade business and lower fees from the unauthorized overdraft of checking accounts.

Fees from global banking and markets segment increased by 23.6% mainly as a result of an increase in fees from mutual funds, brokerage services, custody services and investment banking activities.

Financial transactions, net

The following table sets forth information regarding our income (expenses) from financial transactions for the years ended December 31, 2011, 2010 and 2009.

59

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Table of Contents

|                                      | Year ended December 31, |        |         | % Change<br>2011/2010 | % Change<br>2010/2009 |
|--------------------------------------|-------------------------|--------|---------|-----------------------|-----------------------|
|                                      | 2011                    | 2010   | 2009    |                       |                       |
|                                      | (in millions of Ch\$)   |        |         |                       |                       |
| Net income from financial operations | 170,857                 | 38,755 | 3,887   | 340.9 %               | 897.0 %               |
| Foreign exchange profit (loss), net  | (76,660 )               | 57,233 | 163,241 | – %                   | (64.9 %)              |
| Total financial transactions, net    | 94,197                  | 95,988 | 167,128 | (1.9 %)               | (42.6 %)              |

For the years ended December 31, 2011 and 2010. Total financial transactions, net, which is the sum of trading activities, fair value adjustments in our securities portfolio and foreign exchange transactions, totaled Ch\$94,197 million in the year ended December 31, 2011, a decrease of 1.9% compared to the same period in 2010. These results include the results of our Treasury’s trading business and financial transactions with customers as well the results of our Financial Management Division.

Net income from financial operations was Ch\$170,857 million in 2011 compared to Ch\$38,755 million in the corresponding period in 2010. In 2011, the Chilean peso depreciated 11.3% compared to a 7.5% appreciation in 2010. This explains the difference in results from derivatives classified as trading which totaled Ch\$116,877 million in 2011 compared to Ch\$3,598 million in 2010. Derivatives are mainly composed of forwards and swap contracts that hedge our spot position in foreign currency. Our spot position includes all assets and liabilities in foreign currency and in Ch\$ linked to US\$ that are not derivatives. For more details see “Item 11: Quantitative and Qualitative Disclosures About Market Risk—Market risk management—Market risk – local and foreign financial management.” As the Chilean peso appreciates, we usually record a low or negative result from the fair value of derivatives held for trading. As the Chilean peso depreciates, we usually record a high result from the fair value of derivatives held for trading. This is offset by foreign exchange transaction results, which includes the mark-to-market of our spot foreign currency position.

|                                      | Year ended December 31, |          |            | % Change<br>2011/2010 | % Change<br>2010/2009 |
|--------------------------------------|-------------------------|----------|------------|-----------------------|-----------------------|
|                                      | 2011                    | 2010     | 2009       |                       |                       |
|                                      | (in millions of Ch\$)   |          |            |                       |                       |
| Derivatives classified as trading    | 116,877                 | 3,598    | (102,825 ) | 3148.4 %              | – %                   |
| Trading investments                  | 38,819                  | 31,058   | 49,220     | 25.0 %                | (36.9 %)              |
| Sale of loans                        | 9,692                   | 12,397   | 9,231      | (21.8 %)              | 34.3 %                |
| Available-for-sale instruments sales | (3,356 )                | (8,319 ) | 47,335     | (59.7 %)              | – %                   |
| Other results                        | 8,825                   | 21       | 926        | 41923.8 %             | (97.7 %)              |
| Net income from financial operations | 170,857                 | 38,755   | 3,887      | 340.9 %               | 897.0 %               |

The income from the sale of loans totaled Ch\$9,692 million in 2011 and decreased 21.8% compared to Ch\$12,397 million in 2010 mainly as a result of lower gains from the sale of loans that have been previously charged-off. These loans were sold to various non-related collection companies and asset managers. In 2012, the sale of charged-off loans to companies not regulated by the Superintendency of Banks may be prohibited by Congress.

The higher results from trading investments is mainly due to higher interest income from this portfolio as 67% of this assets are denominated in UFs and, therefore, when inflation rises interest income from these assets increases. The negative result from the available for sale portfolio is mainly due to higher interest rates, which has a negative impact on the realized losses of these financial investments. The interest income from the available for sale portfolio is recorded as net interest income and interest income from the trading portfolio is recorded as income in net income from financial operations.

In 2011, we also recorded a gain of Ch\$5,705 million from the sale of all of the Bank’s shares in Visa Inc included in other results.





Table of Contents

|   | Year ended December 31, |            |            | % Change  |            |
|---|-------------------------|------------|------------|-----------|------------|
|   | 2011                    | 2010       | 2009       | 2011/2010 | 2010/2009  |
|   | (in millions of Ch\$)   |            |            |           |            |
| Net profit or loss from foreign currency exchange differences                               | (257,986 )              | 273,997    | 401,695    | –         | % (31.8 %) |
| Hedge-accounting derivatives  | 177,553                 | (215,721 ) | (266,221 ) | –         | % (19.0 %) |
| Translation gains and losses over assets and liabilities indexed to foreign currencies, net | 3,773                   | (1,043 )   | 27,767     | –         | % – %      |
| Net results from foreign exchange profit (loss)   | (76,660 )               | 57,233     | 163,241    | –         | % (64.9 %) |

The net result from foreign exchange transactions totaled a loss of Ch\$76,660 million in 2011 compared to a gain of Ch\$57,233 million in 2010. Foreign currency exchange differences totaled a net loss of Ch\$257,986 million in 2011 compared to a gain of Ch\$273,997 million in 2010. This decrease is mainly the result of the depreciation of the Chilean peso against the U.S. dollar in 2011 compared to an appreciation in 2010. The effects on net income from the change in value of our spot foreign currency position should continue to be negative if the peso continues to depreciate as our spot funding base in foreign currency is larger than our spot asset position in foreign currency. This is largely offset by the fair value of foreign exchange derivatives in net gains from trading and fair value as described above in net income from financial operations. The derivatives included in this line item are mainly cross-currency swaps that hedge the interest rate risk of bonds issued abroad. Excluding interest rate and other derivatives that qualify for hedge accounting, the conversion and fair value of foreign currency derivatives are for the most part recognized as a gain or loss in the net results from fair value and trading and not as foreign exchange transactions. This distorts the results from fair value and trading and foreign exchange transactions. In order to more easily compare the results from financial transactions, net, we present the following table that separates the results by line of business.

|  | Year ended December 31, |        |         | % Change |             |
|--|-------------------------|--------|---------|----------|-------------|
|  | 2011                    | 2010   | 2009    | 2011     | 2010        |
|  | (in millions of Ch\$)   |        |         |          |             |
| Santander Global Connect(1)                      | 62,625                  | 54,472 | 58,124  | 15.0     | % (6.3 %)   |
| Market-making with clients                       | 25,930                  | 23,837 | 31,525  | 8.8      | % (24.4 %)  |
| Client treasury services                         | 88,555                  | 78,309 | 89,649  | 13.1     | % (12.6 %)  |
| Sale of loans and charged-off loans              | 9,692                   | 12,397 | 9,231   | (21.8    | %) 34.3 %   |
| Proprietary trading                              | 16,022                  | 5,879  | 16,392  | 172.5    | % (64.1 %)  |
| Financial Management (ALCO) and other results(2) | (20,072 )               | (597 ) | 51,856  | 3262.2   | % – %       |
| Non-client treasury income                       | 5,642                   | 17,679 | 77,479  | (68.1    | %) (77.2 %) |
| Total financial transactions, net                | 94,197                  | 95,988 | 167,128 | (1.9     | %) (42.6 %) |

(1) Santander Global Connect is our platform to sell derivatives, which consist mainly of foreign currency forward contracts, to our clients, mainly corporations and middle-market businesses.

(2) The Financial Management Division manages the structural interest rate risk, the structural position in inflation-indexed assets and liabilities, capital requirements and liquidity levels. The aim of the Financial Management Division is to provide stability and continuity in our net interest income from commercial activities and to ensure that we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk.

Client treasury services increased 13.1% in 2011 compared to client treasury service income in 2010. The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. Santander Global Connect is a specialized platform

designed to facilitate the sale of derivatives to a broad range of companies in all segments and through the branch network. In 2011, the results from Santander Global Connect increased 15.0%. The results from market-making with client services increased 8.8% in 2011, mainly due to growth in tailor-made treasury services sold to specific corporate clients.

Table of Contents

The results from non-client treasury income totaled a gain of Ch\$5,642 million in 2011 and decreased 68.1% compared to 2010. Throughout 2011, the Bank has maintained above average levels of liquidity, part of which is generated from U.S.\$-denominated liabilities, as a conservative measure given the uncertainty surrounding global financial markets. These dollar liabilities are hedged through derivatives (short term foreign currency swaps), but as the short term interest rate differential between US dollars and Chilean pesos has increased, this has produced a higher cost registered in financial transactions, net. This higher cost is partially offset by net interest income where the interest earned on the short-term liquid asset is registered and the interest expense of the U.S.\$-denominated liabilities are also recorded. This explains the higher net loss recorded from our Financial Management division. At the same time, the Bank recorded lower gains from the sale of loans and better results from proprietary trading.

For the years ended December 31, 2010 and 2009. The net gains from financial transactions, which is the sum of trading activities, fair value adjustments in our securities portfolio and foreign exchange transactions totaled Ch\$95,988 million in 2010 a decrease of 42.6% compared to the same period in 2009. These results include the results of our Treasury's trading business and financial transactions with customers as well the results of our Financial Management Division.

The net income from financial operations was Ch\$38,755 million in 2010 compared to Ch\$3,887 million in 2009. In 2010, the Chilean peso appreciated 7.5% compared to a 19.5% appreciation in 2009. This explains the difference in results from derivatives classified as trading which totaled Ch\$3,598 million in 2010 compared to a loss of Ch\$102,825 million in 2009. Derivatives are mainly composed of forwards and swap contracts that hedge our spot position in foreign currency. Our spot position includes all assets and liabilities in foreign currency and in Ch\$ linked to US\$ that are not derivatives. For more details see "Item 11: Quantitative and Qualitative Disclosures About Market Risk—Market risk management—Market risk—local and foreign financial management." As the Chilean peso appreciates, we usually record a low or negative result from the fair value of derivatives held for trading. Going forward, if the Chilean peso's appreciation continues to slow down the results from derivatives classified as trading should continue to improve, but will be partially offset by a continued decline in our foreign exchange transaction results, which includes the mark-to-market of our spot foreign currency position.

In 2010, we also recorded a gain of Ch\$12,397 million from the sale of loans, mainly loans that have been previously charged-off compared to Ch\$9,231 million in 2009. These loans were sold to various non-related collection companies and asset managers.

These positive factors have been partially offset by the higher interest rate environment which has negatively affected realized gains from the sale of available for sale fixed income instruments, which totaled a loss of Ch\$8,319 million in 2010 compared to a gain of Ch\$47,335 million in 2009 when interest rates declined significantly and we sold available-for-sale fixed income investments. This was partially offset by the increase in the inflation rates, which has increased the interest earned from our fixed income portfolio classified as trading included in this line item.

Foreign exchange profit (loss) net totaled a net gain of Ch\$57,233 million in 2010 compared to a gain of Ch\$163,241 million in 2009. This decrease is the result of the lower rate of appreciation of the Chilean peso against the dollar 7.5% in 2010 compared to 19.5% in 2009. The effects on net income from the change in value of our spot foreign currency position should continue to be positive if the peso continues to appreciate as our funding base in foreign currency is larger than our spot asset position in foreign currency.

Foreign exchange transactions totaled a net gain of Ch\$273,997 million in 2010 compared to a gain of Ch\$401,695 million in 2009. This lower result was mainly due to the lower rate of appreciation of the peso in 2010 compared to 2009. This is largely offset by the fair value of foreign exchange derivatives in net gains from trading and fair value as described above. The derivatives included in this line item are mainly cross-currency swaps that hedge the interest rate risk of bonds issued abroad. Excluding derivatives that qualify for hedge accounting, the conversion and fair

value of foreign currency derivatives are for the most part recognized as a gain or loss in the net results from fair value and trading and not as foreign exchange transactions. This distorts the results from fair value and trading and foreign exchange transactions. In order to more easily compare the results from financial transactions, net, we present the following table that separates the results by line of business.

The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. Santander Global Connect is a specialized platform designed to facilitate the sale of derivatives to a broad range of companies in all segments and

Table of Contents

through the branch network. In 2010, the results from Santander Global Connect decreased 6.3% mainly as a result of lower demand on behalf of clients of derivative instruments due to more stable market conditions in 2010 compared to 2009. Results from market making decreased 24.4% in 2010 as a result of the rising interest rate environment.

The results from proprietary trading totaled a gain of Ch\$5,879 million in 2010 and decreased 64.1% compared to 2009. This decrease was mainly due to the rise in interest rates, which had a negative effect on our proprietary trading positions compared to the inverse scenario in 2009.

The results from the Financial Management Division and other results totaled a loss of Ch\$597 million in 2010 compared to a gain of Ch\$51,856 million in 2009. The lower gain recognized by the Financial Management Division was mainly due to lower gains from the sale of available-for-sale fixed income instruments in a rising interest rate environment.

## Other operating income

|  | Year ended December 31,       |        |        | % Change  | % Change  |
|--|-------------------------------|--------|--------|-----------|-----------|
|  | 2011                          | 2010   | 2009   | 2011/2010 | 2010/2009 |
|  | (In million of Chilean pesos) |        |        |           |           |
| Income from assets received in lieu of payment         | 5,629                         | 1,556  | 29     | 261.8     | % 5265.5  |
| Net results from sale of investment in other companies | –                             | –      | 1,859  | –         | % –       |
| Operational leases                                     | 305                           | 117    | 1,123  | 160.7     | % (89.6)  |
| Gain on sale of Bank property, plant and equipment     | 11,863                        | 31,246 | 7,622  | (62.0)    | % 309.9   |
| Recovery of generic provisions for contingencies       | –                             | 7,040  | 14,793 | (100.0)   | % (52.4)  |
| Insurance coverage for earthquake                      | 437                           | 3,175  | –      | (86.2)    | % –       |
| Other  | 515                           | 474    | 440    | 8.6       | % 7.7     |
| Sub-total other income                                 | 13,120                        | 42,052 | 23,978 | (68.8)    | % 75.4    |
| Total other operating income                           | 18,749                        | 43,608 | 25,866 | (57.0)    | % 68.6    |

For the years ended December 31, 2011 and 2010. Total other operating income totaled a gain of Ch\$18,749 million in the year ended December 31, 2011, a 57.0% decrease from the corresponding period in 2010.

The main reason for this decrease was that in 2010, the Bank sold 43 branches and two buildings for a gain of Ch\$31,246 million recognized as income from the sale of Bank property, plant and equipment. These branches are now rented to us. The Bank did not finance this acquisition and the acquirors were non-related parties. In 2011, the Bank sold only 8 branches that are now rented.

Gains from the recovery of provisions not related to any specific risk and non-credit contingencies, such as legal and tax contingencies, decreased to Ch\$0 in 2011 compared to Ch\$7,040 million in 2010. Gains from the recovery of provisions for contingencies in 2010 reversed in 2011, mainly due to the reversal of provisions recognized in the early part of 2010 in anticipation of the potential negative impact of various events such as the February 2010 earthquake and tsunami and changes in our collective bargaining agreements; these negative impacts did not materialize to the extent initially estimated.

The Bank also recognized in 2011 lower insurance claims from earthquake damage to branches and other installations. In 2011, these claims totaled Ch\$437 million compared to Ch\$3,175 million in 2010.

For the years ended December 31, 2010 and 2009. Total other operating income totaled a gain of Ch\$43,608 million in 2010 and 68.6% increase compared to 2009. In 2010, the Bank sold 43 branches and two buildings for a gain of Ch\$31,246 million recognized as income from the sale of Bank property, plant and equipment. These branches are now rented to us. We did not finance this acquisition and the acquirers were non-related parties.

Gains from the recovery of generic provisions not related to any specific risk and non-credit contingencies, such as legal and tax contingencies, decreased 52.4% in 2010. The gains in 2010 result from the reversal of Ch\$7,040 million of generic provisions recognized in previous periods for non-specific risks and non-credit contingencies. We incurred costs in 2010 after the Chilean earthquake, and we reversed a part of the generic provisions we

Table of Contents

recognized in previous periods to minimize the costs we incurred after the earthquake. The figure in 2009 includes the reversal during that year of Ch\$14,793 million of non-specific contingencies, recognized at the beginning of 2009 and previous periods, reversed in order to cover specific credit provisions to loans, which were reflected under provision for loan losses, as a result of recalibration of its credit models. See “—Provision for loan losses” below and see Note 22a of the Audited Consolidated Financial Statements for a detailed description of the change in provisions for contingencies.

We also recognized Ch\$3,175 million from insurance claims from earthquake damage to branches and other installations, which in turn partially offset the impairment recognized in operating expenses as a result of the loss in value of some fixed assets attributable to this same event.

## Provision for loan losses

The following table sets forth, for the periods indicated, certain information relating to our provision expenses.

|   | Year ended December 31, |            |            | % Change<br>2011/2010 | % Change<br>2010/2009 |  |
|---|-------------------------|------------|------------|-----------------------|-----------------------|--|
|   | 2011                    | 2010       | 2009       |                       |                       |  |
|   | (in millions of Ch\$)   |            |            |                       |                       |  |
| Gross provision expenses(1)                   | (60,874 )               | (77,348 )  | (76,588 )  | (21.3 %)              | 1.0 %                 |  |
| Charge offs                                   | (291,088 )              | (207,046 ) | (295,831 ) | 40.6 %                | (30.0 %)              |  |
| Recoveries of loans previously<br>charged-off | 35,825                  | 30,479     | 39,274     | 17.5 %                | (22.4 %)              |  |
| Provision expenses, net                       | (316,137 )              | (253,915 ) | (333,145 ) | 24.5 %                | (23.8 %)              |  |
| Period end loans(2)                           | 17,434,782              | 15,727,282 | 13,751,276 | 10.9 %                | 14.4 %                |  |
| Past due loans(3)                             | 237,573                 | 206,601    | 193,250    | 15.0 %                | 6.9 %                 |  |
| Non-performing loans(4)                       | 511,357                 | 416,739    | 409,067    | 22.7 %                | 1.9 %                 |  |
| Impaired loans(5)                             | 1,323,355               | 1,480,476  | 1,485,737  | (10.6 %)              | (0.4 %)               |  |
| Loan loss allowance(6)                        | 488,468                 | 425,447    | 349,527    | 14.8 %                | 21.7 %                |  |
| Non-performing loans / period end<br>loans(4) | 2.93 %                  | 2.65 %     | 2.97 %     |                       |                       |  |
| Past due loans / period end loans             | 1.36 %                  | 1.31 %     | 1.41 %     |                       |                       |  |
| Loan loss allowances / Total loans            | 2.80 %                  | 2.71 %     | 2.54 %     |                       |                       |  |
| Coverage ratio non-performing<br>loans(7)     | 95.52 %                 | 102.09 %   | 85.44 %    |                       |                       |  |
| Coverage ratio past due loans(8)              | 205.61 %                | 205.93 %   | 180.87 %   |                       |                       |  |

(1) Net of the reversal of allowances on loans charged off during the period.

(2) Includes Ch\$23,412 million in 2009, Ch\$69,726 million in 2010 and Ch\$87,688 in interbank loans.

(3) Past due loans all are installments and lines of credit that are over 90 days past due.

(4) Non-performing loans include the aggregate unpaid principal and accrued but unpaid interest on all loans with at least one installment over 90 days overdue.

(5) Impaired loans defined as of December 31, 2011, 2010 and 2009 include: (A) for loans whose allowance is determined on an individual basis, impaired loans include: (1) all loans to a debtor that are rated C1 through D2 and (2) total loans to single debtors with a loan that is non-performing, excluding residential mortgage loans if the non-performance of the mortgage loans is less than 90 days; (B) for loans whose loan loss allowance is determined



on a group basis, impaired loans include: (1) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans and (2) if the loan that is non-performing or renegotiated is a residential mortgage loan all loans to that debtor are considered impaired. See Note 10(a) of the Consolidated Financial Statements.

(6) Includes Ch\$42 million in 2009, Ch\$54 million in 2010 and Ch\$11 million in allowance for loan losses for interbank loans.

(7) Loan loss allowance divided by non-performing loans.

(8) Loan loss allowance divided by past due loans.

For the years ended December 31, 2011 and 2010. Gross provision expense decreased 21.3% to Ch\$60,874 million in 2011 compared to 2010. This decrease was mainly due to lower gross provisions in consumer lending. In the year ended December 31, 2010, we recognized Ch\$30,466 million in provisions mainly for consumer loans as a result of improvements made to our credit-scoring models. The minimum provision required for clients in most risk profiles was increased for performing consumer loans and this effect was recognized as a larger provision expenses and greater provision for loan losses. This change in our models was a non-recurring event in 2011 and the effect of this non-recurrence in 2011 was offset in part by an increase in gross provision for residential mortgage loans. In June 2011, the Bank modified its provisioning model for residential mortgage loans. As of June

Table of Contents

2011, residential mortgage loans are assigned an allowance level based on credit risk profiles which are determined utilizing a statistical model that considers: (i) a borrower's credit history, (ii) if a client is a new client or an existing client, (iii) if the client is a Bank client or a Banefe client and (iv) if this client has been renegotiated in the system. The total impact of this change on loan loss reserves was Ch\$16,258 million or 0.3% of the Bank's total residential mortgage portfolio in 2011. The 70.7% increase in gross provisions in commercial loans from Ch\$15,994 million in 2010 to Ch\$27,298 million in 2011 was mainly due to the modification and recalibration of the Bank's provisioning model of commercial loans analyzed on a group basis which are mainly comprised of loans to small and mid-sized companies. Previously, loan loss allowance in this category of loans was mainly determined by the number of days a loan was overdue. Currently, provisions are set according to (i) performing status, (ii) if a client has been renegotiated or not, (iii) if a client is a new client or an existing client, and (iv) if the client has collateral in connection with the loan. The total impact of this change on loan loss reserves was Ch\$16,560 million in 2011. We believe our allowance for loan loss is sufficient on the date hereof to cover all known losses in our credit portfolio.

The rise in the ratio of non-performing loans to total loans from 2.65% as of December 31, 2010 to 2.93% as of December 31, 2011 was mainly due to a rise in consumer and residential mortgage non-performing loans of 31.6% and 25.4%, respectively in the year. This rise was due to the 9.0% and 10.0% year-over-year increase in consumer and residential mortgage loans, respectively, as well as tighter renegotiation policies in consumer lending that led to higher non-performing loans. Total impaired loans decreased 10.6% in 2011 compared to 2010 as the positive economic environment improved the overall healthiness of the bank's loan portfolio in 2011.

The following table shows gross provision expense by type of loan:

|   | Year ended December 31, |           |           | % Change  | % Change  |
|---|-------------------------|-----------|-----------|-----------|-----------|
|   | 2011                    | 2010      | 2009      | 2011/2010 | 2010/2009 |
|   | (in millions of Ch\$)   |           |           |           |           |
| Gross provision expense by loan product |                         |           |           |           |           |
| Consumer loans                          | (17,464 )               | (58,984 ) | (19,030 ) | (70.4 %)  | 210.0 %   |
| Residential mortgage loans              | (18,302 )               | (799 )    | (3,903 )  | 2190.6 %  | (79.5 %)  |
| Commercial loans                        | (27,298 )               | (15,994 ) | (52,340 ) | 70.7 %    | (69.4 %)  |
| Contingent loans (off-balance sheet)    | 2,147                   | (1,559 )  | (1,308 )  | –         | 19.2 %    |
| Interbank loans                         | 43                      | (12 )     | (7 )      | –         | 71.4 %    |
| Total gross provisions                  | (60,874 )               | (77,348 ) | (76,588 ) | (21.3 %)  | 1.0 %     |

For a description of the provisions related to our residential mortgage loans and commercial loans analyzed on a group basis, please see “Item 5: F. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio—Loans analyzed on a Group basis—Allowances for residential mortgage loans” and “Item 5: F. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio—Loans analyzed on a Group basis—Small and mid-sized commercial loans.”

Charge-offs increased 40.6% in 2011, totaling Ch\$291,088 million. Consumer loan charge-offs increased 54.5% in the year ended December 31, 2011 compared to the corresponding period in 2010. The rise was mainly due to the growth in consumer lending, which in the same period, increased 9.0% in 2011. The tightening of renegotiation policies for consumer loans also led to a greater amount of impaired consumer loans entering non-performing status and subsequently being charged-off. The ratio of non-performing consumer loans to total consumer loans rose from 3.00% as of December 31, 2010 to 3.62% as of December 31, 2011. Coverage of consumer non-performing loans was 228.05% as of December 31, 2011 compared to 278.62% as of December 31, 2010. The ratio of impaired consumer loans to total consumer loans decreased from 16.6% as of December 31, 2010 to 14.3% as of December 31, 2011. The rise in charge-offs in commercial loans was mainly due greater charge-offs in the SME and middle-market segments. Charge-offs in residential mortgage loans decreased 12.2% in the period being analyzed. The following table shows

charge-offs by type of loan:

65

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Table of Contents

|                             | Year ended December 31, |            |            | % Change<br>2011/2010 | % Change<br>2010/2009 |
|-----------------------------|-------------------------|------------|------------|-----------------------|-----------------------|
|                             | 2011                    | 2010       | 2009       |                       |                       |
|                             | (in millions of Ch\$)   |            |            |                       |                       |
| Charge-offs by loan product |                         |            |            |                       |                       |
| Consumer loans              | (187,937 )              | (121,621 ) | (239,005 ) | 54.5 %                | (49.1 %)              |
| Residential mortgage loans  | (12,776 )               | (14,549 )  | (8,708 )   | (12.2 %)              | 67.1 %                |
| Commercial loans            | (90,375 )               | (70,876 )  | (48,118 )  | 27.5 %                | 47.3 %                |
| Total charge-offs           | (291,088 )              | (207,046 ) | (295,831 ) | 40.6 %                | (30.0 %)              |

Recoveries on loans previously charged-off increased by 17.5% in the year ended December 31, 2011 compared to the corresponding period in 2010. This was due to the 1,061.6% increase in residential mortgage loan loss recoveries. This was a direct result of a one-time recovery of Ch\$14,390 million in the residential mortgage portfolio. The following table shows recoveries by type of loan:

|  | Year ended December 31, |        |        | % Change<br>2011/2010 | % Change<br>2010/2009 |
|--|-------------------------|--------|--------|-----------------------|-----------------------|
|  | 2011                    | 2010   | 2009   |                       |                       |
|  | (in millions of Ch\$)   |        |        |                       |                       |
| Recovery of loans previously charged-off |                         |        |        |                       |                       |
| Consumer loans                           | 12,474                  | 22,096 | 28,268 | (43.5 %)              | (21.8 %)              |
| Residential mortgage loans               | 16,135                  | 1,389  | 2,560  | 1061.6 %              | (45.7 %)              |
| Commercial loans                         | 7,216                   | 6,994  | 8,446  | 3.2 %                 | (17.2 %)              |
| Total recoveries                         | 35,825                  | 30,479 | 39,274 | 17.5 %                | (22.4 %)              |

Recoveries of loans previously charged-off are recognized as income in the line item “provision for loan losses” within the Consolidated Statement of Income. We only recognize recoveries on loans previously charged off when interest and/or principal are paid in cash in connection with a loan that has already been charged-off in its entirety. Such recoveries do not have an impact on our allowance for loan losses because these recoveries are for loans that have been already charged-off and recognized as a loss in our income statement and are no longer on our balance sheet.

In some instances, we will sell a portfolio of charged-off loans to a third party. Gain (losses) on these charged-off loans is recognized as net income from financial transactions as disclosed in Note 30 of our Audited Financial Statements. The following table sets forth information about our sale of charged-off loans for the year ended December 31, 2011, 2010 and 2009.

|   | Year ended December 31, |       |       | % Change<br>2011/2010 | % Change<br>2010/2009 |
|---|-------------------------|-------|-------|-----------------------|-----------------------|
|   | 2011                    | 2010  | 2009  |                       |                       |
|   | (in millions of Ch\$)   |       |       |                       |                       |
| Gains on sale of loans previously charged-off |                         |       |       |                       |                       |
| Sale of charged-off loans                     | 7,324                   | 9,824 | 8,689 | (25.4 %)              | 13.1 %                |

The following table sets forth, for the periods indicated, our net provision expense broken down by business segment:

|                                      | Year ended December 31, |           |            | % Change<br>2011/2010 | % Change<br>2010/2009 |
|--------------------------------------|-------------------------|-----------|------------|-----------------------|-----------------------|
|                                      | 2011                    | 2010      | 2009       |                       |                       |
|                                      | (in millions of Ch\$)   |           |            |                       |                       |
| Individuals (Commercial banking)     | (185,885 )              | (86,643 ) | (147,169 ) | 114.5 %               | (41.1 %)              |
| Individuals (Santander Banefe)       | (62,252 )               | (27,919 ) | (82,564 )  | 123.0 %               | (66.2 %)              |
| Small and mid-sized companies (SMEs) | (65,028 )               | (75,742 ) | (76,143 )  | (14.1 %)              | (0.5 %)               |
| Institutional                        | 503                     | (1,229 )  | (327 )     | -- %                  | 275.8 %               |

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|                          |            |            |            |          |          |
|--------------------------|------------|------------|------------|----------|----------|
| Companies                | (11,592 )  | (45,769 )  | (24,626 )  | (74.7 %) | 85.9 %   |
| Total Commercial banking | (324,254 ) | (237,302 ) | (330,829 ) | 36.6 %   | (28.3 %) |
| Global banking & markets | 7,614      | (15,495 )  | (2,218 )   | – %      | 598.6 %  |
| Other                    | 503        | (1,118 )   | (98 )      | – %      | 1040.8 % |
| Total provisions, net    | (316,137 ) | (253,915 ) | (333,145 ) | 24.5 %   | (23.8 %) |

66

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Table of Contents

We believe that our loan loss allowances are currently adequate for all known and estimated incurred losses.

For the years ended December 31, 2010 and 2009. Net provision expense decreased by 23.8% to Ch\$253,915 million in 2010 compared to 2009. Gross provision expense increased 1.0% to Ch\$77,348 million. This increase was mainly due to higher gross provisions in consumer lending. We recognized Ch\$30,466 million in provisions mainly for consumer loans as a result of improvements made to our credit scoring models. The minimum provision required for clients in most risk profiles was increased for performing consumer loans (See “Item 5: F. Selected Statistical Information–Classification of Loan Portfolio”) and this effect was recognized as a larger Provision Expenses and greater Provision for Loan Losses. The 69.4% decrease in gross provisions for commercial loans was mainly due to the improved economic environment that improved asset quality among our commercial loan clients.

Charge-offs decreased 30.0% in the periods being analyzed, totaling Ch\$207,046 million. This was mainly due to an improvement in the asset quality of our consumer loans. Consumer loan charge-offs decreased 49.1% in 2010 compared to 2009. The ratio of non-performing consumer loans to total consumer loans improved from 3.73% as of December 31, 2009 to 3.00% as of December 31, 2010. Coverage of consumer non-performing loans has also increased from 198.7% as of December 31, 2009 to 278.6% as of December 31, 2010. The rise in charge-offs in residential mortgage and commercial loans were mainly due to impacts of the earthquake.

Recoveries on loans previously charged-off decreased by 22.4% in 2010 compared to 2009. In 2010 and previous periods, we have sold charged-off loans to third parties, recognizing a net gain in financial transactions. The income received from the sale of these charged-off loans is recognized as net income from financial transactions as disclosed in Note 11 of our Audited Consolidated Financial Statements. We view this as a more efficient manner to recover value from the older stock of charged-off loans as this decreases our costs of collections; however, this leads to a decrease in recoveries recognized in this line item.

Recoveries of loans previously charged-off are recognized as income in the line item “Provision for loan losses” within the Consolidated Statement of Income. We only recognize recoveries on loans previously charged off when interest and/or principal are paid in cash in connection with a loan that has already been charged-off in its entirety. Such recoveries do not have an impact on our allowance for loan losses because these recoveries are for loans that have been already charged-off and recognized as a loss in our income statement and are no longer on our statement of financial position.

In some instances, we will sell a portfolio of charged-off loans to a third party. Gain (losses) on sale of these charged-off loans is recognized as net income from financial operations as disclosed in Notes 11 and 30 of our Audited Consolidated Financial Statements.

## Operating expenses

The following table sets forth information regarding our operating expenses in the years ended December 31, 2011, 2010 and 2009.

|                                 | Year ended December 31, |            |            | % Change<br>2011/2010 | % Change<br>2010/2009 |
|---------------------------------|-------------------------|------------|------------|-----------------------|-----------------------|
|                                 | 2011                    | 2010       | 2009       |                       |                       |
|                                 | (in millions of Ch\$)   |            |            |                       |                       |
| Personnel salaries and expenses | (280,613 )              | (250,265 ) | (224,484 ) | 12.1 %                | 11.5 %                |
| Administrative expenses         | (166,825 )              | (147,343 ) | (136,712 ) | 13.2 %                | 7.8 %                 |
| Depreciation and amortization   | (53,466 )               | (49,403 )  | (46,623 )  | 8.2 %                 | 6.0 %                 |
| Impairment                      | (116 )                  | (4,925 )   | (75 )      | (97.6 %)              | 6466.7 %              |
| Other operating expenses        | (64,208 )               | (45,402 )  | (37,364 )  | 41.4 %                | 21.5 %                |

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|                          |           |           |           |      |      |      |   |
|--------------------------|-----------|-----------|-----------|------|------|------|---|
| Total operating expenses | (565,228) | (497,338) | (445,258) | 13.7 | %    | 11.7 | % |
| Efficiency ratio(1)      | 41.5      | %         | 37.0      | %    | 34.2 | %    |   |

(1) The efficiency ratio is the ratio of total operating expenses to total operating income. Total operating income consists of net interest income, fee income, and other operating income.

Table of Contents

For the years ended December 31, 2011 and 2010. Operating expenses in the year ended December 31, 2011 increased 13.7% compared to the corresponding period in 2010. The efficiency ratio was 41.5% in 2011 compared to 37.0% in 2010.

The 12.1% increase in personnel salaries and expenses was mainly due to higher salaries and headcount. Headcount as of December 31, 2011 totaled 11,566, an increase of 5.1% from 2010. Total salary expenses increased 15.2% in 2011 to Ch\$181,515 million. The other important rise was in severance expenses, which increased 31.9% in 2011 to Ch\$8,277 million, mainly reflecting severance payments at the management level.

Administrative expenses increased 13.2% in the year ended December 31, 2011 compared to the corresponding period in 2010. The main reason for this rise in administrative expenses was: (i) the 18.3% rise in branch rental expenses to Ch\$22,337 million in 2011 due to the Bank having sold branches in 2011 and 2010 and these branches are now rented to us and (ii) greater business activity, as well as the expenses related to IT projects being carried out to improve productivity.

Depreciation and amortization expense increased 8.2%, mainly due to higher amortization expenses of intangible assets such as software and other computer systems.

The rise in operating expenses was partially offset by the 97.6% decrease in impairment charges. These charges in 2010 included impairment charges directly related to the earthquake and its effects on our installations.

The following table sets forth, for the periods indicated, our personnel, administrative and depreciation expenses broken down by business segment.

|   | Year ended December 31, |           |           | % Change  | % Change  |   |
|---|-------------------------|-----------|-----------|-----------|-----------|---|
|   | 2011                    | 2010      | 2009      | 2011/2010 | 2010/2009 |   |
|   | (in millions of Ch\$)   |           |           |           |           |   |
| Individuals (Commercial banking)  | (251,554)               | (224,936) | (214,021) | 11.8      | % 5.1     | % |
| Individuals (Santander Banefe)  | (70,719 )               | (66,272 ) | (54,913 ) | 6.7       | % 20.7    | % |
| Small and mid-sized companies   | (74,962 )               | (67,059 ) | (58,741 ) | 11.8      | % 14.2    | % |
| Institutional   | (11,329 )               | (10,108 ) | (6,799 )  | 12.1      | % 48.7    | % |
| Companies   | (40,680 )               | (32,623 ) | (30,628 ) | 24.7      | % 6.5     | % |
| Total commercial banking  | (449,244)               | (400,998) | (365,102) | 12.0      | % 9.8     | % |
| Global banking and markets  | (35,302 )               | (30,788 ) | (29,485 ) | 14.7      | % 4.4     | % |
| Other   | (16,474 )               | (20,150 ) | (13,307 ) | (18.2     | %) 51.4   | % |
| Total personnel, administrative expenses, depreciation and amortization and impairment(1) | (501,020)               | (451,936) | (407,894) | 10.9      | % 10.8    | % |

(1) Excludes other operating expenses.

By business segments, the 10.9% increase in costs in 2011 compared to the corresponding period in 2010 was mainly due to greater expenses incurred as a result of increased business activity associated with an improved economy, the rise in headcount and salaries and the increase in branch rental expenses in all business segments. The decrease in Other is mainly due to the decrease in the impairment charges due to the earthquake recognized in 2010.

The following table sets forth information regarding other operating expenses in the years ended December 31, 2011 and 2010.

|  | Year ended December 31, | % Change | % Change |
|--|-------------------------|----------|----------|
|--|-------------------------|----------|----------|



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|  | 2011                  | 2010     | 2009     | 2011/2010 | 2010/2009 |
|--|-----------------------|----------|----------|-----------|-----------|
|  | (in millions of Ch\$) |          |          |           |           |
| Other operating expenses                 |                       |          |          |           |           |
| Repossessed asset provision and expenses | (12,782 )             | (5,986 ) | (6,128 ) | 113.5 %   | (2.3 %)   |
| Credit card expenses                     | (6,427 )              | (6,777 ) | (5,902 ) | (5.2 %)   | 14.8 %    |
| Customer service expenses                | (8,965 )              | (7,756 ) | (8,807 ) | 15.6 %    | (11.9 %)  |

Table of Contents

|                             | Year ended December 31, |           |           | % Change<br>2011/2010 | % Change<br>2010/2009 |
|-----------------------------|-------------------------|-----------|-----------|-----------------------|-----------------------|
|                             | 2011                    | 2010      | 2009      |                       |                       |
|                             | (in millions of Ch\$)   |           |           |                       |                       |
| Earthquake related expenses | (475 )                  | (5,875 )  | -         | (91.9 %)              | -                     |
| Provision for contingencies | (8,144 )                | (775 )    | (1,088 )  | 950.8 %               | (28.8 %)              |
| Other expenses              | (27,415 )               | (18,233 ) | (15,439 ) | 50.4 %                | 18.1 %                |
| Total                       | (64,208 )               | (45,402 ) | (37,364 ) | 41.4 %                | 21.5 %                |

Other operating expenses were Ch\$64,208 million in 2011, a 41.4% increase compared to the same period in 2010. Other operating expenses include provisions and expenses related to repossessed assets, expenses related to our credit card business, customer service expenses mainly related to our call-center and other expenses such as non-credit charge-offs, the cost of insurance policies (mainly life insurance) for products, and tax paid on interest of foreign debt issued by us. The increase in other operating expenses was mainly due to: (i) higher provisions for repossessed assets that totaled Ch\$10,050 million in 2011, an increase of 179.6%; (ii) provisions for contingencies which totaled Ch\$8,144 million, an increase of 950.8% in 2011, that were mainly provisions set aside for possible non-credit contingencies such as tax, legal and labor contingencies and other non-specific provisions and that increased mainly due to provisions for possible future severance payments and a provision for possible future contingencies related to the Bank's investment in the AFT, the private financial operator of Santiago's mass transport system which may undergo a business restructuring that could negatively affect its profitability; and (iii) other expenses increased 50.4% mainly as a result of a 104.1% rise in operational charge-offs related to ATMs and other equipment that was damaged or vandalized in the year. This was offset by lower earthquake related expenses. See Note 36 to our Audited Financial Statements for more detail on Other operating expenses.

For the years ended December 31, 2010 and 2009. Operating expenses in 2010 increased 11.7% compared to 2009. The efficiency ratio was 37.0% in 2010 compared to 34.2% in 2009, as the increase in operating income was offset by earthquake-related expenses, and greater expenses incurred as a result of stronger business activity.

The 11.5% increase in personnel salaries and expenses was mainly due to higher variable incentives and higher salaries as a result of greater commercial activity and productivity, as well as higher severance payments. Average headcount in the periods being analyzed decreased 2.9%

Administrative expenses increased 7.8%. This was mainly due to higher rent and maintenance expenses of branches, ATM locations and other equipment as a result of higher expenses incurred due to the February 2010 earthquake and tsunami. The rise in administrative expenses was also due to an increase in technology and communication services, an increase in costs of outsourced data processing and higher marketing expenses.

Depreciation and amortization expense increased 6.0%, mainly due to higher amortization expenses of intangible assets such as software and other computer systems.

Operating expenses were also negatively affected by the Ch\$4,925 million impairment charged recognized in 2010. This was mainly due to impairment charges directly related to earthquake-related effects on our installations. This was partially offset by insurance claim revenue recognized in other operating income.

Other operating expenses were Ch\$45,402 million in 2010, a 21.5% increase compared to 2009. The increase in other operating expenses was also due in part to: (i) higher expenses caused by the February 2010 earthquake, which totaled Ch\$5,875 million in 2010, (ii) the 14.8% increase in credit card related expenses in line with greater commercial activity and the increase in the number of alliances for co-branding credit cards and (iii) the 18.1% increase in other expenses which in turn was mainly due to higher operating charge-offs, greater expenses from life insurance and general product insurance policies and greater taxes on expenses paid overseas.

By business segments, the 10.8% increase in costs in 2010 compared to 2009 was mainly due to greater expenses incurred as a result of stronger business activity. This was especially true in the individuals segment in Santander Banefe. In 2009, Santander Banefe decelerated growth and expansion, and in 2010, with the recovery of the economy and better credit risk outlook, Santander Banefe increased its business activity. The increase in other expenses includes the impairment charges due to the earthquake.

Table of Contents

## Income tax

|                       | Year ended December 31, |           |           | % Change  |      | % Change  |    |  |
|-----------------------|-------------------------|-----------|-----------|-----------|------|-----------|----|--|
|                       | 2011                    | 2010      | 2009      | 2011/2010 |      | 2010/2009 |    |  |
|                       | (in millions of Ch\$)   |           |           |           |      |           |    |  |
| Income before tax     | 483,857                 | 592,815   | 525,534   | (18.4     | %)   | 12.8      | %  |  |
| Income tax            | (77,193 )               | (85,343 ) | (88,924 ) | (9.5      | %)   | (4.0      | %) |  |
| Effective tax rate(1) | 15.9                    | %         | 14.4      | %         | 16.9 | %         |    |  |

(1) The effective tax is the income tax divided by net income before tax.

For the years ended December 31, 2011 and 2010. Our income tax expense decreased by 9.5% in the year ended December 31, 2011 compared to the same period in 2010. The effective tax rate paid was 15.9% in 2011 compared to 14.4% in 2010. The statutory tax rate in Chile in 2011 reached 20% compared to 17% in 2010. The higher effective tax rate in 2011 is mainly due to this rise in the statutory corporate tax rate. The decline in income tax expense is mainly due to the lower income before taxes.

The Chilean government and Congress in 2010 approved a temporary increase in the corporate tax rate to 20% in 2011, 18.5% in 2012 and back to 17% in 2013, as part of the plan to finance the reconstruction of public works in the zones most affected by the February 2010 earthquake and tsunami. Discussions are now in place to leave the corporate tax rate at 20%.

The Bank's effective tax rate tends to be below the statutory rate because for tax purposes the Bank is still required to recognize the effects of price level restatement on equity even though inflation accounting is no longer required by Chilean Bank GAAP.

For the years ended December 31, 2010 and 2009. Our income tax expense decreased by 4.0% in 2010 compared to 2009. The effective tax rate paid was 14.4% in 2010 compared to 16.9% in 2009. The statutory tax rate in Chile has not changed in 2010 and was 17% on income before taxes. The lower effective tax rate is mainly due to the fact that Chilean tax regulations still require corporations to recognize the effects of price level restatement on equity even though inflation accounting is no longer required by Chilean GAAP. In 2009, as inflation was negative, stated net income and taxable net income were similar. In 2010, the higher inflation rate has resulted in a loss for tax purposes from price level restatement of equity and thus a lower effective tax rate.

## E. Liquidity and Capital Resources

## Sources of Liquidity

Santander Chile's liquidity depends upon its (i) capital, (ii) reserves and (iii) financial investments, including investments in government securities. To cover any liquidity shortfalls and to augment its liquidity position, Santander-Chile has established lines of credit with foreign and domestic banks and also has access to Central Bank borrowings.

The following table sets forth our contractual obligations and commercial commitments by time remaining to maturity. As of the date of the filing of this Annual Report, the Bank does not have significant purchase obligations. As of December 31, 2011, the scheduled maturities of our contractual obligations and of other commercial commitments, including accrued interest, were as follows:

| Demand | Total |
|--------|-------|
|        | 140   |

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| Contractual Obligations                  | (MCh\$)   | Up to 1 month<br>(MCh\$) | Between 1 and 3 months<br>(MCh\$) | Between 3 and 12 months<br>(MCh\$) | Subtotal up to 1 year<br>(MCh\$) | Between 1 and 5 years<br>(MCh\$) | More than 5 years<br>(MCh\$) | Subtotal after 1 year<br>M(Ch\$) | (MCh\$)   |
|--|-----------|--------------------------|-----------------------------------|------------------------------------|----------------------------------|----------------------------------|------------------------------|----------------------------------|-----------|
| Deposits and other demand liabilities    | 4,413,815 | –                        | –                                 | –                                  | 4,413,815                        | –                                | –                            | –                                | 4,413,815 |
| Investments under repurchase agreements  | –         | 463,083                  | 78,712                            | 2,586                              | 544,381                          | –                                | –                            | –                                | 544,381   |
| Time deposits and other time liabilities | 105,463   | 4,415,765                | 2,509,308                         | 1,496,193                          | 8,526,729                        | 371,736                          | 22,649                       | 394,385                          | 8,921,114 |
| Financial derivative contracts           | –         | 64,290                   | 158,204                           | 209,746                            | 432,240                          | 513,944                          | 346,218                      | 860,162                          | 1,292,402 |

Table of Contents

|                             | Demand           | Up to 1          | Between 1        | Between 3        | Subtotal up       | Between 1        | More than        | Subtotal         | Total             |
|-----------------------------|------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|
| Contractual Obligations     | (MCh\$)          | month            | and 3            | and 12           | to 1 year         | and 5            | 5 years          | after 1          | (MCh\$)           |
| Interbank borrowings        | (MCh\$)          | (MCh\$)          | months           | months           | (MCh\$)           | years            | (MCh\$)          | year             | (MCh\$)           |
|                             | 194,451          | 7,750            | 470,749          | 1,068,014        | 1,740,964         | 179,128          | –                | 179,128          | 1,920,092         |
| Issued debt instruments     | –                | 3,788            | 15               | 890,086          | 893,889           | 2,286,059        | 1,443,291        | 3,729,350        | 4,623,239         |
| Other financial liabilities | 50,840           | 761              | 980              | 3,497            | 56,078            | 39,025           | 81,496           | 120,521          | 176,599           |
| <b>Total liabilities</b>    | <b>4,764,569</b> | <b>4,955,437</b> | <b>3,217,968</b> | <b>3,670,122</b> | <b>16,608,096</b> | <b>3,389,892</b> | <b>1,893,654</b> | <b>5,283,546</b> | <b>21,891,644</b> |

## Operational Leases

Certain bank premises and equipment are leased under various operating leases. Future minimum rental commitments as of December 31, 2011, under non-cancelable leases are as follows:

|                                      | As of December 31, 2011<br>(in millions of Ch\$) |
|--------------------------------------|--|
| Due within 1 year                    | 15,089   |
| Due after 1 year but within 2 years  | 13,521   |
| Due after 2 years but within 3 years | 12,373   |
| Due after 3 years but within 4 years | 10,781   |
| Due after 4 years but within 5 years | 9,347  |
| Due after 5 years                    | 63,686   |
| <b>Total</b>                         | <b>124,797</b>                                   |

## Other Commercial Commitments

As of December 31, 2011, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

|   | Up to 1        | Between 1      | Between 3      | Between 1      | More than     | Total            |
|---|----------------|----------------|----------------|----------------|---------------|------------------|
| Other Commercial Commitments              | month (in      | and 3          | and 12         | and 5          | 5 years (in   | (in              |
|   | millions       | months         | months         | years (in      | millions      | millions of      |
|   | of Ch\$)       | (in            | (in            | millions       | of Ch\$)      | Ch\$)            |
|   | of Ch\$)       | millions       | millions       | of Ch\$)       | of Ch\$)      | of Ch\$)         |
| Guarantees                                | 77,688         | 120,989        | 314,486        | 383,712        | 24,111        | 920,986          |
| Confirmed foreign letters of credit       | 21,653         | 19,091         | 377            | 11,768         | -             | 52,889           |
| Letters of credit issued                  | 58,665         | 85,747         | 1,552          | 38,685         | -             | 184,649          |
| Pledges and other commercial commitments  | 22,253         | 31,783         | 27,934         | 59,849         | 5,262         | 147,081          |
| <b>Total other commercial commitments</b> | <b>180,259</b> | <b>257,610</b> | <b>344,349</b> | <b>494,014</b> | <b>29,373</b> | <b>1,305,605</b> |

### Risk-Weighted Assets and Regulatory Capital

We currently have regulatory capital in excess of the minimum requirement under the current Chilean regulations. According to the General Banking Law, a bank is required to have regulatory capital of at least 8% of its risk weighted assets, net of required loan loss allowances, and paid in capital and reserves (i.e., the basic capital, as defined above) of at least 3% of its total assets, net of required loan loss allowances. For these purposes, the regulatory capital of a bank is the sum of (1) the bank's basic capital, (2) subordinated bonds issued by the bank valued at their placement price for an amount up to 50% of its basic capital; provided that the value of the bonds is required to be decreased by 20% for each year that elapses during the period commencing six years prior to their maturity, and (3) its voluntary allowances for loan losses, for an amount of up to 1.25% of its risk weighted assets. Santander Chile does not have goodwill, but if it did, this value would be required to be deducted from regulatory

Table of Contents

capital. When calculating risk weighted assets, we also include off-balance sheet contingent loans. The merger of Old Santander Chile and Santiago on August 1, 2002 required a special regulatory pre-approval of the SBIF, which was granted on May 16, 2002. The resolution granting this pre-approval imposed a regulatory capital to risk weighted assets ratio of 12% for the merged bank. This requirement was reduced to 11% by the SBIF effective January 1, 2005. For purposes of weighing the risk of a bank's assets, the General Banking Law considers five different categories of assets, based on the nature of the issuer, the availability of funds, and the nature of the assets and the existence of collateral securing such assets.

The following table sets forth our consolidated and risk-weighted assets and regulatory capital as of December 31, 2011 and 2010.

|   | Consolidated assets as of |                   | Risk-weighted assets |                   |
|---|---------------------------|-------------------|----------------------|-------------------|
|   | December 31, 2011         | December 31, 2010 | December 31, 2011    | December 31, 2010 |
|   | (Ch\$ million)            |                   |                      |                   |
| Asset Balance (Net of allowances)(3)          |                           |                   |                      |                   |
| Cash and deposits in bank                     | 2,793,701                 | 1,762,198         | -                    | -                 |
| Cash items in process of collection           | 276,454                   | 374,368           | 45,737               | 126,083           |
| Trading investments                           | 409,763                   | 379,670           | 23,817               | 57,588            |
| Investments under resale agreements           | 12,928                    | 170,985           | 12,928               | 98,323            |
| Financial derivative contracts                | 1,158,023                 | 1,452,068         | 807,233              | 871,872           |
| Interbank loans                               | 87,541                    | 69,672            | 17,508               | 13,934            |
| Loans and accounts receivables from customers | 16,823,407                | 15,215,318        | 14,746,903           | 13,350,182        |
| Available for sale investments                | 1,661,311                 | 1,473,980         | 99,197               | 101,875           |
| Investments in other companies                | 8,728                     | 7,275             | 8,728                | 7,275             |
| Intangibles assets                            | 80,739                    | 77,990            | 80,739               | 77,990            |
| Property, plant and equipment                 | 153,059                   | 154,985           | 153,059              | 154,985           |
| Current taxes                                 | 37,253                    | 12,499            | 3,725                | 1,250             |
| Deferred taxes                                | 147,754                   | 117,964           | 14,775               | 11,796            |
| Other assets                                  | 546,470                   | 640,937           | 426,822              | 474,135           |
| Off-balance sheet assets                      |                           |                   | -                    |                   |
| Contingent loans                              | 3,023,330                 | 3,173,789         | 1,801,971            | 1,897,977         |
| Total   | 27,220,461                | 25,083,698        | 18,243,142           | 17,245,265        |
|   |                           |                   | Ratio(1) (2)         |                   |
|   | December 31, 2011         | December 31, 2010 | December 31, 2011    | December 31, 2010 |
|   | (Ch\$ million)            |                   | %                    | %                 |
| Basic capital                                 | 2,001,222                 | 1,831,798         | 7.35                 | 7.30              |
| Regulatory capital                            | 2,687,393                 | 2,503,898         | 14.73                | 14.52             |

(1) As a percentage of total assets.

(2) As a percentage of risk weighted assets (BIS ratio).

(3) As required by local regulations.

In line with the future adoption of Basel II regulations in Chile, the SBIF has recently proposed to increase the minimum regulatory capital ratio from 8% to 10%, which would require an amendment to the General Banking Law.



Although we currently have a regulatory capital ratio of 14.73%, this change could require us to inject additional capital to our business in the future. According to initial estimates of the impact of market risk on regulatory capital, published by the SBIF, our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, including an initial estimate of the adjustments for market risk set forth under Basel II was 13.38% as of December 31, 2011. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

#### Financial Investments

The following table sets forth our investment in Chilean government and corporate securities and certain other financial investments at the dates indicated. Financial investments that have a secondary market are carried at market value. All other financial investments are carried at acquisition cost, plus accrued interest and indexation

Table of Contents

readjustments, as applicable. Interest income from the trading portfolio is no longer included as interest income, but as income from trading and mark-to-market of securities.

## a) Trading

|  | As of December 31,    |         |         |
|--|-----------------------|---------|---------|
|  | 2011                  | 2010    | 2009    |
|  | (in millions of Ch\$) |         |         |
| Chilean Central Bank and Government Securities       |                       |         |         |
| Chilean Central Bank bonds                           | 311,503               | 247,019 | 667,703 |
| Chilean Central Bank notes                           | 60,233                | 68,985  | 63,868  |
| Other Chilean Central Bank and government securities | 15,789                | 7,123   | 29,806  |
| Subtotal   | 387,525               | 323,127 | 761,377 |
| Other Chilean Securities                             |                       |         |         |
| Time deposits in Chilean financial institutions      | -                     | -       | -       |
| Mortgage bonds of Chilean financial institutions     | -                     | -       | 11      |
| Chilean financial institutions bonds                 | -                     | 19,628  | -       |
| Chilean corporate bonds                              | -                     | 11,404  | -       |
| Other Chilean securities                             | -                     | -       | -       |
| Subtotal   | -                     | 31,032  | 11      |
| Foreign Financial Securities                         |                       |         |         |
| Other foreign financial instruments                  | -                     | -       | -       |
| Subtotal   | -                     | -       | -       |
| Investments in mutual funds                          |                       |         |         |
| Funds managed by related entities                    | 22,238                | 25,511  | 37,151  |
| Subtotal   | 22,238                | 25,511  | 37,151  |
| Total  | 409,763               | 379,670 | 798,539 |

Table of Contents

## b) Available for sale

|   | As of December 31,    |                  |                  |
|---|-----------------------|------------------|------------------|
|   | 2011                  | 2010             | 2009             |
|   | (in millions of Ch\$) |                  |                  |
| <b>Chilean Central Bank and Government Securities</b> |                       |                  |                  |
| Chilean Central Bank bonds                            | 570,573               | 555,981          | 1,063,879        |
| Chilean Central Bank notes                            | 563,114               | 366,210          | 264,011          |
| Other Chilean Central Bank and government securities  | 173,839               | 175,296          | 212,362          |
| Subtotal  | 1,307,526             | 1,097,487        | 1,540,252        |
| <b>Other Chilean Securities</b>                       |                       |                  |                  |
| Time deposits in Chilean financial institutions       | 275,022               | -                | 41,407           |
| Mortgage bonds of Chilean financial institutions      | 66,806                | 218,112          | 236,847          |
| Chilean financial institution bonds                   | -                     | -                | -                |
| Chilean corporate bonds                               | -                     | -                | 11,584           |
| Other Chilean securities                              | 319                   | 147,833          | -                |
| Subtotal  | 342,147               | 365,945          | 289,838          |
| <b>Others Financial Securities</b>                    |                       |                  |                  |
| Central Bank and Government Foreign Securities        | -                     | -                | -                |
| Other Foreign financial securities                    | 11,638                | 10,548           | -                |
| Subtotal  | 11,638                | 10,548           | -                |
| <b>Total</b>  | <b>1,661,311</b>      | <b>1,473,980</b> | <b>1,830,090</b> |

## c) Held-to-maturity

No financial investments were classified as held-to-maturity as of December 31, 2011, 2010 and 2009.

Table of Contents

The following table sets forth an analysis of our investments as of December 31, 2011 by remaining maturity and the weighted average nominal rates of such investments.

|  | Within<br>one year                     | After<br>one<br>year                           | After<br>five<br>years                        | After<br>one<br>year                           | After<br>five<br>years                        | After<br>one<br>year                           | After<br>five<br>years                        | After<br>one<br>year                           | After<br>five<br>years                        | Total | Weighted<br>average<br>Nominal<br>Rate |
|--|--|--|---|--|---|--|---|--|---|-------|--|
|  | Weighted<br>average<br>Nominal<br>Rate | Weighted<br>average<br>within<br>five<br>years | Weighted<br>average<br>within<br>ten<br>years | Weighted<br>average<br>within<br>five<br>years | Weighted<br>average<br>within<br>ten<br>years | Weighted<br>average<br>within<br>five<br>years | Weighted<br>average<br>within<br>ten<br>years | Weighted<br>average<br>within<br>five<br>years | Weighted<br>average<br>within<br>ten<br>years |       |  |
| (in millions of Ch\$, except rates)                |  |  |   |  |   |  |   |  |   |       |  |
| Held for Trading                                   |  |  |   |  |   |  |   |  |   |       |  |
| Central Bank and Government Securities             |  |  |   |  |   |  |   |  |   |       |  |
| Central Bank bonds                                 | 264,539                                | 3.5  | 38,180  | 2.8  | 8,198   | 3.1  | 586   | 2.8  | 311,503                                       | 3.4   |  |
| Central Bank notes                                 | 54,286                                 | 3.5  | 5,885   | 0.3  | 62  | -  | -   | -  | 60,233  | 3.4   |  |
| Other Chilean Central Bank and Treasury securities | -                                      | -  | 792   | -  | 14,766  | 3.1  | 231   | -  | 15,789  | 3.1   |  |
| Subtotal   | 318,825                                | -  | 44,857  | -  | 23,026  | -  | 817   | -  | 387,525                                       | -     |  |
| Other Chilean Securities                           |  |  |   |  |   |  |   |  |   |       |  |
| Mortgage finance bonds                             | -                                      | -  | -   | -  | -   | -  | -   | -  | -   | -     |  |
| Chilean financial institutions bonds               | -                                      | -  | -   | -  | -   | -  | -   | -  | -   | -     |  |
| Chilean corporate bonds                            | -                                      | -  | -   | -  | -   | -  | -   | -  | -   | -     |  |
| Subtotal   | -                                      | -  | -   | -  | -   | -  | -   | -  | -   | -     |  |
| Investment in mutual funds                         |  |  |   |  |   |  |   |  |   |       |  |
| Mutual funds administered by related parties       |  |  |   |  |   |  |   |  |   |       |  |
| Subtotal   | 22,238                                 | 0.3  | -   | -  | -   | -  | -   | -  | 22,238  | 0.3   |  |
| Total  | 341,063                                | -  | 44,857  | -  | 23,026  | -  | 817   | -  | 409,763                                       | -     |  |

|                                      | Within<br>one year                     | After<br>one<br>year                           | After<br>five<br>years                        | After<br>one<br>year                           | After<br>five<br>years                        | After<br>one<br>year                           | After<br>five<br>years                        | After<br>one<br>year                           | After<br>five<br>years                        | Total | Weighted<br>average<br>Nominal<br>Rate |
|--------------------------------------|--|--|---|--|---|--|---|--|---|-------|--|
|                                      | Weighted<br>average<br>Nominal<br>Rate | Weighted<br>average<br>within<br>five<br>years | Weighted<br>average<br>within<br>ten<br>years | Weighted<br>average<br>within<br>five<br>years | Weighted<br>average<br>within<br>ten<br>years | Weighted<br>average<br>within<br>five<br>years | Weighted<br>average<br>within<br>ten<br>years | Weighted<br>average<br>within<br>five<br>years | Weighted<br>average<br>within<br>ten<br>years |       |  |
| (in millions of Ch\$, except rates ) |  |  |   |  |   |  |   |  |   |       |  |

## Available-for-sale

## Investments

## Central Bank and

## Government Securities

|                    |         |     |         |     |         |     |       |     |           |     |  |
|--------------------|---------|-----|---------|-----|---------|-----|-------|-----|-----------|-----|--|
| Central Bank bonds | 158,968 | 4.2 | 327,479 | 4.5 | 83,801  | 5.5 | 325   | -   | 570,573   | 4.6 |  |
| Central Bank notes | 543,682 | 0.4 | 15,367  | 2.9 | 115     | 2.7 | 3,950 | 2.4 | 563,114   | 0.5 |  |
| Others securities  | 722     | 2.6 | 47,218  | 5.0 | 125,442 | 5.2 | 457   | 4.6 | 173,839   | 5.0 |  |
| Subtotal           | 703,372 | -   | 390,064 | -   | 209,358 | -   | 4,732 | -   | 1,307,526 | -   |  |

## Others Financial Securities

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|                           |         |     |         |     |         |     |        |     |           |     |
|---------------------------|---------|-----|---------|-----|---------|-----|--------|-----|-----------|-----|
| Mortgage finance bonds    | 419     | 0.3 | 1,422   | 3.8 | 4,807   | 3.7 | 60,158 | 3.8 | 66,806    | 3.8 |
| Chilean corporate bonds   | -       | -   | -       | -   | -       | -   | -      | -   | -         | -   |
| Deposit in Chilean        |         |     |         |     |         |     |        |     |           |     |
| Financial Institutions    | 275,022 | 0.5 | -       | -   | -       | -   | -      | -   | 275,022   | 0.5 |
| Others Chilean Securities | 24      | 5.9 | 295     | 6.3 | -       | -   | -      | -   | 319       | 6.2 |
| Central Bank and          |         |     |         |     |         |     |        |     |           |     |
| Government                | -       | -   | -       | -   | -       | -   | -      | -   | -         | -   |
| Foreign Financial         |         |     |         |     |         |     |        |     |           |     |
| Securities                |         |     |         |     |         |     |        |     |           |     |
| Others Foreign Securities | -       | -   | 11,638  | 2.2 | -       | -   | -      | -   | 11,638    | 2.2 |
| Subtotal                  | 275,465 | -   | 13,355  | -   | 4,807   | -   | 60,158 | -   | 353,785   | -   |
| Total                     | 978,837 | -   | 403,419 | -   | 214,165 | -   | 64,890 | -   | 1,661,311 | -   |

## Table of Contents

### Working Capital

As a bank, we satisfy our working capital needs through general funding, the majority of which derives from deposits and other borrowings from the public. (See “Item 5: E. Liquidity and Capital Resources—Deposits and Other Borrowings”). In our opinion, our working capital is sufficient for our present needs.

### Liquidity Management

Liquidity management seeks to ensure that, even under adverse conditions, we have access to the funds necessary to cover client needs, maturing liabilities and capital requirements. Liquidity risk arises in the general funding for our financing, trading and investment activities. It includes the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates, the risk of being unable to liquidate a position in a timely manner at a reasonable price and the risk that we will be required to repay liabilities earlier than anticipated.

Our general policy is to maintain liquidity adequate to ensure our ability to honor withdrawals of deposits, make repayments of other liabilities at maturity, extend loans and meet our own working capital needs. Our minimum amount of liquidity is determined by the statutory reserve requirements of the Central Bank. Deposits are subject to a statutory reserve requirement of 9% for demand deposits and 3.6% for Chilean peso, UF-denominated and foreign currency denominated time deposits with a term of less than a year. (See “Item 4: C. Business Overview— Regulation and Supervision”). The Central Bank has statutory authority to increase these percentages to up to 40% for demand deposits and up to 20% for time deposits. In addition, a 100% special reserve (reserva técnica) applies to demand deposits, deposits in checking accounts, other demand deposits received or obligations payable on sight and incurred in the ordinary course of business, other than deposits unconditionally payable immediately. This special reserve requirement applies to the amount by which the total of such deposits exceeds 2.5 times the amount of a bank’s regulatory capital. Interbank loans are deemed to have a maturity of more than 30 days, even if payable within the following 10 days.

The Central Bank also requires us to comply with the following liquidity limits:

- Our total liabilities with maturities of less than 30 days cannot exceed our total assets with maturities of less than 30 days by an amount greater than our capital. This limit must be calculated in local currency and foreign currencies together as one gap.
- Our total liabilities with maturities of less than 90 days cannot exceed our total assets with maturities of less than 90 days by more than twice of our capital. This limit must be calculated in local currency and foreign currencies together as one gap.

We have set other liquidity limits and ratios that minimize liquidity risk. See “Item 11: Quantitative and Qualitative Disclosure About Market Risk.”

### Cash Flow

The tables below set forth our main sources of cash. The subsidiaries are not an important source of cash flow for us and therefore have no impact on our ability to meet our cash obligations. No legal or economic restrictions exist on the ability of subsidiaries to transfer funds to us in the form of loans or cash dividends as long as these subsidiaries abide by the regulations of the Ley de Sociedad Anónimas regarding loans to related parties and minimum dividend payments. See our Consolidated Statements of Cash Flows in our Audited Consolidated Financial Statements for a detailed breakdown of the Bank’s cash flow.

|   | Year ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2011                    | 2010      | 2009      |
|   | (in millions of Ch\$)   |           |           |
| Net cash provided by (used in) operating activities | 1,556,890               | (64,037 ) | 1,323,587 |

The cash generated by operating activities in 2011 was Ch\$1,556,890 million and was mainly due to the strong growth in time deposits and other funding sources that outstripped loan growth in the period. In 2010, operating activities consumed cash of Ch\$64,037 million, mainly due to the increase in loans in line with the rise in economic

Table of Contents

activity partially offset by a rise in deposits and bonds issued. In 2009, operating activities provided net cash of Ch\$1,323,587 million mainly due to the slower economic environment that reduced our loan portfolio and an increase in bond issuances. This was offset by a reduction in time deposits.

|  | Year ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2011                    | 2010      | 2009      |
|  | (in millions of Ch\$)   |           |           |
| Net cash used in investment activities | (52,095 )               | (20,019 ) | (28,129 ) |

In 2011, the cash used by investing activities was Ch\$52,095 million mainly relating to investments in property, plant, equipment and technology. In 2010, the cash used by investing activities was Ch\$20,019 million mainly relating to investments in property, plant and equipment. This was partially offset by the sale of branches in 2010, Net cash used in investing activities in 2009 totaled Ch\$28,129 million. The largest consumption of cash involved the purchase of fixed and intangible assets offset in part by the sale of fixed assets.

|                                       | Year ended December 31, |            |            |
|---------------------------------------|-------------------------|------------|------------|
|                                       | 2011                    | 2010       | 2009       |
|                                       | (in millions of Ch\$)   |            |            |
| Net cash used in financing activities | (289,416 )              | (258,756 ) | (172,065 ) |

In 2011, 2010 and 2009, the net cash used by financing activities can be explained by the Bank's annual dividend payment each year.

## Deposits and Other Borrowings

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2011, 2010, 2009 and 2008, in each case together with the related average nominal interest rates paid thereon.

| (millions of Ch\$, except percentages) | 2011            |                        |                      | 2010            |                        |                      | 2009            |                        |                      |
|--|-----------------|------------------------|----------------------|-----------------|------------------------|----------------------|-----------------|------------------------|----------------------|
|  | Average Balance | % of Total Liabilities | Average Nominal Rate | Average Balance | % of Total Liabilities | Average Nominal Rate | Average Balance | % of Total Liabilities | Average Nominal Rate |
| Savings accounts                       | 103,085         | 0.4 %                  | 3.6 %                | 102,732         | 0.5 %                  | 1.2 %                | 100,294         | 0.5 %                  | (1.0 %)              |
| Time deposits                          | 9,107,719       | 37.7 %                 | 4.9 %                | 7,482,544       | 35.9 %                 | 3.0 %                | 8,355,446       | 41.8 %                 | 2.8 %                |
| Central Bank borrowings                | 3,097           | 0.0 %                  | 6.0 %                | 304,292         | 1.5 %                  | 0.5 %                | 297,346         | 1.5 %                  | 0.9 %                |
| Repurchase agreements                  | 249,174         | 1.0 %                  | 3.5 %                | 196,719         | 0.9 %                  | 1.2 %                | 486,000         | 2.4 %                  | 2.9 %                |
| Mortgage finance bonds                 | 174,224         | 0.7 %                  | 9.2 %                | 224,436         | 1.1 %                  | 7.8 %                | 301,501         | 1.5 %                  | 2.8 %                |
| Other interest bearing liabilities     | 6,128,052       | 25.4 %                 | 5.2 %                | 5,126,595       | 24.6 %                 | 4.5 %                | 3,909,793       | 19.6 %                 | 2.5 %                |
| Subtotal interest bearing              | 15,765,351      | 65.2 %                 | 5.1 %                | 13,437,318      | 64.5 %                 | 3.5 %                | 13,450,380      | 67.3 %                 | 2.6 %                |



## liabilities

Non-interest  
bearing  
liabilitiesNon-interest  
bearing

|  |            |         |            |         |            |         |
|--|------------|---------|------------|---------|------------|---------|
| deposits   | 3,575,544  | 14.8 %  | 3,152,513  | 15.1 %  | 2,475,050  | 12.4 %  |
| Derivatives  | 1,457,638  | 6.1 %   | 1,323,161  | 6.3 %   | 1,387,026  | 6.9 %   |
| Other<br>non-interest<br>bearing<br>liabilities    | 1,340,699  | 5.6 %   | 1,192,374  | 5.7 %   | 1,079,516  | 5.4 %   |
| Shareholders'<br>equity                            | 1,994,487  | 8.3 %   | 1,752,329  | 8.4 %   | 1,599,938  | 8.0 %   |
| Subtotal<br>non-interest<br>bearing<br>liabilities | 8,368,368  | 34.8 %  | 7,420,377  | 35.5 %  | 6,541,530  | 32.7 %  |
| Total liabilities                                  | 24,133,719 | 100.0 % | 20,857,695 | 100.0 % | 19,991,910 | 100.0 % |

Our most important source of funding is our time deposits. Average time deposits represented 37.7% of our average total liabilities and shareholders' equity in 2011. Our current funding strategy is to continue to utilize all sources of funding in accordance with their costs, their availability and our general asset and liability management strategy. Special emphasis is being placed on lengthening the maturities of time deposits with institutional clients

Table of Contents

and increasing in general our deposits from retail customers. We also intend to continue to broaden our customer deposit base and to emphasize core deposit funding. We have also followed the strategy in 2011 of increasing our deposits with our client base in order to improve our funding mix. We believe that broadening our deposit base by increasing the number of account holders has created a more stable funding source.

## Composition of Deposits

The following table sets forth the composition of our deposits and similar commitments at December 31, 2011, 2010, 2009 and 2008.

|  | 2011                  | 2010       | 2009       | 2008       |
|--|-----------------------|------------|------------|------------|
|  | (in millions of Ch\$) |            |            |            |
| Demand deposits and other demand obligations |                       |            |            |            |
| Checking accounts                            | 3,543,776             | 3,330,352  | 2,776,607  | 2,268,991  |
| Other deposits and demand accounts           | 350,519               | 368,934    | 303,495    | 206,347    |
| Other demand obligations                     | 519,520               | 537,148    | 453,432    | 472,824    |
| Subtotals                                    | 4,413,815             | 4,236,434  | 3,533,534  | 2,948,162  |
| Time deposits and other time deposits        |                       |            |            |            |
| Time deposits                                | 8,816,766             | 7,154,396  | 4,219,392  | 9,476,024  |
| Time saving accounts                         | 102,831               | 103,191    | 98,985     | 102,951    |
| Other time deposits                          | 1,517                 | 1,170      | 2,856,880  | 177,291    |
| Subtotals                                    | 8,921,114             | 7,258,757  | 7,175,257  | 9,756,266  |
| Total deposits and other commitments         | 13,334,929            | 11,495,191 | 10,708,791 | 12,704,428 |

## Maturity of Deposits

The following table sets forth information regarding the currency and maturity of our deposits as of December 31, 2011, expressed in percentages of our total deposits in each currency category. UF-denominated deposits are similar to peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Chilean consumer price index.

|                                       | Ch\$   |   | UF     |   | Foreign Currencies |   | Total  |   |
|---------------------------------------|--------|---|--------|---|--------------------|---|--------|---|
|                                       |        | % |        | % |                    | % |        | % |
| Demand deposits                       | 0.01   | % | 0.03   | % | 0.01               | % | 0.02   | % |
| Savings accounts                      | 0.02   | % | 4.76   | % | 0.00               | % | 1.15   | % |
| Time deposits:                        |        |   |        |   |                    |   |        |   |
| Maturing within 3 months              | 85.07  | % | 35.96  | % | 94.83              | % | 74.60  | % |
| Maturing after 3 but within 6 months  | 9.43   | % | 8.81   | % | 4.08               | % | 8.56   | % |
| Maturing after 6 but within 12 months | 3.88   | % | 34.28  | % | 0.53               | % | 10.73  | % |
| Maturing after 12 months              | 1.59   | % | 16.16  | % | 0.55               | % | 4.94   | % |
| Total time deposits                   | 99.97  | % | 95.21  | % | 99.99              | % | 98.83  | % |
| Total deposits                        | 100.00 | % | 100.00 | % | 100.00             | % | 100.00 | % |

The following table sets forth information regarding the maturity of our outstanding time deposits in excess of US\$100,000 as of December 31, 2011.

Table of Contents

|                                       | Ch\$                  | UF        | Foreign<br>Currencies | Total     |
|---------------------------------------|-----------------------|-----------|-----------------------|-----------|
|                                       | (in millions of Ch\$) |           |                       |           |
| Time deposits:                        |                       |           |                       |           |
| Maturing within 3 months              | 4,429,100             | 685,170   | 1,035,097             | 6,149,367 |
| Maturing after 3 but within 6 months  | 482,166               | 158,427   | 45,841                | 686,434   |
| Maturing after 6 but within 12 months | 281,238               | 957,334   | 11,812                | 1,250,384 |
| Maturing after 12 months              | 368                   | 23,565    | -                     | 23,933    |
| Total time deposits                   | 5,192,872             | 1,824,496 | 1,092,750             | 8,110,118 |

## Short-term Borrowings

The principal categories of our short-term borrowings are repurchase agreements and interbank borrowings. The table below presents the amounts outstanding at each year-end indicated and the weighted-average nominal interest rate for each such year by type of short-term borrowing.

|  | 2011                                      |   |   | 2010      |   |   | 2009      |   |   |
|--|---|---|---|-----------|---|---|-----------|---|---|
|  | Balance                                   | Weighted-<br>Average<br>Nominal<br>Interest<br>Rate |   | Balance   | Weighted-<br>Average<br>Nominal<br>Interest<br>Rate |   | Balance   | Weighted-<br>Average<br>Nominal<br>Interest<br>Rate |   |
|  | (in millions of Ch\$, except percentages) |   |   |           |   |   |           |   |   |
| Obligations arising from repurchase agreements | 544,381                                   | 0.4   | % | 294,725   | 0.2   | % | 166,852   | 0.2   | % |
| Obligations with the Central Bank              | 810                                       | 0.5   | % | 1,307     | 0.5   | % | 947,753   | 0.5   | % |
| Loans from domestic financial institutions     | -   | 0.0   | % | -         | -   |   | 26,301    | 0.4   | % |
| Foreign obligations                            | 1,740,254                                 | 0.5   | % | 1,458,479 | 0.8   | % | 1,812,296 | 0.7   | % |
| Total short-term borrowings                    | 2,285,445                                 | 0.5   | % | 1,754,511 | 0.7   | % | 2,953,202 | 0.6   | % |

The following table shows the average balance and the average nominal rate for each short-term borrowing category for the years indicated.

|  | 2011                                      |   |   | 2010               |   |   | 2009               |   |   |
|--|---|---|---|--------------------|---|---|--------------------|---|---|
|  | Average<br>Balance                        | Weighted-<br>Average<br>Nominal<br>Interest<br>Rate |   | Average<br>Balance | Weighted-<br>Average<br>Nominal<br>Interest<br>Rate |   | Average<br>Balance | Weighted-<br>Average<br>Nominal<br>Interest<br>Rate |   |
|  | (in millions of Ch\$, except percentages) |   |   |                    |   |   |                    |   |   |
| Obligations arising from repurchase agreements | 249,174                                   | 3.5   | % | 294,725            | 0.20  | % | 1,114,605          | 0.2   | % |
| Obligations with the Central Bank              | 3,097                                     | 6.0   | % | 1,307              | 0.50  | % | 1,850              | 0.5   | % |
| Loans from domestic financial institutions     | 24,912                                    | 3.0   | % | -                  | -   |   | 26,301             | 0.4   | % |
| Foreign obligations                            | 1,812,802                                 | 1.3   | % | 1,458,479          | 0.81  | % | 1,812,296          | 0.7   | % |
| Total short-term borrowings                    | 2,089,985                                 | 1.6   | % | 1,754,511          | 0.71  | % | 2,955,052          | 0.5   | % |

The following table presents the maximum month-end balances of our principal sources of short-term borrowings during the years indicated.

79

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Table of Contents

|  | Maximum 2011<br>Month-End<br>Balance | Maximum 2010<br>Month-End<br>Balance | Maximum 2009<br>Month-End<br>Balance |
|--|--------------------------------------|--------------------------------------|--------------------------------------|
|  | In millions of Ch\$                  |                                      |                                      |
| Obligations arising from repurchase agreements | 544,381                              | 1,180,620                            | 1,165,241                            |
| Obligations with the Central Bank              | 1,241                                | 1,740                                | 2,711                                |
| Loans from domestic financial institutions     | 244,071                              | 13,923                               | 256,717                              |
| Foreign obligations                            | 2,024,146                            | 2,098,648                            | 2,014,913                            |
| Total short-term borrowings                    | 2,813,839                            | 3,294,931                            | 3,439,582                            |

## Total Borrowings

|   | As of December 31, 2011 |            |           |
|---|-------------------------|------------|-----------|
|   | Long-term               | Short-term | Total     |
|   | (in millions of Ch\$)   |            |           |
| Central Bank credit lines for renegotiations of loans (a) | -                       | 810        | 810       |
| Investment under repurchase agreements                    | -                       | 544,381    | 544,381   |
| Mortgage finance bonds (b)                                | 152,536                 | 7,707      | 160,243   |
| Senior bonds (c)  | 2,851,785               | 749,340    | 3,601,125 |
| Subordinated bonds (d)                                    | 725,029                 | 136,842    | 861,871   |
| Borrowings from domestic financial institutions           | -                       | -          | -         |
| Foreign borrowings (e)                                    | 179,028                 | 1,740,254  | 1,919,282 |
| Other obligations (f)                                     | 120,521                 | 56,078     | 176,599   |
| Total borrowings  | 4,028,899               | 3,235,412  | 7,264,311 |

|   | As of December 31, 2010 |            |           |
|---|-------------------------|------------|-----------|
|   | Long-term               | Short-term | Total     |
|   | (in millions of Ch\$)   |            |           |
| Central Bank credit lines for renegotiations of loans (a) | -                       | 1,307      | 1,307     |
| Investment under repurchase agreements                    | -                       | 294,725    | 294,725   |
| Mortgage finance bonds (b)                                | 183,383                 | 10,751     | 194,134   |
| Senior bonds (c)  | 2,763,572               | 547,107    | 3,310,679 |
| Subordinated bonds (d)                                    | 664,383                 | 21,692     | 686,075   |
| Borrowings from domestic financial institutions           | -                       | -          | -         |
| Foreign borrowings (e)p                                   | 124,271                 | 1,458,479  | 1,582,750 |
| Other obligations (f)                                     | 122,247                 | 44,042     | 166,289   |
| Total borrowings  | 3,857,856               | 2,378,103  | 6,235,959 |

|   | As of December 31, 2009 |            |           |
|---|-------------------------|------------|-----------|
|   | Long-term               | Short-term | Total     |
|   | (in millions of Ch\$)   |            |           |
| Central Bank credit lines for renegotiations of loans (a) | -                       | 1,850      | 1,850     |
| Investment under repurchase agreements                    | -                       | 1,114,605  | 1,114,605 |
| Mortgage finance bonds (b)                                | 213,853                 | 50,011     | 263,864   |
| Senior bonds (c)  | 1,901,972               | 166,814    | 2,068,786 |
| Subordinated bonds (d)                                    | 592,026                 | -          | 592,026   |
| Borrowings from domestic financial institutions           | -                       | 26,301     | 26,301    |

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|                        |           |           |           |
|------------------------|-----------|-----------|-----------|
| Foreign borrowings (e) | 206,343   | 1,812,296 | 2,018,639 |
| Other obligations (f)  | 109,013   | 37,898    | 146,911   |
| Total borrowings       | 3,023,207 | 3,209,775 | 6,232,982 |

80

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Table of Contents

## (a) Credit lines for renegotiations of loans

Central Bank borrowings include credit lines for the renegotiations of loans and other Central Bank borrowings. These credit lines were provided by the Central Bank for the renegotiations of loans due to the need to refinance debts as a result of the economic recession and crisis of the banking system in the early 1980s. The maturities of the outstanding amounts due under these credit lines, which are considered long-term, are as follows:

|                   | As of December<br>31, 2011 | As of December<br>31, 2010 |
|-------------------|----------------------------|----------------------------|
|                   | (in millions of Ch\$)      |                            |
| Due within 1 year | 810                        | 1,307                      |
| Total             | 810                        | 1,307                      |

## (b) Mortgage finance bonds

These bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and bear a real weighted-average annual interest rate of 5.7% as of December 31, 2011. The following table sets forth the remaining maturities of our mortgage finance bonds at December 31, 2011.

|                                      | As of December 31,<br>2011 |
|--------------------------------------|----------------------------|
|                                      | (in millions of Ch\$)      |
| Due within 1 year                    | 7,707                      |
| Due after 1 year but within 2 years  | 7,535                      |
| Due after 2 years but within 3 years | 10,333                     |
| Due after 3 years but within 4 years | 21,122                     |
| Due after 4 years but within 5 years | 14,010                     |
| Due after 5 years                    | 99,536                     |
| Total mortgage finance bonds         | 160,243                    |

## (c) Senior Bonds

The following table sets forth, at the dates indicated, our issued bonds. The bonds are denominated principally in UFs or U.S. dollars, and are principally used to fund the Bank's mortgage portfolio.

|                                      | As of December 31,    |           |           |
|--------------------------------------|-----------------------|-----------|-----------|
|                                      | 2011                  | 2010      | 2009      |
|                                      | (in millions of Ch\$) |           |           |
| Santander bonds denominated in UF    | 2,001,713             | 1,952,051 | 1,660,877 |
| Santander bonds denominated in US\$  | 1,268,763             | 936,134   | 407,909   |
| Santander bonds denominated in CHF\$ | 119,394               | 174,297   | -         |
| Santander bonds denominated in \$    | 211,255               | 248,197   | -         |
| Total bonds                          | 3,601,125             | 3,310,679 | 2,068,786 |

Table of Contents

The maturities of these bonds are as follows:

|                                      | As of December 31,<br>2011<br>(in millions of Ch\$) |
|--------------------------------------|---|
| Due within 1 year                    | 749,340   |
| Due after 1 year but within 2 years  | 460,200   |
| Due after 2 years but within 3 years | 408,723   |
| Due after 3 years but within 4 years | 656,201   |
| Due after 4 years but within 5 years | 488,425   |
| Due after 5 years                    | 838,236   |
| <b>Total bonds</b>                   | <b>3,601,125</b>                                    |

In 2011, the Bank issued bonds for US\$ 635 million, UF 5.7 million and Ch\$36,900 million detailed as follows:

| Series             | Amount                    | Term      | Issue rate                | Date of issue | Maturity date |
|--------------------|---------------------------|-----------|---------------------------|---------------|---------------|
| Floating rate bond | USD 500,000,000           | 5 years   | Libor (3 months) + 160 bp | 01/19/2011    | 01/19/2016    |
| Floating rate bond | USD 135,000,000           | 6 months  | Libor (3 months) + 80 bp  | 11/29/2011    | 05/29/2012    |
| <b>Totals</b>      | <b>USD 635,000,000</b>    |           |                           |               |               |
| E1                 | UF 896,000                | 5 years   | 3.0 % per annum simple    | 02/01/2011    | 01/01/2016    |
| E2                 | UF 3,048,000              | 7.5 years | 3.5 % per annum simple    | 02/01/2011    | 07/01/2018    |
| E3                 | UF 1,750,000              | 8.5 years | 3.5 % per annum simple    | 02/01/2011    | 07/01/2019    |
| <b>Totals</b>      | <b>UF 5,694,000</b>       |           |                           |               |               |
| E4                 | CLP 36,900,000,000        | 5 years   | 6.75 % per annum simple   | 07/01/2011    | 06/01/2016    |
| <b>Totals</b>      | <b>CLP 36,900,000,000</b> |           |                           |               |               |

## (d) Subordinated bonds

The following table sets forth, at the dates indicated, the balances of our subordinated bonds. The following table sets forth, at the dates indicated, our issued subordinated bonds. The bonds are denominated principally in UFs or U.S. dollars, and are principally used to fund the Bank's mortgage portfolio and are considered to be a part of our regulatory capital.

|  | As of December 31,    |                |                |
|--|-----------------------|----------------|----------------|
|  | 2011                  | 2010           | 2009           |
|  | (in millions of Ch\$) |                |                |
| Subordinated bonds denominated in US\$ | 316,169               | 244,957        | 278,087        |
| Subordinated bonds linked to the UF    | 545,702               | 441,118        | 313,939        |
| <b>Total subordinated bonds</b>        | <b>861,871</b>        | <b>686,075</b> | <b>592,026</b> |



Table of Contents

The maturities of these bonds, which are considered long-term, are as follows.

|                                      | As of December 31,<br>2011<br>(in millions of Ch\$) |
|--------------------------------------|---|
| Due within 1 year                    | 136,842   |
| Due after 1 year but within 2 years  | -   |
| Due after 2 years but within 3 years | 179,327   |
| Due after 3 years but within 4 years | 10,567  |
| Due after 4 years but within 5 years | 29,616  |
| Due after 5 years                    | 505,519   |
| Total subordinated bonds             | 861,871   |

In 2011 the Bank issued subordinated bonds on the local market for UF 5.1 million, which is detailed as follows:

| Series | Amount       | Term     | Issue rate            | Date of issuance date | Maturity date |
|--------|--------------|----------|-----------------------|-----------------------|---------------|
| G3     | UF 3,000,000 | 25 years | 3.9% per annum simple | 07/01/2010            | 07/01/2035    |
| G5     | UF 2,100,000 | 20 years | 3.9% per annum simple | 05/01/2011            | 04/01/2031    |
| Totals | UF 5,100,000 |          |                       |                       |               |

## (e) Foreign borrowings

These are short-term and long-term borrowings from foreign banks used to fund our foreign trade business. The maturities of these borrowings are as follows.

|   | As of<br>December 31, 2011<br>(in millions of Ch\$) |
|---|---|
| Due within 1 year                               | 1,740,254   |
| Due after 1 year but within 2 years             | 87,102  |
| Due after 2 years but within 3 years            | 91,926  |
| Due after 3 years but within 4 years            | -   |
| Due after 5 years                               | -   |
| Total loans from foreign financial institutions | 1,919,282   |

Table of Contents

## (f) Other obligations

Other obligations are summarized as follows:

|   | As of December 31,<br>2011<br>(in millions of Ch\$) |
|---|---|
| Long term obligations                                     |   |
| Due after 1 years but within 2 years                      | 29,575  |
| Due after 2 years but within 3 years                      | 2,866   |
| Due after 3 years but within 4 years                      | 3,489   |
| Due after 4 years but within 5 years                      | 3,095   |
| Due after 5 years   | 81,496  |
| Long-term financial obligations subtotals                 | 120,521   |
| Short term obligations:                                   |   |
| Amounts due to credit card operators                      | 50,840  |
| Acceptance of letters of credit                           | 704   |
| Other long-term financial obligations, short-term portion | 4,534   |
| Short-term financial obligations subtotals                | 56,078  |
| Other financial obligations totals                        | 176,599   |

## Other Off-Balance Sheet Arrangements and Commitments

In the ordinary course of our business, we are party to transactions with off balance sheet risk in the normal course of our business. These transactions expose us to credit risk in addition to amounts recognized in the consolidated financial statements. The most important off-balance sheet item are contingent loans. Contingent loans consist of guarantees granted by us in Ch\$, UF and foreign currencies (principally US\$), unused letters of credit and commitments to extend credit such as overdraft protection and credit card lines of credit. Such commitments are agreements to lend to a customer at a future date, subject to the customer compliance with the contractual terms. Since a substantial portion of these commitments is expected to expire without being drawn upon, the total amount of commitments does not necessarily represent our actual future cash requirements. We use the same credit policies in making commitments to extend credit as we do for granting loans. In the opinion of our management, our outstanding commitments do not represent an unusual credit risk.

The following table presents the Bank's outstanding contingent loans as of December 31, 2011, 2010 and 2009:

|   | As of December 31,    |           |           |
|---|-----------------------|-----------|-----------|
|   | 2011                  | 2010      | 2009      |
|   | (in millions of Ch\$) |           |           |
| Issued and documented letters of credit     | 184,649               | 209,532   | 155,956   |
| Confirmed foreign letters of credit         | 52,889                | 85,739    | 35,818    |
| Documented guarantees                       | 920,986               | 898,751   | 655,780   |
| Other guarantees                            | 147,081               | 166,550   | 169,931   |
| Subtotals                                   | 1,305,605             | 1,360,572 | 1,017,485 |
| Lines of credit with immediate availability | 4,673,525             | 4,832,359 | 4,615,787 |
| Other irrevocable obligation                | 95,150                | 129,428   | -         |

|        |           |           |           |
|--------|-----------|-----------|-----------|
| Totals | 6,074,280 | 6,322,359 | 5,633,272 |
|--------|-----------|-----------|-----------|

84

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Table of Contents

## Asset and Liability Management

Please refer to “Item 11: Quantitative and Qualitative Disclosure about Market Risk—Asset and Liability Management” regarding our policies with respect to asset and liability management.

## Capital Expenditures

The following table reflects capital expenditures in each of the three years ended December 31, 2011, 2010 and 2009:

|                               | Year Ended December 31, |        |        |
|-------------------------------|-------------------------|--------|--------|
|                               | 2011                    | 2010   | 2009   |
|                               | (in millions of Ch\$)   |        |        |
| Land and Buildings            | 8,326                   | 7,884  | 5,730  |
| Machinery and Equipment       | 8,503                   | 7,781  | 5,085  |
| Furniture, Vehicles, Other(1) | 9,860                   | 3,336  | 941    |
| Total                         | 26,689                  | 19,001 | 11,756 |

(1) Includes assets ceded under operating leases.

The increase in capital expenditures in 2011 was mainly due to higher investments to refurbish branches as well as IT systems.

## F. Selected Statistical Information

The following information is included for analytical purposes and should be read in conjunction with our Audited Consolidated Financial Statements as well as the discussion in “Item 5: Operations and Financial Review and Prospects.” The UF is linked to, and is adjusted daily to reflect changes in the previous month’s Chilean consumer price index. See “Item 5: C. Operating Results—Impact of Inflation.” The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the years ended December 31, 2011, 2010, and 2009.

## Average Balance Sheets, Income Earned from Interest-Earning Assets and Interest Paid on Interest-Bearing Liabilities

The average balances for interest-earning assets and interest-bearing liabilities, including interest and readjustments received and paid, have been calculated on the basis of daily balances for us on an unconsolidated basis. Such average balances are presented in Chilean pesos, UFs and in foreign currencies (principally U.S. dollars). Figures from our subsidiaries have been calculated on the basis of monthly balances. The average balances of our subsidiaries, except Santander S.A. Agente de Valores, have not been categorized by currency. As such it is not possible to calculate average balances by currency for such subsidiaries on the basis of daily, weekly or monthly balances.

The nominal interest rate has been calculated by dividing the amount of interest and principal readjustment due to changes in the UF index (gain or loss) during the period by the related average balance, both amounts expressed in constant pesos. The nominal rates calculated for each period have been converted into real rates using the following formulas:

Where:

Rp = real average rate for peso-denominated assets and liabilities (in Ch\$ and UF) for the period;

Rd = real average rate for foreign currency-denominated assets and liabilities for the period;

85

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Table of Contents

- Np = nominal average rate for peso-denominated assets and liabilities for the period;
- Nd = nominal average rate for foreign currency-denominated assets and liabilities for the period;
- D = devaluation rate of the Chilean peso to the U.S. dollar for the period; and
- I = inflation rate in Chile for the period (based on the variation of the Chilean Consumer Price Index).

The real interest rate can be negative for a portfolio of peso-denominated loans when the inflation rate for the period is higher than the average nominal rate of the loan portfolio for the same period. A similar effect could occur for a portfolio of foreign currency denominated loans when the inflation rate for the period is higher than the sum of the devaluation rate for the period and the corresponding average nominal rate of the portfolio.

The formula for the average real rate for foreign currency denominated assets and liabilities (Rd) reflects a gain or loss in purchasing power caused by the difference between the devaluation rate of the Chilean peso and the inflation rate in Chile during the period. The following example illustrates the calculation of the real interest rate for a dollar-denominated asset bearing a nominal annual interest rate of 10.0% (Nd = 0.10), assuming a 5.0% annual devaluation rate (D = 0.05) and a 12.0% annual inflation rate (I = 0.12):

In the example, since the inflation rate was higher than the devaluation rate, the real rate is lower than the nominal rate in dollars. If, for example, the annual devaluation rate were 15.0%, using the same numbers, the real rate in Chilean pesos would be 12.9%, which is higher than the nominal rate in U.S. dollars. Using the same numbers, if the annual inflation rate were greater than 15.5%, the real rate would be negative.

Foreign exchange gains or losses on foreign currency-denominated assets and liabilities are not included in interest income or expense. Similarly, interest on the available for sale investment portfolio does not include trading or mark-to-market gains or losses on these investments. Interest is not recognized on non-performing loans. Non-performing loans that are overdue for 90 days or less have been included in each of the various categories of loans, and therefore affect the various averages. Non-performing loans consist of loans as to which either principal or interest is overdue (i.e., non-accrual loans) and restructured loans earning no interest.

Included in interbank deposits are checking accounts maintained in the Central Bank and foreign banks. Such assets have a distorting effect on the average interest rate earned on total interest-earning assets because currently balances maintained in Chilean peso amounts do not earn interest, and the only balances held in a foreign currency that earn interest are those maintained in U.S. dollars, but those only earn interest on the amounts that are legally required to be held for liquidity purposes. Additionally, this account includes interest earned by overnight investments. Consequently, the average interest earned on such assets is comparatively low. We maintain these deposits in these accounts to comply with statutory requirements and to facilitate international business, rather than to earn income.

The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the years ended December 31, 2011, 2010 and 2009.

Table of Contents

|   | Year ended December 31,                     |                    |                         |                            |                    |                    |                         |                            |                    |  |
|---|---|--------------------|-------------------------|----------------------------|--------------------|--------------------|-------------------------|----------------------------|--------------------|--|
|   | 2011  |                    |                         |                            |                    | 2010               |                         |                            |                    |  |
|   | Average<br>Balance                          | Interest<br>Earned | Average<br>Real<br>Rate | Average<br>Nominal<br>Rate | Average<br>Balance | Interest<br>Earned | Average<br>Real<br>Rate | Average<br>Nominal<br>Rate | Average<br>Balance |  |
|   | (in millions of Ch\$, except for rate data) |                    |                         |                            |                    |                    |                         |                            |                    |  |
| <b>ASSETS</b>                                 |   |                    |                         |                            |                    |                    |                         |                            |                    |  |
| <b>INTEREST-EARNING ASSETS</b>                |   |                    |                         |                            |                    |                    |                         |                            |                    |  |
| <b>Deposits in Central Bank</b>               |   |                    |                         |                            |                    |                    |                         |                            |                    |  |
| Ch\$  | 497,897                                     | 16,005             | (1.2 %)                 | 3.2 %                      | 433,176            | 6,411              | (1.0 %)                 | 1.5 %                      | 207,738            |  |
| UF  | –   | –                  | – %                     | – %                        | –                  | –                  | – %                     | – %                        | –                  |  |
| Foreign currencies                            | –   | –                  | – %                     | – %                        | –                  | –                  | – %                     | – %                        | –                  |  |
| Subtotal                                      | 497,897                                     | 16,005             | (1.2 %)                 | 3.2 %                      | 433,176            | 6,411              | (1.0 %)                 | 1.5 %                      | 207,738            |  |
| <b>Financial investments</b>                  |   |                    |                         |                            |                    |                    |                         |                            |                    |  |
| Ch\$  | 1,704,483                                   | 71,129             | (0.3 %)                 | 4.2 %                      | 1,055,255          | 25,439             | (0.1 %)                 | 2.4 %                      | 939,455            |  |
| UF  | 220,986                                     | 21,971             | 5.3 %                   | 9.9 %                      | 545,775            | 34,602             | 3.7 %                   | 6.3 %                      | 547,220            |  |
| Foreign currencies                            | 854,965                                     | (25,201)           | 3.5 %                   | (2.9 %)                    | 652,464            | 12,892             | (8.0 %)                 | 2.0 %                      | 486,051            |  |
| Subtotal                                      | 2,780,434                                   | 67,899             | 1.3 %                   | 2.5 %                      | 2,253,464          | 72,933             | (1.5 %)                 | 3.2 %                      | 1,972,726          |  |
| <b>Commercial Loans</b>                       |   |                    |                         |                            |                    |                    |                         |                            |                    |  |
| Ch\$  | 4,491,613                                   | 409,074            | 4.5 %                   | 9.2 %                      | 4,024,823          | 313,063            | 5.1 %                   | 7.8 %                      | 3,624,473          |  |
| UF  | 3,268,257                                   | 272,236            | 3.7 %                   | 8.4 %                      | 2,791,495          | 192,518            | 4.3 %                   | 6.9 %                      | 2,822,742          |  |
| Foreign currencies                            | 1,662,095                                   | 44,586             | 9.5 %                   | 2.7 %                      | 932,257            | 30,479             | (6.8 %)                 | 3.3 %                      | 1,053,718          |  |
| Subtotal                                      | 9,421,965                                   | 725,896            | 5.1 %                   | 7.8 %                      | 7,748,575          | 536,060            | 3.4 %                   | 6.9 %                      | 7,500,933          |  |
| <b>Consumer loans</b>                         |   |                    |                         |                            |                    |                    |                         |                            |                    |  |
| Ch\$  | 2,526,772                                   | 539,961            | 16.2 %                  | 21.4 %                     | 2,270,711          | 477,155            | 18.1 %                  | 21.0 %                     | 2,018,473          |  |
| UF  | 96,286                                      | 9,722              | 5.4 %                   | 10.1 %                     | 97,905             | 8,209              | 5.7 %                   | 8.4 %                      | 115,640            |  |
| Foreign currencies                            | 14,374                                      | –                  | 6.6 %                   | – %                        | 10,446             | –                  | (9.8 %)                 | – %                        | 8,161              |  |
| Subtotal                                      | 2,637,432                                   | 549,683            | 15.8 %                  | 20.9 %                     | 2,379,062          | 485,364            | 17.5 %                  | 20.4 %                     | 2,142,274          |  |
| <b>Mortgage loans</b>                         |   |                    |                         |                            |                    |                    |                         |                            |                    |  |
| Ch\$  | 27,811                                      | 2,626              | 4.8 %                   | 9.4 %                      | 28,522             | 2,263              | 5.3 %                   | 7.9 %                      | 6,028              |  |
| UF  | 4,800,402                                   | 397,408            | 3.7 %                   | 8.3 %                      | 4,293,315          | 301,864            | 4.4 %                   | 7.0 %                      | 3,946,434          |  |
| Foreign currencies                            | –   | –                  | – %                     | – %                        | –                  | –                  | – %                     | – %                        | –                  |  |
| Subtotal                                      | 4,828,213                                   | 400,034            | 3.7 %                   | 8.3 %                      | 4,321,837          | 304,127            | 4.4 %                   | 7.0 %                      | 3,952,462          |  |
| <b>Interbank Loans</b>                        |   |                    |                         |                            |                    |                    |                         |                            |                    |  |
| Ch\$  | 73,505                                      | 3,486              | 0.3 %                   | 4.7 %                      | 48,485             | 934                | (0.6 %)                 | 1.9 %                      | 19,532             |  |
| UF  | –   | –                  | – %                     | – %                        | –                  | –                  | – %                     | – %                        | –                  |  |
| Foreign currencies                            | 5,206                                       | –                  | 6.6 %                   | – %                        | 1,229              | –                  | (9.8 %)                 | 0.0 %                      | 2,521              |  |
| Subtotal                                      | 78,711                                      | 3,486              | 0.7 %                   | 4.4 %                      | 49,714             | 934                | (0.8 %)                 | 1.9 %                      | 22,053             |  |
| <b>Investments under agreements to resell</b> |   |                    |                         |                            |                    |                    |                         |                            |                    |  |
| Ch\$  | 23,993                                      | 3,678              | 10.4 %                  | 15.3 %                     | 44,969             | 6,256              | 11.1 %                  | 13.9 %                     | 261,288            |  |
| UF  | 35,009                                      | 1,949              | 1.1 %                   | 5.6 %                      | 15,898             | 428                | 0.2 %                   | 2.7 %                      | 852                |  |
| Foreign currencies                            | –   | –                  | – %                     | – %                        | 1,403              | 22                 | (8.4 %)                 | 1.6 %                      | 198                |  |
| Subtotal                                      | 59,002                                      | 5,627              | 4.9 %                   | 9.5 %                      | 62,270             | 6,706              | 7.9 %                   | 10.8 %                     | 262,338            |  |
| <b>Threshold</b>                              |   |                    |                         |                            |                    |                    |                         |                            |                    |  |

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|                               |            |           |       |        |            |           |         |        |            |   |
|-------------------------------|------------|-----------|-------|--------|------------|-----------|---------|--------|------------|---|
| Ch\$                          | –          | –         | – %   | – %    | –          | –         | –       | – %    | – %        | – |
| UF                            | –          | –         | – %   | – %    | –          | –         | –       | – %    | – %        | – |
| Foreign currencies            | 51,385     | 105       | 6.8 % | 0.2 %  | 231,385    | 448       | (9.6 %) | 0.2 %  | 205,068    |   |
| Subtotal                      | 51,385     | 105       | 6.8 % | 0.2 %  | 231,385    | 448       | (9.6 %) | 0.2 %  | 205,068    |   |
| Total interest-earning assets |            |           |       |        |            |           |         |        |            |   |
| Ch\$                          | 9,346,074  | 1,045,959 | 6.5 % | 11.2 % | 7,905,911  | 831,521   | 7.8 %   | 10.5 % | 7,076,987  |   |
| UF                            | 8,420,940  | 703,286   | 3.7 % | 8.4 %  | 7,744,388  | 537,621   | 4.3 %   | 6.9 %  | 7,432,888  |   |
| Foreign currencies            | 2,588,025  | 19,490    | 7.4 % | 0.8 %  | 1,829,184  | 43,841    | (7.6 %) | 2.4 %  | 1,755,717  |   |
| Subtotal                      | 20,355,039 | 1,768,735 | 5.5 % | 8.7 %  | 17,479,483 | 1,412,983 | 4.6 %   | 8.1 %  | 16,265,592 |   |

87

---



Table of Contents

|   | Year ended December 31, |                    |                 |                    |                    |                 |                    |                    |                 |   |
|---|-------------------------|--------------------|-----------------|--------------------|--------------------|-----------------|--------------------|--------------------|-----------------|---|
|   | 2011                    |                    |                 | 2010               |                    |                 | 2009               |                    |                 |   |
|   | Average<br>Balance      | Interest<br>Earned | Average<br>Rate | Average<br>Balance | Interest<br>Earned | Average<br>Rate | Average<br>Balance | Interest<br>Earned | Average<br>Rate |   |
| (in millions of Ch\$, except for rate data) |                         |                    |                 |                    |                    |                 |                    |                    |                 |   |
| <b>NON-INTEREST-EARNING ASSETS</b>          |                         |                    |                 |                    |                    |                 |                    |                    |                 |   |
| <b>Cash</b>                                 |                         |                    |                 |                    |                    |                 |                    |                    |                 |   |
| Ch\$  | 448,889                 | –                  | –               | 421,903            | –                  | –               | 398,396            | –                  | –               | – |
| UF  | –                       | –                  | –               | –                  | –                  | –               | –                  | –                  | –               | – |
| Foreign currencies                          | 16,275                  | –                  | –               | 13,484             | –                  | –               | 14,482             | –                  | –               | – |
| Subtotal                                    | 465,164                 | –                  | –               | 435,387            | –                  | –               | 412,878            | –                  | –               | – |
| <b>Allowance for loan losses</b>            |                         |                    |                 |                    |                    |                 |                    |                    |                 |   |
| Ch\$  | (535,656 )              | –                  | –               | (444,122 )         | –                  | –               | (315,361 )         | –                  | –               | – |
| UF  | –                       | –                  | –               | –                  | –                  | –               | –                  | –                  | –               | – |
| Foreign currencies                          | –                       | –                  | –               | –                  | –                  | –               | –                  | –                  | –               | – |
| Subtotal                                    | (535,656 )              | –                  | –               | (444,122 )         | –                  | –               | (315,361 )         | –                  | –               | – |
| <b>Property, plant and equipment</b>        |                         |                    |                 |                    |                    |                 |                    |                    |                 |   |
| Ch\$  | 159,813                 | –                  | –               | 176,367            | –                  | –               | 215,789            | –                  | –               | – |
| UF  | 40                      | –                  | –               | –                  | –                  | –               | –                  | –                  | –               | – |
| Foreign currencies                          | –                       | –                  | –               | –                  | –                  | –               | –                  | –                  | –               | – |
| Subtotal                                    | 159,853                 | –                  | –               | 176,367            | –                  | –               | 215,789            | –                  | –               | – |
| <b>Derivatives</b>                          |                         |                    |                 |                    |                    |                 |                    |                    |                 |   |
| Ch\$  | 1,824,381               | –                  | –               | 1,617,480          | –                  | –               | 1,708,712          | –                  | –               | – |
| UF  | (178,373 )              | –                  | –               | (124,606 )         | –                  | –               | (184,072 )         | –                  | –               | – |
| Foreign currencies                          | (39,820 )               | –                  | –               | (60,410 )          | –                  | –               | (7,390 )           | –                  | –               | – |
| Subtotal                                    | 1,606,188               | –                  | –               | 1,432,464          | –                  | –               | 1,517,250          | –                  | –               | – |
| <b>Financial investments trading (1)</b>    |                         |                    |                 |                    |                    |                 |                    |                    |                 |   |
| Ch\$  | 203,886                 | –                  | –               | 90,605             | –                  | –               | 233,977            | –                  | –               | – |
| UF  | 436,435                 | –                  | –               | 665,607            | –                  | –               | 726,009            | –                  | –               | – |
| Foreign currencies                          | 9,791                   | –                  | –               | 30,407             | –                  | –               | 45,029             | –                  | –               | – |
| Subtotal                                    | 650,112                 | –                  | –               | 786,619            | –                  | –               | 1,005,015          | –                  | –               | – |
| <b>Other assets</b>                         |                         |                    |                 |                    |                    |                 |                    |                    |                 |   |
| Ch\$  | 979,549                 | –                  | –               | 724,156            | –                  | –               | 688,310            | –                  | –               | – |
| UF  | 100,291                 | –                  | –               | 66,279             | –                  | –               | 42,584             | –                  | –               | – |
| Foreign currencies                          | 353,179                 | –                  | –               | 201,062            | –                  | –               | 159,853            | –                  | –               | – |
| Subtotal                                    | 1,433,019               | –                  | –               | 991,497            | –                  | –               | 890,747            | –                  | –               | – |
| <b>Total non-interest earning assets</b>    |                         |                    |                 |                    |                    |                 |                    |                    |                 |   |
| Ch\$  | 3,080,862               | –                  | –               | 2,586,389          | –                  | –               | 2,929,823          | –                  | –               | – |
| UF  | 358,393                 | –                  | –               | 607,280            | –                  | –               | 584,521            | –                  | –               | – |
| Foreign currencies                          | 339,425                 | –                  | –               | 184,543            | –                  | –               | 211,974            | –                  | –               | – |
| Total                                       | 3,778,680               | –                  | –               | 3,378,212          | –                  | –               | 3,726,318          | –                  | –               | – |
| <b>TOTAL ASSETS</b>                         |                         |                    |                 |                    |                    |                 |                    |                    |                 |   |
| Ch\$  | 12,426,936              | 1,045,959          | –               | 10,492,300         | 831,521            | –               | 10,006,810         | 923,918            | –               | – |
| UF  | 8,779,333               | 703,286            | –               | 8,351,668          | 537,621            | –               | 8,017,409          | 224,614            | –               | – |
| Foreign currencies                          | 2,927,450               | 19,490             | –               | 2,013,727          | 43,841             | –               | 1,967,691          | 59,246             | –               | – |

|       |            |           |   |   |            |           |   |   |            |           |
|-------|------------|-----------|---|---|------------|-----------|---|---|------------|-----------|
| Total | 24,133,719 | 1,768,735 | - | - | 20,857,695 | 1,412,983 | - | - | 19,991,910 | 1,207,778 |
|-------|------------|-----------|---|---|------------|-----------|---|---|------------|-----------|

Table of Contents

|   | Year ended December 31,                     |          |         |         |           |          |         |         |           |          |
|---|---|----------|---------|---------|-----------|----------|---------|---------|-----------|----------|
|   | 2011  |          |         |         |           | 2010     |         |         |           |          |
|   | Average                                     | Interest | Average | Average | Average   | Interest | Average | Average | Average   |          |
|   | Balance                                     | Paid     | Real    | Nominal | Balance   | Paid     | Real    | Nominal | Balance   | Interest |
|   |   |          | Rate    | Rate    |           |          | Rate    | Rate    |           | Rate     |
|   | (in millions of Ch\$, except for rate data) |          |         |         |           |          |         |         |           |          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |   |          |         |         |           |          |         |         |           |          |
| <b>INTEREST-BEARING LIABILITIES</b>         |   |          |         |         |           |          |         |         |           |          |
| <b>Savings accounts</b>                     |   |          |         |         |           |          |         |         |           |          |
| Ch\$  | 1,092                                       | 3        | (4.0 %) | 0.3 %   | 1,103     | 3        | (2.2 %) | 0.3 %   | 777       | 1        |
| UF  | 101,993                                     | 3,712    | (0.8 %) | 3.6 %   | 101,629   | 1,231    | (1.3 %) | 1.2 %   | 99,517    | (1       |
| Foreign currencies                          | -   | -        | - %     | - %     | -         | -        | - %     | - %     | -         | -        |
| Subtotal                                    | 103,085                                     | 3,715    | 0.8 %   | 3.6 %   | 102,732   | 1,234    | (1.3 %) | 1.2 %   | 100,294   | (1       |
| <b>Time deposits</b>                        |   |          |         |         |           |          |         |         |           |          |
| Ch\$  | 5,187,931                                   | 288,282  | 1.1 %   | 5.6 %   | 3,914,178 | 89,808   | (0.2 %) | 2.3 %   | 4,442,195 | 1        |
| UF  | 2,086,118                                   | 143,899  | 2.4 %   | 6.9 %   | 2,107,484 | 117,230  | 3.0 %   | 5.6 %   | 2,490,859 | 1        |
| Foreign currencies                          | 1,833,670                                   | 13,392   | 7.4 %   | 0.7 %   | 1,460,882 | 12,997   | (9.0 %) | 0.9 %   | 1,422,392 | 2        |
| Subtotal                                    | 9,107,719                                   | 445,573  | 2.7 %   | 4.9 %   | 7,482,544 | 220,035  | (1.0 %) | 3.0 %   | 8,355,446 | 2        |
| <b>Central Bank borrowings</b>              |   |          |         |         |           |          |         |         |           |          |
| Ch\$  | 2,094                                       | 177      | 3.8 %   | 8.5 %   | 302,807   | 1,648    | (1.9 %) | 0.5 %   | 295,319   | 2        |
| UF  | 1,003                                       | 8        | (3.5 %) | 0.8 %   | 1,485     | 10       | (1.8 %) | 0.7 %   | 2,027     | (1       |
| Foreign currencies                          | -   | -        | - %     | - %     | -         | -        | - %     | - %     | -         | -        |
| Subtotal                                    | 3,097                                       | 185      | 1.4 %   | 6.0 %   | 304,292   | 1,658    | (1.9 %) | 0.5 %   | 297,346   | 2        |
| <b>Repurchase agreements</b>                |   |          |         |         |           |          |         |         |           |          |
| Ch\$  | 214,930                                     | 7,922    | (0.7 %) | 3.7 %   | 142,572   | 937      | (1.8 %) | 0.7 %   | 461,168   | 1        |
| UF  | 18,564                                      | 808      | (0.1 %) | 4.4 %   | 51,516    | 1,437    | 0.3 %   | 2.8 %   | 23,915    | 4        |
| Foreign currencies                          | 15,680                                      | 31       | 6.8 %   | 0.2 %   | 2,631     | 3        | (9.7 %) | 0.1 %   | 917       | 1        |
| Subtotal                                    | 249,174                                     | 8,761    | (0.2 %) | 3.5 %   | 196,719   | 2,377    | (1.4 %) | 1.2 %   | 486,000   | 1        |
| <b>Mortgage finance bonds</b>               |   |          |         |         |           |          |         |         |           |          |
| Ch\$  | -   | -        | - %     | - %     | -         | -        | - %     | - %     | -         | -        |
| UF  | 174,224                                     | 16,027   | 4.6 %   | 9.2 %   | 224,436   | 17,445   | 5.1 %   | 7.8 %   | 301,501   | 8        |
| Foreign currencies                          | -   | -        | - %     | - %     | -         | -        | - %     | - %     | -         | -        |
| Subtotal                                    | 174,224                                     | 16,027   | 4.6 %   | 9.2 %   | 224,436   | 17,445   | 5.1 %   | 7.8 %   | 301,501   | 8        |
| <b>Other interest-bearing liabilities</b>   |   |          |         |         |           |          |         |         |           |          |
| Ch\$  | 344,561                                     | 64,171   | 13.6 %  | 18.6 %  | 167,944   | 30,982   | 15.6 %  | 18.4 %  | 141,415   | 8        |
| UF  | 2,427,992                                   | 223,895  | 4.6 %   | 9.2 %   | 2,086,698 | 155,009  | 4.8 %   | 7.4 %   | 1,825,455 | 4        |
| Foreign currencies                          | 3,355,499                                   | 34,108   | 7.7 %   | 1.0 %   | 2,871,953 | 44,524   | (8.4 %) | 1.6 %   | 1,942,923 | 4        |
| Subtotal                                    | 6,128,052                                   | 322,174  | 6.8 %   | 5.2 %   | 5,126,595 | 230,515  | (2.2 %) | 4.5 %   | 3,909,793 | 9        |
| <b>Total interest-bearing liabilities</b>   |   |          |         |         |           |          |         |         |           |          |
| Ch\$  | 5,750,608                                   | 360,555  | 1.8 %   | 6.3 %   | 4,528,604 | 123,378  | 0.2 %   | 2.7 %   | 5,340,874 | 2        |
| UF  | 4,809,894                                   | 388,349  | 3.5 %   | 8.1 %   | 4,573,248 | 292,362  | 3.8 %   | 6.4 %   | 4,743,274 | 6        |
| Foreign currencies                          | 5,204,849                                   | 47,531   | 7.6 %   | 0.9 %   | 4,335,466 | 57,524   | (8.6 %) | 1.3 %   | 3,366,232 | 7        |

|       |            |         |       |       |            |         |         |       |            |   |
|-------|------------|---------|-------|-------|------------|---------|---------|-------|------------|---|
| Total | 15,765,351 | 796,435 | 4.2 % | 5.1 % | 13,437,318 | 473,264 | (1.4 %) | 3.5 % | 13,450,380 | 3 |
|-------|------------|---------|-------|-------|------------|---------|---------|-------|------------|---|

89

---

Table of Contents

|  | Year ended December 31,                     |                  |                 |                    |                  |                 |                    |                  |                 |                    |                  |
|--|---|------------------|-----------------|--------------------|------------------|-----------------|--------------------|------------------|-----------------|--------------------|------------------|
|  | 2011  |                  |                 | 2010               |                  |                 | 2009               |                  |                 |                    |                  |
|  | Average<br>Balance                          | Interest<br>Paid | Average<br>Rate | Average<br>Balance | Interest<br>Paid | Average<br>Rate | Average<br>Balance | Interest<br>Paid | Average<br>Rate | Average<br>Balance | Interest<br>Paid |
|  | (in millions of Ch\$, except for rate data) |                  |                 |                    |                  |                 |                    |                  |                 |                    |                  |
| <b>NON-INTEREST-BEARING LIABILITIES</b>                                |   |                  |                 |                    |                  |                 |                    |                  |                 |                    |                  |
| <b>Non-interest bearing demand deposits</b>                            |   |                  |                 |                    |                  |                 |                    |                  |                 |                    |                  |
| Ch\$   | 3,546,165                                   | -                | -               | 3,132,540          | -                | -               | 2,458,860          | -                | -               | -                  | -                |
| UF   | 17,115                                      | -                | -               | 15,226             | -                | -               | 13,039             | -                | -               | -                  | -                |
| Foreign currencies   | 12,264                                      | -                | -               | 4,747              | -                | -               | 3,151              | -                | -               | -                  | -                |
| Subtotal   | 3,575,544                                   | -                | -               | 3,152,513          | -                | -               | 2,475,050          | -                | -               | -                  | -                |
| <b>Derivatives</b>   |   |                  |                 |                    |                  |                 |                    |                  |                 |                    |                  |
| Ch\$   | 1,389,878                                   | -                | -               | 1,094,480          | -                | -               | 1,059,863          | -                | -               | -                  | -                |
| UF   | 35,145                                      | -                | -               | 115,981            | -                | -               | 193,392            | -                | -               | -                  | -                |
| Foreign currencies   | 32,615                                      | -                | -               | 112,700            | -                | -               | 133,771            | -                | -               | -                  | -                |
| Subtotal   | 1,457,638                                   | -                | -               | 1,323,161          | -                | -               | 1,387,026          | -                | -               | -                  | -                |
| <b>Other non-interest-bearing liabilities</b>                          |   |                  |                 |                    |                  |                 |                    |                  |                 |                    |                  |
| Ch\$   | 637,053                                     | -                | -               | 526,376            | -                | -               | 512,216            | -                | -               | -                  | -                |
| UF   | 279,367                                     | -                | -               | 350,588            | -                | -               | 287,124            | -                | -               | -                  | -                |
| Foreign currencies   | 424,279                                     | -                | -               | 315,410            | -                | -               | 280,176            | -                | -               | -                  | -                |
| Subtotal   | 1,340,699                                   | -                | -               | 1,192,374          | -                | -               | 1,079,516          | -                | -               | -                  | -                |
| <b>Shareholders' Equity</b>  |   |                  |                 |                    |                  |                 |                    |                  |                 |                    |                  |
| Ch\$   | 1,994,487                                   | -                | -               | 1,752,329          | -                | -               | 1,599,938          | -                | -               | -                  | -                |
| UF   | -   | -                | -               | -                  | -                | -               | -                  | -                | -               | -                  | -                |
| Foreign currencies   | -   | -                | -               | -                  | -                | -               | -                  | -                | -               | -                  | -                |
| Subtotal   | 1,994,487                                   | -                | -               | 1,752,329          | -                | -               | 1,599,938          | -                | -               | -                  | -                |
| <b>Total non-interest-bearing liabilities and shareholder's equity</b> |   |                  |                 |                    |                  |                 |                    |                  |                 |                    |                  |
| Ch\$   | 7,567,583                                   | -                | -               | 6,505,725          | -                | -               | 5,630,877          | -                | -               | -                  | -                |
| UF   | 331,627                                     | -                | -               | 481,795            | -                | -               | 493,555            | -                | -               | -                  | -                |
| Foreign currencies   | 469,158                                     | -                | -               | 432,857            | -                | -               | 417,098            | -                | -               | -                  | -                |
| Subtotal   | 8,368,368                                   | -                | -               | 7,420,377          | -                | -               | 6,541,530          | -                | -               | -                  | -                |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                      |   |                  |                 |                    |                  |                 |                    |                  |                 |                    |                  |
| Ch\$   | 13,318,191                                  | 360,555          | -               | 11,034,329         | 123,378          | -               | 10,971,751         | 207,840          | -               | -                  | -                |
| UF   | 5,141,521                                   | 388,349          | -               | 5,055,043          | 292,362          | -               | 5,236,829          | 67,559           | -               | -                  | -                |
| Foreign currencies   | 5,674,007                                   | 47,531           | -               | 4,768,323          | 57,524           | -               | 3,783,330          | 75,863           | -               | -                  | -                |
| Total  | 24,133,719                                  | 796,435          | -               | 20,857,695         | 473,264          | -               | 19,991,910         | 351,262          | -               | -                  | -                |

**Changes in Net Interest Revenue and Interest Expense: Volume and Rate Analysis**

The following table allocates, by currency of denomination, changes in our interest revenue and interest expense between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their

respective nominal interest rates for 2011 compared to 2010 and 2010 compared to 2009. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities.

Table of Contents

|  | Increase (Decrease) from 2010 to<br>2011<br>Due to Changes in |           |                    |  | Increase (Decrease) from 2009 to<br>2010<br>Due to Changes in |           |                    |  |
|--|---|-----------|--------------------|--|---|-----------|--------------------|--|
|  | Volume  | Rate      | Rate and<br>Volume | Net<br>Change<br>from<br>2010 to<br>2011 | Volume  | Rate      | Rate and<br>Volume | Net<br>Change<br>from<br>2009 to<br>2010 |
| <b>ASSETS</b>                          |   |           |                    |  |   |           |                    |  |
| Interest-earning assets                |   |           |                    |  |   |           |                    |  |
| Deposits in Central Bank               |   |           |                    |  |   |           |                    |  |
| Ch\$                                   | 1,024   | 7,417     | 1,153              | 9,594                                    | 2,917   | 403       | 439                | 3,759                                    |
| UF                                     | -   | -         | -                  | -  | -   | -         | -                  | -  |
| Foreign currencies                     | -   | -         | -                  | -  | -   | -         | -                  | -  |
| Total                                  | 1,024   | 7,417     | 1,153              | 9,594                                    | 2,917   | 403       | 439                | 3,759                                    |
| Financial investments                  |   |           |                    |  |   |           |                    |  |
| Ch\$                                   | 15,391  | 18,803    | 11,496             | 45,690                                   | 4,252   | (10,322 ) | (1,273 )           | (7,343 )                                 |
| UF                                     | (20,503 )   | 19,606    | (11,734)           | (12,631 )                                | 18  | 30,117    | (40 )              | 30,095                                   |
| Foreign currencies                     | 3,967   | (32,053 ) | (10,007)           | (38,093 )                                | 1,847   | 3,877     | 1,328              | 7,052                                    |
| Total                                  | (1,145 )  | 6,356     | (10,245)           | (5,034 )                                 | 6,117   | 23,672    | 15                 | 29,804                                   |
| Commercial loans                       |   |           |                    |  |   |           |                    |  |
| Ch\$                                   | 35,316  | 55,254    | 5,441              | 96,011                                   | 42,086  | (93,881 ) | (10,168)           | (61,963 )                                |
| UF                                     | 32,163  | 41,139    | 6,416              | 79,718                                   | (950 )  | 82,160    | (644 )             | 80,566                                   |
| Foreign currencies                     | 24,085  | (5,594 )  | (4,384 )           | 14,107                                   | (6,373 )  | (18,213 ) | 1,991              | (22,595 )                                |
| Total                                  | 91,564  | 90,799    | 7,473              | 189,836                                  | 34,763  | (29,934 ) | (8,821 )           | (3,992 )                                 |
| Consumer loans                         |   |           |                    |  |   |           |                    |  |
| Ch\$                                   | 53,415  | 8,725     | 666                | 62,806                                   | 63,318  | (78,410 ) | (9,734 )           | (24,826 )                                |
| UF                                     | (132 )  | 1,669     | (24 )              | 1,513                                    | (965 )  | 3,361     | (507 )             | 1,889                                    |
| Foreign currencies                     | -   | -         | -                  | -  | (1 )  | -         | -                  | (1 )                                     |
| Total                                  | 53,283  | 10,394    | 642                | 64,319                                   | 62,352  | (75,049 ) | (10,241)           | (22,938 )                                |
| Mortgage loans                         |   |           |                    |  |   |           |                    |  |
| Ch\$                                   | (56 )   | 428       | (9 )               | 363                                      | 2,013   | (60 )     | (225 )             | 1,728                                    |
| UF                                     | 34,711  | 55,027    | 5,806              | 95,544                                   | 9,719   | 174,359   | 15,982             | 200,060                                  |
| Foreign currencies                     | -   | -         | -                  | -  | -   | -         | -                  | -  |
| Total                                  | 34,655  | 55,455    | 5,797              | 95,907                                   | 11,732  | 174,299   | 15,757             | 201,788                                  |
| Interbank loans                        |   |           |                    |  |   |           |                    |  |
| Ch\$                                   | 481   | 1,364     | 707                | 2,552                                    | 376   | 122       | 174                | 672                                      |
| UF                                     | -   | -         | -                  | -  | -   | -         | -                  | -  |
| Foreign currencies                     | -   | -         | -                  | -  | -   | -         | -                  | -  |
| Total                                  | 481   | 1,364     | 707                | 2,552                                    | 376   | 122       | 174                | 672                                      |
| Investments Under Agreements to Resell |   |           |                    |  |   |           |                    |  |
| Ch\$                                   | (2,916 )  | 630       | (292 )             | (2,578 )                                 | (8,861 )  | 25,616    | (21,179)           | (4,424 )                                 |
| UF                                     | 513   | 458       | 550                | 1,521                                    | 540   | (8 )      | (135 )             | 397                                      |
| Foreign currencies                     | (22 )   | (22 )     | 22                 | (22 )                                    | 36  | (3 )      | (17 )              | 16                                       |

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|                               |          |           |          |           |          |           |          |           |
|-------------------------------|----------|-----------|----------|-----------|----------|-----------|----------|-----------|
| Total                         | (2,425 ) | 1,066     | 280      | (1,079 )  | (8,285 ) | 25,605    | (21,331) | (4,011 )  |
| Threshold                     |          |           |          |           |          |           |          |           |
| Ch\$                          | -        | -         | -        | -         | -        | -         | -        | -         |
| UF                            | -        | -         | -        | -         | -        | -         | -        | -         |
| Foreign currencies            | (343 )   | -         | -        | (343 )    | 123      | -         | -        | 123       |
| Total                         | (343 )   | -         | -        | (343 )    | 123      | -         | -        | 123       |
| Total interest-earning assets |          |           |          |           |          |           |          |           |
| Ch\$                          | 102,655  | 92,621    | 19,162   | 214,438   | 106,101  | (156,532) | (41,966) | (92,397 ) |
| UF                            | 46,752   | 117,899   | 1,014    | 165,665   | 8,362    | 289,989   | 14,656   | 313,007   |
| Foreign currencies            | 27,687   | (37,669 ) | (14,369) | (24,351 ) | (4,368 ) | (14,339 ) | 3,302    | (15,405 ) |
| Total                         | 177,094  | 172,851   | 5,807    | 355,752   | 110,095  | 119,118   | (24,008) | 205,205   |



Table of Contents

|                                    | Increase (Decrease) from 2010 to<br>2011 Due to Changes in |          |                    |  | Increase (Decrease) from 2009 to<br>2010 Due to Changes in |           |                    |  |
|------------------------------------|--|----------|--------------------|--|--|-----------|--------------------|--|
|                                    | Volume   | Rate     | Rate and<br>Volume | Net<br>Change<br>from<br>2010 to<br>2011 | Volume   | Rate      | Rate and<br>Volume | Net<br>Change<br>from<br>2009 to<br>2010 |
| <b>LIABILITIES</b>                 |  |          |                    |  |  |           |                    |  |
| Interest-bearing liabilities       |  |          |                    |  |  |           |                    |  |
| Savings accounts                   |  |          |                    |  |  |           |                    |  |
| Ch\$                               | -  | -        | -                  | -  | 5  | (9 )      | (4 )               | (8 )                                     |
| UF                                 | 13   | 2,449    | 19                 | 2,481                                    | 29   | 2,195     | 46                 | 2,270                                    |
| Foreign currencies                 | -  | -        | -                  | -  | -  | -         | -                  | -  |
| Total                              | 13   | 2,449    | 19                 | 2,481                                    | 34   | 2,186     | 42                 | 2,262                                    |
| Time deposits                      |  |          |                    |  |  |           |                    |  |
| Ch\$                               | 28,622   | 128,493  | 41,359             | 198,474                                  | (22,649)   | (80,460 ) | 9,276              | (93,833)                                 |
| UF                                 | (948 )   | 27,646   | (29 )              | 26,669                                   | (3,267 )   | 119,361   | (18,482)           | 97,612                                   |
| Foreign currencies                 | 3,591  | (2,686 ) | (510 )             | 395                                      | 931  | (14,164 ) | (384 )             | (13,617)                                 |
| Total                              | 31,265   | 153,453  | 40,820             | 225,538                                  | (24,985)   | 24,737    | (9,590 )           | (9,838 )                                 |
| Central Bank borrowings            |  |          |                    |  |  |           |                    |  |
| Ch\$                               | (1,549 )   | 24,180   | (24,102)           | (1,471 )                                 | 167  | (1,081 )  | 1                  | (913 )                                   |
| UF                                 | (3 )   | 1        | -                  | (2 )                                     | 4  | 24        | (7 )               | 21                                       |
| Foreign currencies                 | -  | -        | -                  | -  | -  | -         | -                  | -  |
| Total                              | (1,552 )   | 24,181   | (24,102)           | (1,473 )                                 | 171  | (1,057 )  | (6 )               | (892 )                                   |
| Repurchase agreements              |  |          |                    |  |  |           |                    |  |
| Ch\$                               | 517  | 4,287    | 2,181              | 6,985                                    | (9,339 )   | (10,177 ) | 6,999              | (12,517)                                 |
| UF                                 | (924 )   | 823      | (528 )             | (629 )                                   | 493  | 239       | 276                | 1,008                                    |
| Foreign currencies                 | 13   | 3        | 12                 | 28                                       | 2  | -         | -                  | 2  |
| Total                              | (394 )   | 5,113    | 1,666              | 6,384                                    | (8,844 )   | (9,938 )  | 7,275              | (11,507)                                 |
| Mortgage finance bonds             |  |          |                    |  |  |           |                    |  |
| Ch\$                               | -  | -        | -                  | -  | -  | -         | -                  | -  |
| UF                                 | (3,898 )   | 3,162    | (682 )             | (1,418 )                                 | (2,168 )   | 15,075    | (3,853 )           | 9,054                                    |
| Foreign currencies                 | -  | -        | -                  | -  | -  | -         | -                  | -  |
| Total                              | (3,898 )   | 3,162    | (682 )             | (1,418 )                                 | (2,168 )   | 15,075    | (3,853 )           | 9,054                                    |
| Other interest-bearing liabilities |  |          |                    |  |  |           |                    |  |