

BANCO SANTANDER CHILE  
Form 20-F  
April 30, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**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  
x 1934**

**For the fiscal year ended December 31, 2013**

**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: 562-2320-8284, 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 |
|---|---|
| American Depositary Shares ("ADS"), each representing the right to receive 400 Shares of Common Stock without par value | New York Stock Exchange                   |
| Shares of Common Stock, without par value*  | New York Stock Exchange                   |

\*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:

none

(Title of Class)

The number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2013, 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

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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 x

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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. Information on the Company—C. Business Overview—Competition,” “Item 5. Operations and Financial Review and Prospects,” “Item 8. Financial Information—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,” “combined,” “estimates,” “probability,” “risk,” “VaR,” “target,” “goal,” “objective,” and “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 Central Bank (as defined below);

inflation;

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deflation;

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;

the effects of non-linear market behavior that cannot be captured by linear statistical models, such as the VaR model we use;

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;

changes in demographics, consumer spending, investment or 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;

acquisitions or restructurings of businesses that may not perform in accordance with our expectations;

our ability to successfully market and sell additional services to our existing customers;

disruptions in client service;

damage to our reputation;

natural disasters;

implementation of new technologies;

the Group's exposure to operational losses (e.g., failed internal or external processes, people and systems); and

an inaccurate or ineffective client segmentation model.

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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 (the “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 “Santander Spain,” we refer to our parent company, Banco Santander, S.A. References to “Santander Group” or “Grupo Santander” mean the worldwide operations of the Santander Spain conglomerate, as indirectly controlled by Santander Spain and its consolidated subsidiaries, including Santander-Chile.

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

In this Annual Report, references to “\$”, “U.S.\$”, “U.S. dollars” and “dollars” are to United States dollars; references to “Chilean pesos,” “pesos” or “Ch\$” are to Chilean pesos; references to “CHF” or “CHF\$” are to Swiss francs; references to “CNY\$” are to Chinese yuan renminbi); 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 3. Key Information—A. Selected Financial Data—Exchange Rates” for information regarding exchange rates.

As used in this Annual Report, the terms “write-offs” and “charge-offs” are synonyms.

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. References to the “Central Bank” are to the *Banco Central de Chile*. References to the SBIF are to the Superintendency of Banks and Financial Institutions.

Certain figures included in this Annual Report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

## PRESENTATION OF FINANCIAL INFORMATION

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 International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Any reference to IFRS in this document is to IFRS as issued by the IASB.

As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with Chilean accounting principles issued by the SBIF (“Chilean Bank GAAP”). 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”). Chilean Bank GAAP principles are substantially similar to IFRS but there are some exceptions. For further details and a discussion of the main differences between Chilean Bank GAAP and IFRS, see to “Item 5. Operating and Financial Review and Prospects—A. Accounting Standards Applied in 2013.”

This Annual Report contains our consolidated financial statements as of December 31, 2013, 2012 and 2011 and for the years then ended (the “Audited Financial Statements”). Such Audited Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB, and have been audited by Deloitte Auditores y Consultores Limitada, independent registered public accountants. See page F-1 of the Audited Consolidated Financial

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Statements for the 2013, 2012 and 2011 report prepared by Deloitte Auditores y Consultores Limitada. The Audited Financial Statements have been prepared from accounting records maintained by the Bank and its subsidiaries.

The notes to the Audited Consolidated Financial Statements contain information in addition to that presented in the Audited Consolidated Financial Statements, which provide narrative descriptions or details of these financial statements.

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.

### Functional and Presentation Currency

The Chilean peso is the currency of the primary economic environment in which the Bank operates and the currency that influences its structure of costs and revenues, 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 presentational purposes, we have translated millions of Chilean pesos (Ch\$ million) into thousands of US dollars (U.S.\$ thousand) using the rate as indicated below under “Exchange Rates,” for the financial information included in this Annual Report.

### 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 is based on information published periodically by the SBIF. Non-performing loans include the entire principal amount and accrued but unpaid interest on loans for which either principal or interest is past-due for 90 days or more and which do not accrue interest. Restructured loans for which no payments are past-due are not ordinarily classified as non-performing loans. See “Item 5. Operating and Financial Review and Prospects—F. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower’s Payment Performance.”

Under 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. Operating and Financial Review and Prospects—F. Selected Statistical Information—Analysis of Loan Loss Allowances.”

Outstanding loans and the related percentages of our loan portfolio consisting of corporate and consumer loans in the section entitled “Item 4. Information on the Company—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. Operating and Financial Review and Prospects—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.

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### 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 U.S. dollar amounts at any year 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, 2012 and 2013, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$478.85 and Ch\$524.20 respectively, or 0.05% less and 0.08% more, respectively, than the published observed exchange rate for such date of Ch\$478.60 and Ch\$523.76, respectively, per U.S.\$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. Key Information—A. Selected Financial Data—Exchange Rates” of the Annual Report.

As of December 31, 2012 and 2013, one UF was equivalent to Ch\$ 22,840.75 and Ch\$ 23,309.56 respectively. The U.S. dollar equivalent of one UF was U.S.\$44.50 as of December 31, 2013, using the observed exchange rate reported by the Central Bank as of December 31, 2013, of Ch\$ 523.76 per U.S.\$1.00.

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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 selected historical financial information for Santander-Chile as of the dates and for each of the periods indicated. Financial information for Santander-Chile as of and for the years ended December 31, 2013, 2012, 2011, 2010, and 2009 has been derived from our audited consolidated financial statements prepared in accordance with IFRS. These consolidated financial statements differ in some respects from our locally filed financial statements at and for the years ended December 31, 2013, 2012, 2011, 2010, and 2009 prepared in accordance with Chilean Bank GAAP.

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.

|  | As of and for the years ended December 31, |                      |      |      |      |      |
|--|--|----------------------|------|------|------|------|
|  | 2013                                       | 2013                 | 2012 | 2011 | 2010 | 2009 |
|  | In U.S.\$                                  | In Ch\$ millions (2) |      |      |      |      |
|  | thousands (1)                              |                      |      |      |      |      |

**CONSOLIDATED STATEMENT OF  
INCOME DATA (IFRS)**

|  |             |           |           |           |           |           |
|--|-------------|-----------|-----------|-----------|-----------|-----------|
| Net interest income                                      | 2,054,106   | 1,076,762 | 1,042,734 | 972,300   | 939,719   | 856,516   |
| Provision for loan losses                                | (708,626)   | (371,462) | (403,692) | (316,137) | (253,915) | (333,145) |
| Net fee and commission income                            | 438,451     | 229,836   | 270,572   | 277,836   | 263,582   | 254,130   |
| Operating costs (3)                                      | (1,064,199) | (557,853) | (539,742) | (500,447) | (451,936) | (407,894) |
| Other income, net (4)                                    | 308,423     | 161,676   | 36,034    | 50,878    | 95,365    | 155,927   |
| Income before tax  | 1,028,155   | 538,959   | 405,906   | 484,430   | 592,815   | 525,534   |
| Income tax expense                                       | (180,332)   | (94,530)  | (44,473)  | (77,308)  | (85,343)  | (88,924)  |
| Net income for the year                                  | 847,823     | 444,429   | 361,433   | 407,122   | 507,472   | 436,610   |
| Net income attributable to:                              |             |           |           |           |           |           |
| Bank shareholders  | 843,750     | 442,294   | 356,808   | 402,191   | 505,393   | 431,557   |
| Non-controlling interests                                | 4,073       | 2,135     | 4,625     | 4,931     | 2,079     | 5,053     |
| Net income attributable to Bank shareholders per share   | 4.48        | 2.35      | 1.89      | 2.13      | 2.68      | 2.29      |
| Net income attributable to Bank shareholders per ADS (5) | 1.79        | 938.83    | 757.37    | 2,217.48  | 2,786.48  | 2,379.39  |
| Weighted-average shares outstanding (in millions)        | 188,446.1   | 188,446.1 | 188,446.1 | 188,446.1 | 188,446.1 | 188,446.1 |
| Weighted-average ADS outstanding (in millions) (5)       | 471.1       | 471.1     | 471.1     | 181.4     | 181.4     | 181.4     |

**CONSOLIDATED STATEMENT OF  
FINANCIAL POSITION DATA (IFRS)**

|  |             |            |            |            |            |            |
|--|-------------|------------|------------|------------|------------|------------|
| Cash and deposits in banks                   | 2,998,493   | 1,571,810  | 1,250,414  | 2,793,701  | 1,762,198  | 2,043,458  |
| Financial investments (6)                    | 3,826,839   | 2,006,029  | 2,171,438  | 2,084,002  | 2,024,635  | 2,642,649  |
| Loans before allowance from loan losses      | 40,176,958  | 21,060,761 | 18,966,652 | 17,434,782 | 15,727,282 | 13,751,276 |
| Loan loss allowance                          | (1,173,089) | (614,933)  | (550,048)  | (488,468)  | (425,447)  | (349,527)  |
| Financial derivative contracts (assets)      | 2,850,092   | 1,494,018  | 1,293,212  | 1,601,896  | 1,624,378  | 1,393,878  |
| Other assets (7)                             | 3,060,934   | 1,604,542  | 1,627,434  | 1,241,979  | 1,377,668  | 1,291,141  |
| Total assets                                 | 51,740,227  | 27,122,227 | 24,759,102 | 24,667,892 | 22,090,714 | 20,772,875 |
| Deposits (8)                                 | 29,179,769  | 15,296,035 | 14,082,232 | 13,334,929 | 11,495,191 | 10,708,791 |
| Other interest bearing liabilities (9)       | 13,887,424  | 7,279,788  | 6,506,020  | 7,264,311  | 6,235,959  | 6,232,982  |
| Financial derivative contracts (liabilities) | 2,464,297   | 1,291,785  | 1,146,161  | 1,292,402  | 1,643,979  | 1,348,906  |
| Total equity (10)                            | 4,525,860   | 2,372,456  | 2,196,501  | 2,093,280  | 1,937,977  | 1,689,903  |
| Equity attributable to Bank shareholders     | 4,471,484   | 2,343,952  | 2,162,236  | 2,059,479  | 1,906,168  | 1,660,104  |

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|   | As of and for the years ended<br>December 31, |        |        |        |        |
|---|---|--------|--------|--------|--------|
|   | 2013  | 2012   | 2011   | 2010   | 2009   |
| <b>CONSOLIDATED RATIOS<br/>(IFRS)</b>                         |   |        |        |        |        |
| Profitability and performance:                                |   |        |        |        |        |
| Net interest margin (11)                                      | 4.6%  | 4.8%   | 4.8%   | 5.4%   | 5.3%   |
| Return on average total assets (12)                           | 1.6%  | 1.4%   | 1.7%   | 2.4%   | 2.2%   |
| Return on average equity (13)                                 | 18.9%   | 16.5%  | 20.4%  | 29.0%  | 27.3%  |
| Capital:  |   |        |        |        |        |
| Average equity as a percentage of average total assets (14)   | 8.7%  | 8.7%   | 8.3%   | 8.4%   | 8.0%   |
| Total liabilities as a multiple of equity (15)                | 10.4  | 10.3   | 10.8   | 10.4   | 11.3   |
| Credit Quality:   |   |        |        |        |        |
| Non-performing loans as a percentage of total loans (16)      | 2.9%  | 3.2%   | 2.9%   | 2.7%   | 3.0%   |
| Allowance for loan losses as percentage of total loans        | 2.9%  | 2.9%   | 2.8%   | 2.7%   | 2.5%   |
| Operating Ratios:   |   |        |        |        |        |
| Operating expenses /operating revenue (17)                    | 40.2%   | 42.5%  | 41.4%  | 37.0%  | 34.2%  |
| Operating expenses /average total assets                      | 2.3%  | 2.4%   | 2.3%   | 2.2%   | 2.2%   |
| <b>OTHER DATA</b>   |   |        |        |        |        |
| CPI Inflation Rate (18)                                       | 3.0%  | 1.5%   | 4.4%   | 3.0%   | -1.4%  |
| Revaluation (devaluation) rate (Ch\$/U.S.\$) at year end (18) | 9.4%  | -8.2%  | 11.3%  | -7.5%  | -19.5% |
| Number of employees at period end                             | 11,516  | 11,713 | 11,566 | 11,001 | 11,118 |
| Number of branches and offices at period end                  | 493   | 504    | 499    | 504    | 498    |

Amounts stated in U.S. dollars at and for the year ended December 31, 2013 have been translated from Chilean (1) pesos at the interbank market exchange rate of Ch\$524.20 = U.S.\$1.00 as of December 31, 2013 based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period.

(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.

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

On October 22, 2012 the Bank performed an ADR split: for each old ADR, an ADR holder received 2.5975 new (5) ADRs, and the ratio of ADS to shares became 1 ADS = 400 shares. For the years 2009-2011, 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.

Includes the line items on cash items in process of collection, investments in associates and other companies,  
(7) intangible assets, property, plant and equipment, current taxes, deferred taxes and other assets within our Consolidated Statements of Financial Position.

(8) Deposits are 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 Financial Position.

Other interest bearing liabilities are equal to the sum of the line items on obligations under repurchase agreements,  
(9) interbank borrowings, issued debt instruments and other financial liabilities within our Consolidated Statements of Financial Position.

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,  
(10) 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. Operating and Financial Review and Prospects— F. Selected Statistical Information").

(12) Net income for the year divided by average total assets (as presented in "Item 5. Operating and Financial Review and Prospects— F. Selected Statistical Information").

(13) Net income for the year divided by average equity (as presented in "Item 5. Operating and Financial Review and Prospects—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 past-due.

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  
(17) 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.

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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 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, 2012 and 2013, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch\$478.85 and Ch\$524.20 respectively, or 0.05% less and 0.08% more, respectively, than the published observed exchange rate for such date of Ch\$478.60 and Ch\$523.76, respectively, per U.S.\$1.00.

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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.

| Daily Observed Exchange Rate Ch\$ Per U.S.\$(1) |        |         |                            |
|---|--------|---------|----------------------------|
| Year  | Low(2) | High(2) | Average(3)      Period End |
| 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         |
| 2012  | 469.65 | 519.69  | 494.99      478.60         |
| 2013  | 466.50 | 533.95  | 495.09      523.76         |

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| Month                             | Daily Observed Exchange Rate Ch\$ Per U.S.\$(1) |         |            |            |
|-----------------------------------|---|---------|------------|------------|
|                                   | Low(2)  | High(2) | Average(3) | Period End |
| October 2013                      | 493.36  | 508.58  | 500.81     | 508.58     |
| November 2013                     | 507.64  | 528.19  | 519.25     | 528.19     |
| December 2013                     | 523.76  | 533.95  | 529.45     | 523.76     |
| January 2014                      | 524.61  | 550.53  | 537.03     | 547.22     |
| February 2014                     | 546.94  | 563.32  | 554.41     | 563.32     |
| March 2014                        | 550.53  | 573.24  | 563.84     | 550.53     |
| April 2014 (until April 28, 2014) | 544.96  | 563.76  | 554.07     | 560.36     |

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.

## 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 2013 dividend must be proposed and approved during the first four months of 2014. 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. Additional Information—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 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. Additional Information—D. Exchange Controls.”

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

| Year    | Dividend<br>Ch\$ mn(1) | Per share<br>Ch\$/share(2) | Per ADR<br>Ch\$/ADR(3) | % over<br>earnings(4) | % over<br>earnings(5) |
|---------|------------------------|----------------------------|------------------------|-----------------------|-----------------------|
| 2010    | 258,752                | 1.37                       | 1,426.63               | 60                    | 60                    |
| 2011    | 286,294                | 1.52                       | 1,578.48               | 60                    | 57                    |
| 2012    | 261,051                | 1.39                       | 1,439.08               | 60                    | 65                    |
| 2013    | 232,780                | 1.24                       | 494.10                 | 60                    | 65                    |
| 2014(6) | 265,156                | 1.41                       | 562.83                 | 60                    | 60                    |

(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, except in 2013 and 2014 which is calculated on the basis of 400 shares per ADR.

(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 22, 2014.

#### 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.

In the past six years, financial systems worldwide have 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. Global economic conditions deteriorated significantly between 2007 and 2009, and many countries fell into recession. Recessionary conditions continue in some countries. Many major financial institutions, including some of the world’s largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions).

In particular, we face, among others, the following risks related to the economic downturn:

Increased regulation of our industry. Compliance with such regulation will increase our costs and may affect the pricing for our products and services and limit our ability to pursue business opportunities.

Reduced demand for our products and services.

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· Inability of our borrowers to timely or fully comply with their existing obligations.

The process we use to estimate losses inherent in our credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates, which may, in turn, impact the reliability of the process and the sufficiency of our loan loss allowances.

· The value and liquidity of the portfolio of investment securities that we hold may be adversely affected.

Any worsening of global economic conditions may delay the recovery of the international financial industry and impact our financial condition and results of operations.

The recoverability of our retail loans in particular may be increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses.

Some uncertainty remains concerning the future economic environment. While certain segments of the global economy have experienced a moderate recovery, we expect such uncertainty will continue, which could have a negative impact on our business and results of operations. A slowing or failing of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry.

Increased disruption and volatility in the global financial markets could have a material adverse effect on us, including 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 and become unable to maintain certain liability maturities. Any such increase in capital markets funding availability or costs or in deposit rates could have a material adverse effect on our interest margins and liquidity.

If all or some of the foregoing risks were to materialize, this could have a material adverse effect on us.

Credit, market and liquidity risk may have an adverse effect on our credit ratings and our cost of funds. Any downgrading in Chile's, our controlling shareholder's or our credit rating would likely increase our cost of funding, require us to post additional collateral or take other actions under some of our derivative contracts and adversely affect our interest margins and results of operations.

Credit ratings affect the cost and other terms upon which we are able to obtain funding. Rating agencies regularly evaluate us and their ratings of our long-term debt are based on a number of factors, including our financial strength, conditions that affect the financial services industry generally and the economic environment in which the company operates. In addition, due to the methodology of the main rating agencies, our credit rating is affected by the rating of Chile's sovereign debt. If Chile's sovereign debt is downgraded, our credit rating would also likely be downgraded by an equivalent amount.

Any downgrade in our debt credit ratings would likely increase our borrowing costs and require us to post additional collateral or take other actions under some of our derivative contracts, and could limit our access to capital markets and adversely affect our commercial business. For example, a ratings downgrade could adversely affect our ability to sell or market certain of our products, engage in certain longer-term and derivatives transactions and retain our customers, particularly customers who need a minimum rating threshold in order to invest. In addition, under the terms of certain of our derivative contracts, we may be required to maintain a minimum credit rating or terminate such contracts. Any of these results of a ratings downgrade, in turn, could reduce our liquidity and have an adverse effect on us, including our operating results and financial condition.

The long-term debt of Santander Spain is currently rated investment grade by the major rating agencies—Baa2 by Moody's Investors Service España, S.A., ("Moody's") BBB by Standard & Poor's Ratings Services ("S&P") and BBB+ by Fitch Ratings Ltd. ("Fitch")—all of which have a stable outlook due to the gradual economic improvement in Spain.

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All three agencies had downgraded Santander Spain's rating in February 2012 together with that of the other main Spanish banks, due to the weaker-than-previously-anticipated macroeconomic and financial environment in Spain with dimming growth prospects in the near term, depressed real estate market activity and heightened turbulence in the capital markets. In addition, S&P downgraded Santander Spain's rating by two notches in April 2012 together with that of 15 other Spanish banks following that rating agency's decision to downgrade Spain's sovereign debt rating by two notches. Moody's Investors Service España, S.A. further downgraded Santander Spain's rating in May 2012, together with downgrades of 15 other Spanish banks and Santander UK plc, a United Kingdom-domiciled subsidiary of Santander Spain. In June 2012, Fitch cut the rating of Spanish sovereign debt three notches to BBB- with a negative outlook, and Moody's followed shortly thereafter by downgrading Spanish sovereign debt three notches to Baa3, its lowest investment grade rating. Following its downgrade of Spanish sovereign debt, Fitch further downgraded Santander Spain's rating on June 11, 2012 from A to BBB+, with a negative outlook. Moody's downgraded Santander Spain's rating on June 25, 2012 from A3 to Baa2, with a negative outlook. On October 15, 2012, S&P further downgraded Santander Spain's rating from A- to BBB, with a negative outlook, following S&P's additional downgrade of the Spanish sovereign debt rating.

Recently the ratings agencies have acknowledged the gradual improvement in Spain's economic conditions which have in turn improved the outlook for Santander Spain's long-term debt. Accordingly, the ratings agencies have each changed their outlook on Santander Spain's long-term debt to stable, from negative. Moreover, Fitch and S&P affirmed their BBB+ and BBB ratings on November 8, 2013 and December 20, 2013, respectively. In addition, on March 12, 2014, Moody's raised its rating to Baa1, from Baa2. However, we can provide no assurances that ratings agencies will not change their view based on changes in economic conditions or otherwise.

Following these downgrades, Moody's placed our short- and long-term ratings on outlook negative. Fitch placed our long-term ratings on outlook negative. S&P downgraded our long-term foreign issuer credit rating by one notch to A in February 2012, and in June 2012, placed our long-term ratings on outlook negative. By March 2014, all three rating agencies that rate us have placed our ratings on outlook stable.

While certain potential impacts of these downgrades are contractual and quantifiable, the full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of a firm's long-term credit rating precipitates downgrades to its short-term credit rating, and assumptions about the potential behaviors of various customers, investors and counterparties. Actual outflows could be higher or lower than this hypothetical example, depending upon certain factors including which credit rating agency downgrades our credit rating, any management or restructuring actions that could be taken to reduce cash outflows and the potential liquidity impact from loss of unsecured funding (such as from money market funds) or loss of secured funding capacity. Although, unsecured and secured funding stresses are included in our stress testing scenarios and a portion of our total liquid assets is held against these risks, it is still the case that a credit rating downgrade could have a material adverse effect on us.

In addition, if we were required to cancel our derivatives contracts with certain counterparties and were unable to replace such contracts, our market risk profile could be altered.

In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain the current ratings or outlooks. Failure to maintain favorable ratings and outlooks would likely increase the cost of funding to us and adversely affect interest margins, which could have a material adverse effect on us.

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 with larger supermarket chains that make consumer loans and sell other financial products to a large portion of the Chilean population. The lower 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. 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. Increasing competition could require that we increase our rates offered on deposits or lower the rates we charge on

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loans, which could also have a material adverse effect on us, including our profitability. It may also negatively affect our business results and prospects by, among other things, limiting our ability to increase our customer base and expand our operations and increasing competition for investment opportunities.

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 to result in the formation of large new financial groups with which we must now compete. There can be no assurance that this increased competition will not adversely affect our growth prospects, and therefore our operations.

In addition, if our customer service levels were perceived by the market to be materially below those of our competitor financial institutions, we could lose existing and potential business. If we are not successful in retaining and strengthening customer relationships, we may lose market share, incur losses on some or all of our activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on our operating results, financial condition and prospects.

Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties, and we may not be able to manage various risks we face as we expand our range of products and services that could have a material adverse effect on us.

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services will be responsive to client demands or successful once they are offered to our clients, or that they will be successful in the future. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive and we may not be able to develop new products that meet our clients' changing needs. If we cannot respond in a timely fashion to the changing needs of our clients, we may lose clients, which could in turn materially and adversely affect us.

As we expand the range of our products and services, some of which may be at an early stage of development in the markets of certain regions where we operate, we will be exposed to new and potentially increasingly complex risks and development expenses in those markets, with respect to which our experience and the experience of our partners may not be helpful. Our employees and our risk management systems may not be adequate to handle such risks. In addition, the cost of developing products that are not launched is likely to affect our results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on us.

Our strong position in the credit card market is in part due to our credit card co-branding agreement with Chile's largest airline. This agreement expires in August 2015 and no assurance can be given that it will be renewed, which may materially and adversely affect our results of operations and financial condition in the credit card business.

The financial problems faced by our customers could adversely affect us.

Market turmoil and economic recession could materially and adversely affect the liquidity, businesses and/or financial conditions of our borrowers, which could in turn increase our own non-performing loan ratios, impair our loan and other financial assets and result in decreased demand for borrowings in general. In addition, our customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect our fee and commission income. Any of the conditions described above could have a material adverse effect on our business, financial condition and results of operations.

*We may generate lower revenues from fee and commission based businesses.*

The fees and commissions that we earn from the different banking and other financial services that we provide represent a significant source of our revenues. Market downturns have led, and are likely to continue to lead, to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in our non-interest revenues. In addition, because the fees that we charge for managing our clients' portfolios are in many cases based on

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the value or performance of those portfolios, a market downturn that reduces the value of our clients' portfolios or increases the amount of withdrawals would reduce the revenues we receive from our asset management, private banking and custody businesses and adversely affect our results of operations. Moreover, our customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect us, including our fee and commission income.

Even in the absence of a market downturn, below-market performance by the mutual funds we broker may result in increased withdrawals and reduced inflows, which would reduce the revenue we receive from the asset management business we broker and adversely affect our results of operations.

Market conditions have, and could result, in material changes to the estimated fair values of our financial assets. Negative fair value adjustments could have a material adverse effect on our operating results, financial condition and prospects.

In the past six years, financial markets have been subject to significant stress resulting in steep falls in perceived or actual financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. We have material exposures to securities and other investments that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Asset valuations in future periods, reflecting then-prevailing market conditions, may result in negative changes in the fair values of our financial assets and these may also translate into increased impairments. In addition, the value ultimately realized by us on disposal may be lower than the current fair value. Any of these factors could require us to record negative fair value adjustments, which may have a material adverse effect on our operating results, financial condition or prospects.

In addition, to the extent that fair values are determined using financial valuation models, such values may be inaccurate or subject to change, as the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of economic instability. In such circumstances, our valuation methodologies require us to make assumptions, judgments and estimates in order to establish fair value, and reliable assumptions are difficult to make and are inherently uncertain and valuation models are complex, making them inherently imperfect predictors of actual results. Any consequential impairments or write-downs could have a material adverse effect on our operating results, financial condition and prospects.

If we are unable to effectively control the level of non-performing or poor credit quality loans in the future, or if our loan loss reserves are insufficient to cover future loan losses, this could have a material adverse effect on us.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of our businesses. Non-performing or low credit quality loans have in the past and can

continue to negatively impact our results of operations. We cannot assure you that we will be able to effectively control the level of the impaired loans in our total loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our total loan portfolio, including as a result of loan portfolios that we may acquire in the future, or factors beyond our control, such as adverse changes in the credit quality of our borrowers and counterparties or a general deterioration in economic conditions in Chile or global economic conditions, impact of political events, events affecting certain industries or events affecting financial markets and global economies.

As of December 31, 2013, our non-performing loans were Ch\$613,301 million, and the ratio of our non-performing loans to total loans was 2.91%. As of December 31, 2013, our allowance for loan losses was Ch\$614,933 million, and the ratio of our allowance for loan losses to total loans was 2.92%. For additional information on our asset quality, see “Item 5. Operating and Financial Review and Prospects— F. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower’s Payment Performance.”

Our current allowance for loan losses may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. Our allowance for loan losses is based on our current assessment of and expectations concerning various factors affecting us, including 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

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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. Operating and Financial Review and Prospects—C. Operating Results—Results of Operations for the Years ended December 31, 2013, 2012 and 2011—Provision for loan losses, net of recoveries.”

As a result, there is no precise method for predicting loan and credit losses, and we cannot assure you that our allowance for loan losses will be sufficient in the future to cover actual loan and credit losses. If our assessment of and expectations concerning the above-mentioned factors differ from actual developments, if the quality of our total loan portfolio deteriorates, for any reason, including the increase in lending to individuals and SMEs, the volume increase in the consumer loan portfolio and the introduction of new products, or if the future actual losses exceed our estimates of incurred losses, we may be required to increase our provisions and allowance for loan losses, which may adversely affect us. If we are unable to control or reduce the level of our non-performing or poor credit quality loans, this could have a material adverse effect on us.

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. Family Property refers to a legal term in which a Family Court may declare a residential property as family property in a divorce or separation case. If this occurs, in the deed of the residence, a clause is included identifying the residence as family property and any process of change in ownership or foreclosure must have the consent of both the husband and the wife. This may limit our ability to foreclose on property with this legal status.

The growth of our loan portfolio may expose us to increased loan losses. Our exposure to individuals and small and mid-sized businesses could lead to higher levels of past due loans, allowances for loan losses and charge-offs.

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. 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 our loan portfolio as well as “Item 5-Selected Statistical Information—Loan Portfolio.”

A substantial number of our customers consist of individuals (approximately 49.5% of the value of the total loan portfolio as of December 31, 2013, if interbank loans are included) and, to a lesser extent, small- and mid-sized companies (those with annual revenues of less than U.S.\$2.3 million), which comprised approximately 15.3% of the value of the total loan portfolio as of December 31, 2013. 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, 2013, our residential mortgage loan portfolio totaled Ch\$5,625,812 million, representing 26.7% of our total loans. See “Note 10—Loans and Accounts Receivables from Customers” in our Audited Consolidated Financial Statements for a description and presentation of our residential mortgage loan portfolio. If the economy and real estate market in Chile experience a significant downturn, 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.

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Our loan portfolio may not continue to grow at the same rate and 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.

Our financial results are constantly exposed to market risk. We are subject to fluctuations in interest rates and other market risks, which may materially and adversely affect us.

Market risk refers to the probability of variations in our net interest income or in the market value of our assets and liabilities due to volatility of interest rate, exchange rate or equity price. Changes in interest rates affect the following areas, among others, of our business:

net interest income;

the volume of loans originated;

the market value of our securities holdings; and

gains from sales of loans and securities.

Variations in short-term interest rates could affect our net interest income, which comprises the majority of our revenue. Interest rate variations could adversely affect us, including our net interest income, reducing our growth rate or even resulting in losses. When interest rates rise, we may be required to pay higher interest on our floating-rate borrowings while interest earned on our predominately fixed-rate assets does not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of our portfolio. Interest rates are highly sensitive to many factors beyond our control, including increased regulation of the financial sector, the reserve policies of the Central Bank, deregulation of the financial sector in Chile, monetary policies, domestic and international economic and political conditions and other factors.

Increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets. Increases in interest rates may also reduce the propensity of our customers to prepay or refinance fixed-rate loans. Increases in interest rates may reduce the value of our financial assets and may reduce gains or require us to record losses on sales of our loans or securities.

If interest rates decrease, although this is likely to decrease our funding costs, it is likely to adversely impact the income we receive arising from our investments in securities as well as loans with similar maturities. In addition, we may also experience increased delinquencies in a low interest rate environment when such an environment is accompanied by high unemployment and recessionary conditions.

The market value of a security with a fixed interest rate generally decreases when the prevailing interest rates rise, which may have an adverse effect on our earnings and financial condition. In addition, we may incur costs (which, in turn, will impact our results) as we implement strategies to reduce future interest rate exposure. The market value of an obligation with a floating interest rate can be adversely affected when interest rates increase, due to a lag in the implementation of repricing terms or an inability to refinance at lower rates.

We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect our earnings and value of our assets and securities. Therefore, while the Bank seeks not to maintain a significant mismatch in foreign currency, from time to time, we may have a mismatch. “See Item 11. Quantitative and Qualitative Disclosure About Market Risks— E. Market Risks—Foreign exchange fluctuations.”

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We are also exposed to equity price risk in connection with our trading investments in equity securities. The performance of financial markets may cause changes in the value of our investment and trading portfolios. The volatility of world equity markets due to the continued economic uncertainty and sovereign debt crisis has had a particularly strong impact on the financial sector. Continued volatility may affect the value of our investments in entities in this sector and, depending on their fair value and future recovery expectations, could become a permanent impairment which would be subject to write-offs against our results. To the extent any of these risks materialize, our net interest income or the market value of our assets and liabilities could be materially adversely affected.

Failure to successfully implement and continue to improve our risk management policies, procedures and methods, including our credit risk management system, could materially and adversely affect us, and we may be exposed to unidentified or unanticipated risks.

The management of risk is an integral part of our activities. We seek to monitor and manage our risk exposure through a variety of separate but complementary financial, credit, market, operational, compliance and legal reporting systems. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques and strategies may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk, including risks that we fail to identify or anticipate.

Some of our qualitative tools and metrics for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to arrive at quantifications of our risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors we did not anticipate or correctly evaluate in our statistical models. This would limit our ability to manage our risks. Our losses thus could be significantly greater than the historical measures indicate. In addition, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses. If existing or potential customers believe our risk management is inadequate, they could take their business elsewhere. This could harm our reputation as well as our revenues and profits.

As a commercial bank, one of the main types of risks inherent in our business is credit risk. For example, an important feature of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a customer. As this process involves detailed analyses of the customer, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a customer or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating system.

In addition, we continue to refine our credit policies and guidelines to address potential risks associated with particular industries or types of customers. However, we may not be able to timely detect these risks before they occur, or due to limited tools available to us, our employees may not be able to effectively implement them, which may increase our

credit risk. Failure to effectively implement, consistently follow or continuously refine our credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for us, which could have a material adverse effect on us.

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 will 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 will 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.

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Liquidity and funding risks are inherent in our business and could have a material adverse effect on us.

Liquidity risk is the risk that we either do not have available sufficient financial resources to meet our obligations as they fall due or can secure them only at excessive cost. This risk is inherent in any retail and commercial banking business and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation. While we implement liquidity management processes to seek to mitigate and control these risks, unforeseen systemic market factors in particular make it difficult to eliminate completely these risks. Adverse and continued constraints in the supply of liquidity, including inter-bank lending, has affected and may materially and adversely affect the cost of funding our business, and extreme liquidity constraints may affect our current operations as well as limit growth possibilities.

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.

Our cost of obtaining funding is directly related to prevailing market interest rates and to our credit spreads. Increases in interest rates and our credit spreads can significantly increase the cost of our funding. Changes in our credit spreads are market-driven, and may be influenced by market perceptions of our creditworthiness. Changes to interest rates and our credit spreads occur continuously and may be unpredictable and highly volatile.

If wholesale markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits, with a view to attracting more customers, and/or to sell assets, potentially at depressed prices. The persistence or worsening of these adverse market conditions or an increase in base interest rates could have a material adverse effect on our ability to access liquidity and cost of funding (whether directly or indirectly).

We rely, and will continue to rely, primarily on commercial deposits to fund lending activities. The ongoing availability of this type of funding is sensitive to a variety of factors outside our control, such as general economic conditions and the confidence of commercial depositors in the economy, in general, and the financial services industry in particular, and the availability and extent of deposit guarantees, as well as competition between banks for deposits. Any of these factors could significantly increase the amount of commercial deposit withdrawals in a short period of time, thereby reducing our ability to access commercial deposit funding on appropriate terms, or at all, in the future. If these circumstances were to arise, this could have a material adverse effect on our operating results, financial condition and prospects.

We anticipate that our customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as a source of funds. As of December 31, 2013, 99.1% 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. Historically, one of our principal sources of funds has been time deposits. Time deposits represented 35.7% and 36.8% of our total liabilities and equity as of December 31, 2013 and 2012, respectively. The Chilean time deposit market is concentrated given the importance in size of various large institutional investors such as pension funds and corporations relative to the total size of the economy. As of December 31, 2013, the Bank's top 20 time deposits represented 27.4% of total time deposits, or 9.8% of total liabilities and equity, and totaled U.S.\$5,065 million. No assurance can be given that future economic stability in the Chilean market will not negatively affect our ability to continue funding our business or to maintain our current levels of funding without incurring increased funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If this were to happen, we could be materially adversely affected.

The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed. If a substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, we may be materially and adversely affected.

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We are subject to regulatory capital and liquidity requirements that could limit our operations, and changes to these requirements may further limit and adversely affect our operating results, financial condition and prospects.

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 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 assets ratio of 11%. As of December 31, 2013, the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 13.82%. 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 the second half of 2014, Chilean banks will most likely be required to gradually adopt the guidelines set forth under the Basel III Capital Accord with adjustments incorporated by the SBIF once these changes are approved by the Chilean Congress. This could 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 was 12.57% as of December 31, 2013. 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.

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

As a financial institution, we are subject to extensive regulation, inspections, examinations, inquiries, audits and other regulatory requirements by Chilean regulatory authorities, which materially affect our businesses. 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.

Changes in regulations may also cause us to face increased compliance costs and limitations on our ability to pursue certain business opportunities and provide certain products and services. As some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in which we operate, it may face higher compliance costs. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on our business and results of operations.

Modifications to reserve requirements may affect our business.

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). 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 these deposits 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, obligations payable on sight incurred in the ordinary course of business and, in general, all deposits unconditionally payable immediately. If the Central Bank were to increase reserve requirements, this could lead to lower loan growth and have a negative effect on our business.

Our business could be affected if its capital is not managed effectively or if changes limiting our ability to manage our capital position are adopted.

Effective management of our capital position is important to our ability to operate our business, to continue to grow organically and to pursue our business strategy. However, in response to the global financial crisis, a number of

changes to the regulatory capital framework have been adopted or continue to be considered. As these and other changes are implemented or future changes are considered or adopted that limit our ability to manage our balance sheet and capital resources effectively or to access funding on commercially acceptable terms, we may experience a material adverse effect on our financial condition and regulatory capital position.

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 Pensión*, 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, 2013, the latest information available, the AFP system had US\$3,732 million invested in the Bank with the possibility of being able to invest another 8.9% of its assets under management in Santander-Chile. If the exposure of any AFP to Santander-Chile 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.

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Our financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of our operations and financial position.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgments and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to our results and financial position, based upon materiality and significant judgments and estimates, include impairment of loans and advances, goodwill impairment, valuation of financial instruments, impairment of available-for-sale financial assets, deferred tax assets and provision for liabilities.

The valuation of financial instruments measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments it is possible that the results of our operations and financial position could be materially misstated if the estimates and assumptions used prove to be inaccurate.

If the judgment, estimates and assumptions we use in preparing our consolidated financial statements are subsequently found to be incorrect, there could be a material effect on our results of operations and a corresponding effect on our funding requirements and capital ratios.

Changes in accounting standards could impact reported earnings.

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

The preparation of our tax returns requires the use of estimates and interpretations of complex tax laws and regulations and is subject to review by taxing authorities.

We are subject to the income tax laws of Chile and certain foreign countries. These tax laws are complex and subject to different interpretations by the taxpayer and relevant governmental taxing authorities, which are sometimes subject

to prolonged evaluation periods until a final resolution is reached. In establishing a provision for income tax expense and filing returns, we must make judgments and interpretations about the application of these inherently complex tax laws.

If the judgment, estimates and assumptions we use in preparing our tax returns are subsequently found to be incorrect, there could be a material effect on our results of operations..

Disclosure controls and procedures over financial reporting may not prevent or detect all errors or acts of fraud.

Disclosure controls and procedures over financial reporting are designed to reasonably assure that information required to be disclosed by the company in reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Any disclosure controls and procedures over financial reporting or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by any unauthorized override of the controls. Consequently, our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions we take to

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prevent and detect this activity may not always be effective. Accordingly, because of the inherent limitations in the control system, misstatements due to error or fraud may occur and not be detected.

We engage in transactions with related parties that others may not consider to be on an arm's-length basis.

We and our affiliates have entered into a number of services agreements pursuant to which we render services, such as administrative, accounting, finance, treasury, legal services and others.

Chilean law applicable to public companies and financial groups and institutions, as well as our bylaws, provide for several procedures designed to ensure that the transactions entered into with or among our financial subsidiaries do not deviate from prevailing market conditions for those types of transactions, including the requirement that our board of directors approve such transactions.

We are likely to continue to engage in transactions with our affiliates. Future conflicts of interests between us and any of affiliates, or among our affiliates, may arise, which conflicts are not required to be and may not be resolved in our favor.

Operational risks, including risks relating to data collection, processing and storage systems are inherent in our business.

Our businesses depend on the ability to process a large number of transactions efficiently and accurately, 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 systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. We also face the risk that the design of our controls and procedures prove to be inadequate or are circumvented. 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. If we cannot maintain an effective data collection, management and processing system, we may be materially and adversely affected.

We take protective measures and continuously monitor and develop our systems to protect our technology infrastructure and data from misappropriation or corruption, but 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. There can be no assurance that we will not suffer material losses from operational risk in the future, including relating to cyber-attacks or other such security breaches. Further, as cyber-attacks continue to evolve, we may incur significant costs in its attempt to modify or enhance our protective measures or investigate or remediate any vulnerability.

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.

In addition, our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions we take to prevent and detect this activity may not always be effective.

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Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on us.

Our ability to remain competitive depends in part on our ability to upgrade our information technology on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. We cannot assure you that in the future we will be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of our information technology infrastructure. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on us.

We rely on third parties for important products and services.

Third party vendors provide key components of our business infrastructure such as loan and deposit servicing systems, internet connections and network access. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to customers and otherwise to conduct business. Replacing these third party vendors could also entail significant delays and expense.

***Damage to our reputation could cause harm to our business prospects.***

Maintaining a positive reputation is critical to our attracting and maintaining customers, investors and employees. Damage to our reputation can therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory outcomes, failure to deliver minimum standards of service and quality, compliance failures, unethical behavior, and the activities of customers and counterparties. Further, negative publicity regarding us, whether or not true, may result in harm to our prospects.

Actions by the financial services industry generally or by certain members of, or individuals in, the industry can also affect our reputation. For example, the role played by financial services firms in the financial crisis and the seeming shift toward increasing regulatory supervision and enforcement has caused public perception of us and others in the financial services industry to decline.

We could suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interest has become increasingly complex as we expand our business activities

through more numerous transactions, obligations and interests with and among our clients. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect the willingness of clients to deal with us, or give rise to litigation or enforcement actions against us. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to us.

We rely on recruiting, retaining and developing appropriate senior management and skilled personnel.

Our continued success depends in part on the continued service of key members of our management team. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of our strategy. The successful implementation of our growth strategy depends on the availability of skilled management, both at our head office and at each of our business units. If we or one of our business units or other functions fails to staff its operations appropriately or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, our business, financial condition and results of operations, including control and operational risks, may be adversely affected.

In addition, the financial industry has and may continue to experience more stringent regulation of employee compensation, which could have an adverse effect on our ability to hire or retain the most qualified employees. If we fail or are unable to attract and appropriately train, motivate and retain qualified professionals, our business may also be adversely affected.

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We may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose us to additional liability and could have a material adverse effect on us.

We are required to comply with applicable anti-money laundering, anti-terrorism and other laws and regulations in the jurisdictions in which we operate. These laws and regulations require us, among other things, to adopt and enforce “know-your-customer” policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. These laws and regulations have become increasingly complex and detailed, require improved systems and sophisticated monitoring and compliance personnel and have become the subject of enhanced government supervision.

While we have adopted policies and procedures aimed at detecting and preventing the use of our banking network for money laundering and related activities, such policies and procedures have in some cases only been recently adopted and may not completely eliminate instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent we fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us, including the revocation of licenses. In addition, our business and reputation could suffer if customers use our banking network for money laundering or illegal or improper purposes.

In addition, while we review our relevant counterparties’ internal policies and procedures with respect to such matters, we, to a large degree, rely upon our relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using our (and our relevant counterparties’) services as a conduit for money laundering (including illegal cash operations) without our (and our relevant counterparties’) knowledge. If we are associated with, or even accused of being associated with, or become a party to, money laundering, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement (including being added to any “black lists” that would prohibit certain parties from engaging in transactions with us), any one of which could have a material adverse effect on our operating results, financial condition and prospects.

We are exposed to risk of loss from legal and regulatory proceedings.

We face risk of loss from legal and regulatory proceedings, including tax proceedings, that could subject us to monetary judgments, regulatory enforcement actions, fines and penalties. The current regulatory environment in the jurisdictions in which we operate, which reflects an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, may lead to material operational and compliance costs.

We are from time to time subject to certain claims and parties to certain legal proceedings incidental to the normal course of our business, including in connection with conflicts of interest, lending activities, relationships with our employees and other commercial or tax matters. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, we cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines or penalties related to each pending matter may be. We believe that we have made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings. However, the amount of these provisions is substantially less than the total amount of the claims asserted against us and in light of the uncertainties involved in such claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us. As a result, the outcome of a particular matter may be material to our operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and our level of income for that period.

We are subject to market, operational and other related risks associated with our derivative transactions that could have a material adverse effect on us.

We enter into derivative transactions for trading purposes as well as for hedging purposes. We are subject to market, credit and operational risks associated with these transactions, 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 the counterparty to a particular transaction to perform its obligations thereunder, including providing sufficient collateral).

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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 maintain adequate control and administration systems and to hire and retain qualified personnel. Moreover, our ability to adequately monitor, analyze and report derivative transactions continues to depend, to a great extent, on our information technology systems. This factor further increases the risks associated with these transactions and could have a material adverse effect on us.

We are subject to counterparty risk in our banking business.

We are exposed to counterparty risk 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, clearing houses or other financial intermediaries.

We routinely transact with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions we enter into expose us to significant credit risk in the event of default by one of our significant counterparties.

Our loan and investment portfolios are subject to risk of prepayment, which could have a material adverse effect on us.

Our fixed rate loan and investment portfolios are subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate environment, prepayment activity increases, which reduces the weighted average lives of our earning assets and could have a material adverse effect on us. We would also be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has a significant adverse impact on credit card and collateralized mortgage loans, since prepayments could shorten the weighted average life of these assets, which may result in a mismatch in our funding obligations and reinvestment at lower yields. Prepayment risk is inherent to our commercial activity and an increase in prepayments could have a material adverse effect on us.

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

Large-denominations of funding from 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. As of December 31, 2013 short-term funding from institutional investors totaled US\$4.0 billion or 7.7% of total liabilities and equity. 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.

*If we are unable to manage the growth of our operations, this could have an adverse impact on our profitability.*

We allocate management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring our businesses. From time to time, we evaluate acquisition and partnership opportunities that we believe offer additional value to our shareholders and are consistent with our business strategy. However, we may not be able to identify suitable acquisition or partnership candidates, and

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our ability to benefit from any such acquisitions and partnerships will depend in part on our successful integration of those businesses. We can give no assurances that our expectations with regards to integration and synergies will materialize. We also cannot provide assurance that we will, in all cases, be able to manage our growth effectively or deliver our strategic growth objectives. Challenges that may result from our strategic growth decisions include our ability to:

- manage efficiently the operations and employees of expanding businesses;
- maintain or grow our existing customer base;
- assess the value, strengths and weaknesses of investment or acquisition candidates;
- finance strategic investments or acquisitions;
- fully integrate strategic investments, or newly-established entities or acquisitions in line with its strategy;
- align our current information technology systems adequately with those of an enlarged group;
- apply our risk management policy effectively to an enlarged group; and
- manage a growing number of entities without over-committing management or losing key personnel.

Any failure to manage growth effectively, including relating to any or all of the above challenges associated with our growth plans, could have a material adverse effect on our operating results, financial condition and prospects.

Risks Relating to Chile

Portions of our loan portfolio are subject to risks relating to force majeure events and any such event could materially adversely affect our operating results.

Chile lies on the Nazca tectonic plate, making it one of the world's most seismically active regions. Our financial and operating performance may be adversely affected by force majeure events, such as natural disasters, particularly in

locations where a significant portion of our loan portfolio is composed of real estate loans. Natural disasters such as earthquakes and floods may cause widespread damage which could impair the asset quality of our loan portfolio and could have an adverse impact on the economy of the affected region.

Changes in taxes, including the corporate tax rate, in Chile may have an adverse effect on us and our clients.

The Chilean Government regularly enacts reforms to the tax and other assessment regimes to which we and our customers are subject. The current statutory corporate tax rate in Chile is 20%. Legislation currently being discussed in Congress may gradually increase this to 25% by 2017. In addition other taxes may be modified, the most important being:

1. Taxation mechanism of profits attributable to shareholders or owners to be changed from distributed cash basis to accrued basis.
  2. Elimination of VAT exemption for construction of houses up to 2,000 UF.
  3. Increase in stamp tax from 0.45% to 0.8%.
4. Decree Law 600 to be eliminated by 2016, which could adversely affect foreign investment.
5. Charge VAT tax on all real estate transactions, which could affect the value of the Bank's repossessed mortgage properties which today are not charged VAT tax when sold.
  6. Lowering of higher individual income tax bracket from 40% to 35%.

We cannot predict if tax reforms will be implemented in the future. The effects of these changes, if enacted, and any other changes that could result from the enactment of additional tax reforms, cannot be quantified at this time, but may have an adverse impact on our results of operations and our clients.

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Our growth, asset quality and profitability may be adversely affected by macroeconomic and political conditions in Chile.

A substantial amount of our loans is to borrowers doing business in Chile. Chile's economy has experienced significant volatility in recent decades, characterized, in some cases, by slow or regressive growth, declining investment and hyperinflation. This volatility resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which we lend. In line with the global economic climate, Chile's economy contracted 2.3% in 2009 for the first time since 1999. Since then, the Chilean economy has recovered significantly; however, the Chilean economy may not continue to grow in the future or future developments may negatively affect Chile's overall levels of economic activity.

Negative and fluctuating economic conditions, such as a changing interest rate and inflationary environment, impact our profitability by causing lending margins to decrease and leading to decreased demand for higher margin products and services. Negative and fluctuating economic conditions in Chile could also result in government defaults on public debt. This could affect us in two ways: directly, through portfolio losses, and indirectly, through instabilities that a default in public debt could cause to the banking system as a whole, particularly since commercial banks' exposure to government debt is high in Chile.

In addition, our revenues are subject to risk of loss from unfavorable political and diplomatic developments, social instability, and changes in governmental policies, including expropriation, nationalization, international ownership legislation, interest-rate caps and tax policies.

No assurance can be given that our growth, asset quality and profitability will not be affected by volatile macroeconomic and political conditions in Chile.

Developments in other countries may affect us, including the prices for our securities.

The prices of securities issued by Chilean companies, including banks, are influenced to varying degrees 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 exposed to risks related to the weakness and volatility of the economic and political situation in Asia, the United States, Europe (including Spain, where Santander Spain, our controlling shareholder, is based), Brazil,

Argentina and other nations. Even though the world economy and the financial and capital markets had been recovering from the 2008 crisis throughout 2010 and early 2011, the conditions of the global markets again deteriorated in 2011 and continued through 2012. European countries encountered serious fiscal problems, including high debt levels that impaired growth and increased the risk of sovereign default. Also in 2011, the United States faced fiscal difficulties, which culminated in the downgrade of the U.S. long-term sovereign credit rating by S&P. Ongoing political debates in 2012 with respect to how the United States government would address the so-called “fiscal cliff” contributed to economic uncertainty. In 2012, spillovers from the crisis in Europe weighed negatively on activity and confidence and the global recovery slowed. In 2013, a general recovery was observed in the Eurozone and US economies. Although economic conditions in Europe and the United States may differ significantly from economic conditions in Chile, investors’ reactions to developments in these other countries may have an adverse effect on the market value of securities of Chilean issuers. In particular, investor perceptions of the risks associated with our securities may be affected by perception of risk conditions in Spain.

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. If this were to occur, we would potentially 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, 2013, approximately 3.3% 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. 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.

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Chile has considerable economic ties with China. In 2013, 24.9% of Chile's exports went to China, mainly copper. China's economy has grown at a strong pace in recent times, but a slowdown in economic activity in China may affect Chile's GDP and export growth as well as the price of copper, which is Chile's main export.

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

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% as the global economy contracted. In 2013, CPI inflation was 3.0% compared to 1.5% in 2012.

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. Operating and Financial Review and Prospects—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.

Any change in the methodology of how the CPI index or the UF is calculated could also adversely affect our business, financial condition and results of operations.

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

| Year                        | Exchange rate<br>(Ch\$) at year end | Devaluation<br>(Appreciation) (%) |
|-----------------------------|-------------------------------------|-----------------------------------|
| 2009                        | 506.43                              | (19.5)                            |
| 2010                        | 468.37                              | (7.5)                             |
| 2011                        | 521.46                              | 11.3                              |
| 2012                        | 478.60                              | (8.2)                             |
| 2013                        | 523.76                              | 9.4                               |
| 2014 (until April 28, 2014) | 560.36                              | 6.5                               |

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,

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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 and other regulatory factors 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. 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.

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. Changes in regulations may also cause us to face increased compliance costs. As some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in which we operate, it may face higher compliance costs. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on our business and results of operations.

In addition, extensive legislation affecting the financial services industry has recently been adopted in regions that directly or indirectly affect our business, including Spain, the United States and the European Union and other jurisdictions, and regulations are in the process of being implemented.

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. 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.

On November 20, 2013, the Chilean Congress approved new legislation to reduce the maximum rates that can be charged on loans. This new legislation is aimed at loans of less than UF 200 (U.S.\$8,900) and with a term of more than 90 days, and thus includes consumer loans in installments, lines of credit and credit card lines. Previously, the maximum interest rate for loans of less than UF 200 and with a term of more than 90 days was calculated as the average rate of all transactions undertaken within the banking industry over the previous month of loans of less than UF 200 and with a term of more than 90 days, multiplied by a factor of 1.5. The average and maximum rates are published daily by the SBIF. As of September 30, 2013, the average annual interest rate for this type of loan reached 35.90%, and the maximum annual interest rate reached 53.85%.

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On December 13, 2013, the SBIF published the new maximum rates for loans between UF 0 and UF 50 (US\$2,225). The new maximum rate was 47.91%, compared to 53.85% as of September 30, 2013. Further reductions of 2% will be implemented gradually every 12 weeks in 2014 until the maximum rate is equal to the average interest rate for loans between UF 200 (US\$8,900) to UF 5,000 (US\$222,500) plus 21%, unless the flow of new loans in the industry decreases by 10%-20%, in which case the reduction will be partially or completely suspended until the next period. We estimate that it will take 20 months for the maximum rate to reach the 37% level the authorities are seeking for loans of this size.

On December 13, 2013, the SBIF published the new maximum rates for loans between UF 50 (US\$2,225) and UF 200 (US\$8,900). The new maximum rate was 45.91%, compared to 53.85% as of September 30, 2013. Further reductions of 2% will be implemented gradually every 12 weeks until the maximum rate is equal to the average interest rate for loans between UF 200 (US\$8,900) to UF 5,000 (US\$222,500) plus 14%, unless the flow of new loans in the industry decreases by 10%-20%, in which case the reduction will be partially or completely suspended until the next period. We estimate that it will take 26 months for the maximum rate to reach the 31% level the authorities are seeking for loans of this size.

We estimate that in 2014, this bill could lower our net interest margin by 15-20 basis points, or approximately Ch\$40-50 billion. This estimate is only preliminary, as it is difficult to estimate the speed of implementation of the reduction and the effect on loan volumes

In March 2012, a bill aimed at giving 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. The creation of the SERNAC Financiero has also resulted in additional scrutiny regarding prices and contracts for financial products and services, making it more difficult to raise prices and increasing competition among bank and non-bank competitors.

In July 2012, new regulations regarding the selling of mandatory insurance for loans introduced that will increase competition and that could lower our fees from collecting these premiums. This had a negative impact on fees in 2013 in an amount we estimated to be approximately Ch\$6 billion. In 2014, we again auctioned our mortgage P&L insurance provider and prices fell once more. We expect this to have an impact of Ch\$8-10 billion in 2014, subject to further changes in estimate.

In line with the future adoption of Basel III 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 13.82% as of December 31, 2013, 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 was 12.57% as of December 31, 2013. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

On December 18, 2013, the SBIF published new guidelines for provisioning a bank's residential mortgage loan portfolio. These new regulations are currently open for debate and the final versions are expected to be published in 2014. The drafts of these new regulations include:

a proposal that the banking industry adopt a standard model to calculate allowances for housing mortgage loans that explicitly considers loan delinquency and loan / collateral (LTV) ratios, in order to promote active management of credit risk; and

a proposal for a new way of evaluating collateral in the context of determining provisions, which would specify certain required conditions that would need to be met by an asset in order for it to be eligible to be used as collateral for mitigating credit risk, as well as more specific requirements of how collateral would be valued for purposes of setting loan loss levels.

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These above changes will be implemented gradually by the SBIF once the final rules are published, which is expected by January 2015. At this time, we are unable to estimate the impact these new regulations will have on our loan loss allowance levels for mortgage loans or our net income under IFRS.

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

As of December 31, 2013 on a consolidated basis, we had 11,516 employees, of which 75.9% were unionized. In March 2014, a new collective bargaining agreement was signed with the main unions, which will become effective on October 1, 2014, and which will expire on December 31, 2018. 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.

These and any additional legislative or regulatory actions in Chile, Spain, the European Union, the United States or other countries, and any required changes to our business operations resulting from such legislation and regulations, could result in reduced capital availability, significant loss of revenue, limit our ability to continue organic growth (including increased lending), pursue business opportunities in which we might otherwise consider engaging and provide certain products and services, affect the value of assets that we hold, require us to increase our prices and therefore reduce demand for our products, impose additional costs on us or otherwise adversely affect our businesses. Accordingly, we cannot provide assurance that any such new legislation or regulations would not have an adverse effect on our business, results of operations or financial condition in the future.

Our corporate disclosure may differ from disclosure regularly published by issuers of securities in other countries, including the United States.

Issuers of securities in Chile are required to make public disclosures that are different from, and that may be reported under presentations that are not consistent with, disclosures required in the United States and other countries. In particular, as a Chilean regulated financial institution, we are required to submit to the SBIF on a monthly basis unaudited consolidated balance sheets and income statements, excluding any note disclosure, prepared in accordance with Chilean Bank GAAP and the rules of the SBIF. This disclosure differs in a number of significant respects from generally accepted accounting principles in the United States and information generally available in the United States with respect to U.S. financial institutions. In addition, as a foreign private issuer, we are not subject to the same disclosure requirements in the United States as a domestic U.S. registrant under the Exchange Act, including the requirements to prepare and issue quarterly reports, or the proxy rules applicable to domestic U.S. registrants under Section 14 of the Exchange Act or the insider reporting and short-swing profit rules under Section 16 of the Exchange Act. Accordingly, the information about us available to you will not be the same as the information available to shareholders of a U.S. company and may be reported in a manner that you are not familiar with.

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

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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.

Investors may find it difficult to enforce civil liabilities against us or our directors, officers and controlling persons.

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. Although we have appointed an agent for service of process in any action against us in the United States with respect to our ADSs, none of our directors, officers or controlling persons has consented to service of process in the United States or to the jurisdiction of any United States court. As a result, it may be difficult for investors to effect service of process within the United States on such persons.

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.

Risks Relating to Our Controlling Shareholder and our ADSs

Our controlling shareholder has a great deal of influence over our business and its interests could conflict with yours.

Santander Spain, our controlling shareholder, controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A., which are controlled subsidiaries. Santander Spain has control over 67.18% of our shares and actual participation, excluding non-controlling shareholders that participate in Santander Chile Holding, S.A. of 67.01%.

Due to its share ownership, our controlling shareholder has the ability to control us and our subsidiaries, including the ability to:

- elect the majority of the directors and exercise control over our company and subsidiaries;
- cause the appointment of our principal officers;
- declare the payment of any dividends;
- agree to sell or otherwise transfer its controlling stake in us; and

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determine the outcome of substantially all actions requiring shareholder approval, including amendments of our bylaws, transactions with related parties, corporate reorganizations, acquisitions and disposals of assets and issuance of additional equity securities, if any.

In December 2012, primarily in response to the requirements of the European Banking Authority, the Bank of Spain and regulators in various jurisdictions, Santander Spain adopted a corporate governance framework (*Marco de Gobierno Interno del Grupo Santander*). The purpose of the framework is to organize and standardize the corporate governance practices of Santander Spain and its most significant subsidiaries, including us. (Our Board of Directors approved the adoption of this corporate governance framework in April 2013,) subject to certain overarching principles, such as the precedence of applicable laws and regulations over the framework to the extent they are in conflict. See “Item 16G. Corporate Governance.” Our adoption of this framework may increase Santander Spain’s control over us.

We operate as a stand-alone subsidiary within the Santander Group. Our controlling shareholder has no liability for our banking operations, except for the amount of its holdings of our capital stock. The interests of Santander Spain may differ from the interests of our other shareholders, and the concentration of control in Santander Spain may differ from the interests of our other shareholders, and the concentration of control in Santander Spain will limit other shareholders’ ability to influence corporate matters. As a result, we may take actions that our other shareholders do not view as beneficial.

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. Although we have similar practices, they do not entirely conform to the NYSE requirements for U.S. issuers; therefore we currently use these exemptions and intend to continue using them. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all NYSE corporate governance requirements.

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, 2013, 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 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

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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.

***As a holder of ADSs you will have different shareholders’ rights than in the United States and certain other jurisdictions.***

Our corporate affairs are governed by our estatutos, or by-laws, and the laws of Chile, which may differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or in certain other jurisdictions outside Chile. Under Chilean corporate law, you may have fewer and less well-defined rights to protect your interests relative to actions taken by our board of directors or the holders of our common shares than under the laws of other jurisdictions outside Chile. 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.

Although Chilean corporate law imposes restrictions on insider trading and price manipulation, the form of these regulations and the manner of their enforcement may differ from that in the U.S. securities markets or markets in certain other jurisdictions. In addition, in Chile, self-dealing and the preservation of shareholder interests may be regulated differently, which could potentially disadvantage you as a holder of the shares underlying ADSs.

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

Holders of ADSs will not be our direct shareholders 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.

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ADS holders may be subject to additional risks related to holding ADSs rather than shares.

Because ADS holders do not hold their shares directly, they are subject to the following additional risks, among others:

as an ADS holder, we will not treat you as one of our direct shareholders and you may not be able to exercise shareholder rights;

we and the depositary may amend or terminate the deposit agreement without the ADS holders' consent in a manner that could prejudice ADS holders or that could affect the ability of ADS holders to transfer ADSs; and

the depositary may take or be required to take actions under the Deposit Agreement that may have adverse consequences for some ADS holders in their particular circumstances.

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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, 2013, we had total assets of Ch\$27,122,227 million (U.S.\$51,740 million), outstanding loans and interbank loans, net of allowances for loan losses of Ch\$20,445,828 (U.S.\$39,004 million), total deposits of Ch\$15,296,035 million (U.S.\$29,180 million) and equity of Ch\$2,372,456 million (U.S.\$4,526 million). As of December 31, 2013, we employed 11,516 people and had the largest private branch network in Chile, with 493 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 SBIF on October 27, 1977. Santiago’s by-laws were approved by Resolution No. 103 of the SBIF 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 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 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 CT Corporation, located at 111 Eighth Avenue, 13th Floor, New York, New York 10011.

#### Relationship with Santander Spain

We believe that our relationship with our controlling shareholder, Santander Spain, offers us a significant competitive advantage over our peer Chilean banks. 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 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 Santander Spain's product offerings in other countries, as well as of its know-how in systems management. We believe that our relationship with Santander Spain will also enhance our ability to manage credit and market risks by adopting policies and knowledge developed by Santander Spain. In addition, our internal auditing function has been strengthened as a result of the addition of an internal auditing department that concurrently reports

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directly to our Audit Committee and the audit committee of Santander Spain. We believe that this structure leads to improved monitoring and control of our exposure to operational risks.

Santander Spain’s support of Santander-Chile includes the assignment of managerial personnel to key supervisory areas of Santander-Chile, such as risks, auditing, accounting and financial control. Santander-Chile does not pay any management or other fees to Santander Spain in connection with these support services.

B. Organizational Structure

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

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

The chart below sets forth the names and areas of responsibility of our senior managers as of April 2014.

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C. Business Overview

We have 493 total branches, 282 of which are operated under the Santander brand name, with the remaining branches under certain specialty brand names, including 77 under the *Santander Banefe* brand name, 41 under the *SuperCaja* brand name, 46 under the Select brand name and 47 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 Bank has the following operating segments:

*Individuals and SMEs*

*Santander Banefe*, consisting of individuals with monthly incomes between Ch\$150,000 (U.S.\$286) and Ch\$400,000 (U.S.\$763) and served through our Banefe branch network. This segment accounts for 3.5% of our total loans outstanding as of December 31, 2013. This segment offers customers a range of products, including consumer loans, credit cards, auto loans, residential mortgage loans, debit card accounts, savings products, mutual funds and insurance brokerage.

*Individuals in Commercial banking*, consisting of individuals with a monthly income greater than Ch\$400,000 (U.S.\$763). Clients in this segment account for 46.1% of our total loans outstanding as of December 31, 2013 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 (U.S.\$2.3 million). As of December 31, 2013, this segment represented approximately 15.3% 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.

*Companies and Institutional*

*Institutional*, such as universities, government agencies, municipalities and regional governments. As of December 31, 2013, these clients represented 1.7% 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 (U.S.\$2.3 million) and up to Ch\$10,000 million (U.S.\$19.1 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, 2013, these clients represented 8.4% of our total loans outstanding.

*Real estate*, consisting of all companies in the real estate sector with annual revenue over Ch\$800 million (U.S.\$1.5 million), including construction companies and real estate companies that execute projects for sale to third parties. As of December 31, 2013, these clients represented 4.7% 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 (U.S.\$19.1 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, 2013, these clients represented 9.1% of our total loans outstanding.

Table of ContentsGlobal Banking and Markets

*Corporate*, consisting of companies that are foreign multinationals or part of a larger Chilean economic group with sales of over Ch\$10,000 million (U.S.\$19.1 million). As of December 31, 2013, these clients represented 10.5% 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*, which 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 (*Gestión Financiera*), which manages global functions such as the management of our structural foreign exchange gap position, our structural position in inflation-indexed assets and liabilities, our structural interest rate risk and our liquidity risk. The Financial Management Division also oversees the use of our resources, the distribution of capital among our different units and the overall financing cost of investments. The aim of the Financial Management Division 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.

The table below sets forth our lines of business and certain statistical information relating to each of them for the year ended December 31, 2013. Please see “Note 4—Business Segments” to our Audited Consolidated Financial Statements for details of revenue by business segment in the last three years.

|                 | As of December 31, 2013  |                                 |   |  |                                       |                                     |   |
|-----------------|--|---------------------------------|---|--|---------------------------------------|-------------------------------------|---|
|                 | Loans and<br>accounts<br>receivable<br>from<br>customers<br>(1)<br>Ch\$m | Net interest<br>income<br>Ch\$m | Net<br>fee and<br>commission<br>income<br>Ch\$m | Financial<br>transactions, net<br>(2)<br>Ch\$m | Provision for<br>loan losses<br>Ch\$m | Support<br>expenses<br>(3)<br>Ch\$m | Segment's<br>net<br>contribution<br>Ch\$m |
| <b>Segments</b> |  |                                 |   |  |                                       |                                     |   |

**Individuals +  
SMEs**

|   |                   |                  |                |                |                  |                  |                 |
|---|-------------------|------------------|----------------|----------------|------------------|------------------|-----------------|
| Santander Banefe  | 727,452           | 99,182           | 25,648         | 1,614          | (56,309)         | (52,370)         | 17,765          |
| Commercial Banking  | 9,710,249         | 506,192          | 123,496        | 7,118          | (157,697)        | (298,173)        | 180,936         |
| Small and mid-sized companies (SMEs)                      | 3,223,215         | 260,856          | 37,641         | 4,798          | (101,611)        | (79,633)         | 122,051         |
| <b>Subtotal</b>   | <b>13,660,916</b> | <b>866,230</b>   | <b>186,785</b> | <b>13,530</b>  | <b>(315,617)</b> | <b>(430,176)</b> | <b>320,752</b>  |
| <b>Companies and institutional</b>                        |                   |                  |                |                |                  |                  |                 |
| Companies   | 1,757,586         | 73,906           | 14,020         | 7,457          | (21,364)         | (27,947)         | 46,072          |
| Large Corporations  | 1,923,810         | 62,953           | 9,026          | 5,930          | (15,296)         | (19,937)         | 42,676          |
| Real estate   | 996,847           | 26,607           | 3,588          | 287            | (5,098)          | (6,055)          | 19,329          |
| Institutional   | 353,509           | 30,283           | 2,615          | 562            | 261              | (15,889)         | 17,832          |
| <b>Subtotal</b>   | <b>5,031,752</b>  | <b>193,749</b>   | <b>29,249</b>  | <b>14,236</b>  | <b>(41,497)</b>  | <b>(69,828)</b>  | <b>125,909</b>  |
| <b>Subtotal</b>   |                   |                  |                |                |                  |                  |                 |
| <b>Commercial Banking</b>                                 | <b>18,692,668</b> | <b>1,059,979</b> | <b>216,034</b> | <b>27,766</b>  | <b>(357,114)</b> | <b>(500,004)</b> | <b>446,661</b>  |
| <b>Global Banking and Markets</b>                         |                   |                  |                |                |                  |                  |                 |
| Corporate   | 2,219,045         | 63,036           | 16,295         | 9,011          | (14,739)         | (19,802)         | 53,801          |
| Treasury  | -                 | 9,896            | 1,727          | 41,706         | -                | (17,926)         | 35,403          |
| <b>Subtotal</b>   | <b>2,219,045</b>  | <b>72,932</b>    | <b>18,022</b>  | <b>50,717</b>  | <b>(14,739)</b>  | <b>(37,728)</b>  | <b>89,204</b>   |
| <b>Other</b>  | <b>149,048</b>    | <b>(56,149)</b>  | <b>(4,220)</b> | <b>45,954</b>  | <b>391</b>       | <b>(20,121)</b>  | <b>(34,145)</b> |
| <b>Total</b>  | <b>21,060,761</b> | <b>1,076,762</b> | <b>229,836</b> | <b>124,437</b> | <b>(371,462)</b> | <b>(557,853)</b> | <b>501,720</b>  |
| Other operating income                                    |                   |                  |                |                |                  |                  | 88,155          |
| Other operating expenses                                  |                   |                  |                |                |                  |                  | (52,338)        |
| Income from investments in associates and other companies |                   |                  |                |                |                  |                  | 1,422           |
| Income tax expense  |                   |                  |                |                |                  |                  | (94,530)        |
| <b>Net income for the year</b>                            |                   |                  |                |                |                  |                  | <b>444,429</b>  |

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

(2) Includes net profit (loss) from financial operations and net foreign exchange gain (loss).

(3) Equal to the sum of personnel expenses, administrative expenses, depreciations and amortizations and impairment of property, plant, and equipment.

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## 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 that 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 twelve-month period ended December 31, 2013, our subsidiaries collectively accounted for 1.6% of our total consolidated assets.

| Name of the subsidiary   | Main activity  | Percent ownership share<br>As of December 31 |          |        |        |          |        |        |          |        |
|--|--|--|----------|--------|--------|----------|--------|--------|----------|--------|
|  |  | 2013   |          |        | 2012   |          |        | 2011   |          |        |
|  |  | Direct                                       | Indirect | Total  | Direct | Indirect | Total  | Direct | Indirect | Total  |
|  |  |  |          |        |        |          |        |        |          |        |
|  |  | %  | %        | %      | %      | %        | %      | %      | %        | %      |
| Santander Corredora de Seguros Limitada                              | Insurance brokerage                                  | 99.75  | 0.01     | 99.76  | 99.75  | 0.01     | 99.76  | 99.75  | 0.01     | 99.76  |
| Santander S.A. Corredores de Bolsa                                   | Financial instruments brokerage                      | 50.59  | 0.41     | 51.00  | 50.59  | 0.41     | 51.00  | 50.59  | 0.41     | 51.00  |
| Santander Asset Management S.A. Administradora General de Fondos (*) | Third-party funds administration                     | -  | -        | -      | 99.96  | 0.02     | 99.98  | 99.96  | 0.02     | 99.98  |
| Santander Agente de Valores Limitada                                 | Securities brokerage                                 | 99.03  | -        | 99.03  | 99.03  | -        | 99.03  | 99.03  | -        | 99.03  |
| Santander S.A. Sociedad Securitizadora                               | Purchase of credits and issuance of debt instruments | 99.64  | -        | 99.64  | 99.64  | -        | 99.64  | 99.64  | -        | 99.64  |
| Santander Servicios de Recaudación y Pagos Limitada                  | Support society, making and receiving payments       | 99.90  | 0.10     | 100.00 | 99.90  | 0.10     | 100.00 | 99.90  | 0.10     | 100.00 |

(\*) Santander Asset Management S.A. Administradora General de Fondos was sold in December 2013, see Note 03 - Significant events to the Audited Consolidated Financial Statements.

The following companies have been consolidated based on the determination that the Bank has control as described in note 10 to the Audited Consolidated Financial Statements and in accordance with IFRS 10, *Consolidated Financial Statements*:

- Santander Gestión de Recaudación y Cobranza Limitada (collection services)
- Multinegocios S.A. (management of sales force).
- Servicios Administrativos y Financieros Limitada (management of sales force)
- Fiscalex Limitada (collection services)
- Multiservicios de Negocios Limitada (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 operating in Chile. The Chilean banking system is

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comprised of 24 banks, including one public-sector bank. The five largest banks accounted for 72.5% of all outstanding loans by Chilean financial institutions as of December 31, 2013 (excluding Corpbanca's subsidiary in Colombia).

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, credit unions and cajas de compensación 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 Chilean Bank GAAP.

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 as of December 31, 2013.

|                            | As of December 31, 2013,<br>unless otherwise noted |      |
|----------------------------|--|------|
|                            | Market Share                                       | Rank |
| Commercial loans           | 17.4%  | 2    |
| Consumer loans             | 24.6%  | 1    |
| Residential mortgage loans | 20.7%  | 1    |
| Total loans <sup>(1)</sup> | 19.1%  | 2    |
| Deposits                   | 16.6%  | 3    |
| Credit card accounts       | 27.5%  | 1    |
| Checking accounts          | 23.3%  | 2    |
| Branches <sup>(3)</sup>    | 18.9%  | 1    |

Source: SBIF, excludes Corpbanca Colombia.

(1) Excludes interbank loans.

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

(3) Excludes special-service payment centers.

## Loans

As of December 31, 2013, our loan portfolio was the second-largest among Chilean banks. Our loan portfolio on a stand-alone basis represented 19.1% of the market for loans in the Chilean financial system as of such date. The following table sets forth our and our peer group's market shares in terms of loans (excluding Corpbanca Colombia).

| Loans                          | As of December 31, 2013 |                | Market Share |
|--------------------------------|-------------------------|----------------|--------------|
|                                | Ch\$ million            | U.S.\$ million |              |
| Santander-Chile                | 21,060,761              | 40,177         | 19.1%        |
| Banco de Chile                 | 21,332,278              | 40,695         | 19.3%        |
| Banco del Estado               | 15,024,048              | 28,661         | 13.6%        |
| Banco de Crédito e Inversiones | 14,529,713              | 27,718         | 13.2%        |
| Corpbanca                      | 7,972,440               | 15,209         | 7.2%         |
| BBVA, Chile                    | 7,588,852               | 14,477         | 6.9%         |
| Others                         | 22,742,617              | 43,385         | 20.6%        |
| Chilean financial system       | 110,250,709             | 210,322        | 100.0%       |

Source: SBIF.

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## Deposits

On a stand-alone basis, we had a 16.6% market share in deposits, ranking third among banks in Chile as of December 31, 2013. Deposit market share is based on total time and demand deposits as of the respective dates. The following table sets forth our and our peer group's market shares in terms of deposits (excluding Corpbanca Colombia).

| Deposits                       | As of December 31, 2013 |                |              |
|--------------------------------|-------------------------|----------------|--------------|
|                                | Ch\$ million            | U.S.\$ million | Market Share |
| Santander-Chile                | 15,296,035              | 29,180         | 16.6%        |
| Banco del Estado               | 18,369,535              | 35,043         | 19.9%        |
| Banco de Chile                 | 16,387,057              | 31,261         | 17.8%        |
| Banco de Crédito e Inversiones | 11,628,315              | 22,183         | 12.6%        |
| BBVA, Chile                    | 5,912,767               | 11,280         | 6.4%         |
| Corpbanca                      | 5,759,167               | 10,987         | 6.3%         |
| Others                         | 18,768,859              | 35,805         | 20.4%        |
| Chilean financial system       | 92,121,735              | 175,738        | 100.0%       |

Source: SBIF.

## Total equity

With Ch\$2,354,182 million (U.S.\$4,491 million) in equity in Chilean Bank GAAP as of December 31, 2013, 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.

| Total Equity                   | As of December 31, 2013 |                |              |
|--------------------------------|-------------------------|----------------|--------------|
|                                | Ch\$ million            | U.S.\$ million | Market Share |
| Santander-Chile                | 2,354,182               | 4,491          | 18.2%        |
| Banco de Chile                 | 2,284,316               | 4,358          | 17.7%        |
| Banco del Estado               | 1,082,294               | 2,065          | 8.4%         |
| Banco de Crédito e Inversiones | 1,582,100               | 3,018          | 12.3%        |
| Corpbanca                      | 1,717,039               | 3,276          | 13.3%        |
| BBVA, Chile                    | 666,730                 | 1,272          | 5.2%         |
| Others                         | 3,215,015               | 6,133          | 24.9%        |
| Chilean financial system       | 12,901,676              | 24,613         | 100.0%       |

Source: SBIF.

## Efficiency

As of December 31, 2013, 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 2013.

| Efficiency ratio               | As of<br>December 31,<br>2013 |
|--------------------------------|-------------------------------|
| Santander-Chile                | 42.4%                         |
| Banco de Chile                 | 42.8%                         |
| Banco del Estado               | 59.4%                         |
| Banco de Crédito e Inversiones | 47.9%                         |
| BBVA, Chile                    | 58.3%                         |
| Corpbanca                      | 52.3%                         |
| Chilean financial system       | 49.7%                         |

Source: SBIF.

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Net income for the period attributable to shareholders

In 2013, we were the second largest bank in Chile in terms of net income attributable to shareholders of Ch\$444,061 million (U.S.\$847 million) measured under Chilean Bank GAAP. The following table sets forth our and our peer group's net income.

| Net income for the year (1)    | As of December 31, 2013 |                |              |
|--------------------------------|-------------------------|----------------|--------------|
|                                | Ch\$ million            | U.S.\$ million | Market Share |
| Santander-Chile                | 444,061                 | 847            | 23.2%        |
| Banco de Chile                 | 513,603                 | 980            | 26.8%        |
| Banco de Crédito e Inversiones | 300,294                 | 573            | 15.7%        |
| Corpbanca                      | 167,910                 | 320            | 8.8%         |
| BBVA, Chile                    | 50,474                  | 96             | 2.6%         |
| Banco del Estado               | 115,356                 | 220            | 6.0%         |
| Others                         | 324,294                 | 619            | 16.9%        |
| Chilean financial system       | 1,915,992               | 3,655          | 100.0%       |

Source: SBIF.

(1) Net income before non-controlling interest.

Return on equity

As of December 31, 2013, we were the third 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.

|                                | Return on period-end equity as of December 31, 2013 | BIS Ratio as of December 31, 2013 |
|--------------------------------|---|-----------------------------------|
| Santander-Chile                | 18.9%   | 13.8%                             |
| Banco de Chile                 | 22.5%   | 13.1%                             |
| Banco del Estado               | 10.7%   | 11.3%                             |
| Banco de Crédito e Inversiones | 19.0%   | 13.4%                             |
| BBVA, Chile                    | 7.6%  | 11.9%                             |

|                          |       |       |
|--------------------------|-------|-------|
| Corpbanca                | 9.8%  | 13.2% |
| Chilean Financial System | 14.9% | 12.8% |

Source: SBIF.

#### Asset Quality

As of December 31, 2013, 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 as of December 31, 2013.

|                                | Non-performing loans / total<br>loans <sup>(1)</sup> as of December 31, 2013 |
|--------------------------------|--|
| Santander-Chile                | 2.91   |
| Banco de Chile                 | 1.11   |
| Banco del Estado               | 3.76   |
| Banco de Crédito e Inversiones | 2.38   |
| BBVA, Chile                    | 1.49   |
| Corpbanca                      | 1.29   |
| Chilean financial system       | 2.20   |

Source: SBIF.

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

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### 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 SBIF and the Central Bank. Chilean banks are primarily subject to the General Banking Law, and secondarily subject, 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 Chilean 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 systems. 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 SBIF

Banks are supervised and controlled by the SBIF, an independent Chilean governmental agency. The SBIF 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 SBIF 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 SBIF 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 SBIF, 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 SBIF. A bank's annual financial statements and the opinion of its independent auditors must also be submitted to the SBIF.

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 SBIF. Absent such approval, the acquiror of shares so acquired will not have the right to vote. The SBIF may only refuse to grant its approval, based on specific grounds set forth in the General Banking Law.

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

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a bank's assets and liabilities by another bank;

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- 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 SBIF 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 SBIF; 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 SBIF 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 SBIF, 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 SBIF, the following ownership disclosures are required:

· a bank is required to inform the SBIF 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 Depository the identity of beneficial owners of ADSs registered under such holders' names;

· the Depository is required to notify the bank as to the identity of beneficial owners of ADSs which such Depository has registered and the bank, in turn, is required to notify the SBIF 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 SBIF 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 SBIF and the Central Bank, Chilean banks may own majority or non-controlling interests in foreign banks.

Since June 1, 2002, Chilean banks are allowed to offer a new checking account product that pays interest. The SBIF 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

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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\$2,797,147 or U.S.\$5,336 as of December 31, 2013) 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 but excluding interbank demand deposits.

### Minimum Capital

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch\$18,648 million or U.S.\$35.6 million as of December 31, 2013) 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.

#### 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. The SBIF is expected to implement in 2014 or 2015 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 the Chilean Congress, as it involves a modification to the General Banking Law.

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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 to include shareholders' equity.

Within the scope of Basel II in Chile, further changes in regulation may occur. See "Item 3. Key Information—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 SBIF detailed information regarding their loan portfolio on a monthly basis. The SBIF 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 SBIF. Category 1 banks are those banks whose methods and models are satisfactory to the SBIF. 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 SBIF while its Board of Directors will be made aware of the problems detected by the SBIF 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 SBIF until they are authorized by the SBIF to do otherwise. 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. Operating and Financial Review and Prospects—F. Selected Statistical Information—Classification of Loan Portfolio" and in "Note 1—Summary of Significant Accounting Policies" of our Audited Consolidated Financial Statements.

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### 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 SBIF 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 SBIF 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 SBIF, 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 SBIF, 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 to be not lower than 12.0%. If a bank fails to pay an obligation, it must notify the SBIF, which shall determine if the bank is solvent.

### Dissolution and Liquidation of Banks

The SBIF 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 SBIF must revoke a bank's authorization to exist and order its mandatory liquidation, subject to agreement by the Central Bank. The SBIF must also revoke a bank's authorization if the reorganization plan of such bank has been rejected twice. The resolution by

the SBIF must state the reason for ordering the liquidation and must name a liquidator, unless the SBIF 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 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").

#### Loans and 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. Banks may grant commercial loans and foreign trade loans, and can buy loans granted by banks abroad. 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

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other foreign or international financial entities, and (2) bonds issued by foreign companies. If the sum of investment in foreign securities and loans granted outside of Chile surpasses 70% of regulatory capital, the amount that exceeds 70% is subject to a mandatory reserve of 100%.

*Table 1*

| Rating Agency               | Short Term | Long Term |
|-----------------------------|------------|-----------|
| Moody's                     | P2         | Baa3      |
| Standard and Poor's         | A3         | BBB-      |
| Fitch                       | F2         | BBB-      |
| Dominion Bond Rating (DBRS) | R-2        | BBB (low) |

In the event that the sum of: (a) loans granted abroad that are not to subsidiaries of Chilean companies, and that have a rating of BB- or less and do not trade on a foreign stock exchange, and (b) the investments in foreign securities which have a 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 exceeds 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         | A-2        | BB-       |
| Fitch                       | F2         | BB-       |
| Dominion Bond Rating (DBRS) | R-2        | BB (low)  |

In addition, banks may invest in foreign securities whose ratings are equal or exceeds those mentioned in Table 3 below for an additional amount equal to 70% of their regulatory capital. This limit constitutes an additional margin and 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 Table 3 below in: (i) sight deposits with foreign banks, including overnight deposits in a single entity; and (ii) securities issued or guaranteed by sovereign states or their central banks or securities issued or guaranteed by foreign entities within the Chilean State, though 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. If these foreign securities do not have a rating, the individual limit will be 10% of regulatory capital.

*Table 3*

| Rating Agency       | Short Term | Long Term |
|---------------------|------------|-----------|
| Moody's             | P1         | Aa3       |
| Standard and Poor's | A1+        | AA-       |
| Fitch               | F1+        | AA-       |
| DBRS                | R-1 (high) | AA(low)   |

Moreover, the sum of all demand deposits with foreign banks, including overnight deposits to related parties, as defined by the Central Bank and the SBIF, cannot surpass 25% of a bank's regulatory capital. This limit excludes foreign branches of Chilean banks or their subsidiaries, but must include amounts deposited by these entities in related parties abroad.

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.

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New Regulations for “Mortgage Bonds”

In 2012, the mortgage-covered bond legislation was approved by the Chilean congress. The new class of bonds, known as “mortgage bonds,” are debt backed by the company that sells them, as well as by a pool of mortgages that in the event of insolvency the pool of mortgages are auctioned with the corresponding mortgage bond. Unlike covered bonds, they are not be limited to banks. These bonds, if bought by banks, will be available for immediate liquidity in the Central Bank liquidity window and will have other restrictions as to the type of mortgage they will be funding, *i.e.* mortgage loans with loan-to-values of maximum 80%.

U.S. Banking Regulation - Volcker Rule

On July 21, 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which provides a broad framework for significant regulatory changes that extend to almost every area of U.S. financial regulation. Within the Dodd-Frank Act, the Volcker Rule prohibits “banking entities” from engaging in certain forms of proprietary trading or from sponsoring or investing in certain covered funds, in each case subject to certain limited exceptions. The Volcker Rule became effective on July 21, 2012 and on December 10, 2013, U.S. regulators issued final rules implementing the Volcker Rule. The final rules also limit the ability of banking entities and their affiliates to enter into certain transactions with such funds with which they or their affiliates have certain relationships. The final rules contain exclusions and certain exemptions for market-making, hedging, underwriting, trading in U.S. government and agency obligations as well as certain foreign government obligations, trading solely outside the United States, and also permits certain ownership interests in certain types of funds to be retained. The final rules implementing the Volcker Rule extended the period for all banking entities to conform with the Volcker Rule and implement a compliance program until July 21, 2015, and additional extensions are possible. Banking entities such as Santander Spain must bring their activities and investments worldwide into compliance with the requirements of the Volcker Rule by the end of the conformance period. Santander Spain is assessing how the final rules implementing the Volcker Rule will affect its businesses, including Santander-Chile, and is developing and implementing plans to bring affected businesses into compliance.

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.

Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act

Santander-Chile has no exposure to Iran or Syria. As we are part of Grupo Santander, we must disclose the exposure of other entities of the Group to Iran and Syria.

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), an issuer is required to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with individuals or entities designated pursuant to certain Executive Orders. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law.

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The following activities are disclosed in response to Section 13(r) with respect to affiliates of Santander UK within the Santander Group:

During the period covered by this report:

(a) A Santander UK customer, being an Iranian national resident in the U.K., was designated in September 2013 as acting for or on behalf of the Government of Iran. This accountholder's current account and credit card with Santander UK were closed in December 2013. No revenue was generated by Santander UK on these products.

(b) In early October 2013, Santander UK opened an account for a Tunisian national, resident in the U.K., who is currently designated by the U.S. for terrorism. After becoming aware of this customer's designation, Santander UK exited the relationship later in October 2013. No revenue was generated by Santander UK on these accounts.

(c) Santander UK holds frozen savings and current accounts for three customers resident in the U.K. who are currently designated by the U.S. for terrorism. The accounts held by each customer were blocked after the customer's designation and have remained blocked and dormant throughout 2013. No revenue was generated by Santander UK on these accounts.

(d) A U.K. company maintained two commercial accounts at Santander UK that were used to provide payroll processing services for a U.K. entity that is currently designated by the U.S. under the Iran sanctions regime. The accounts may have been used to provide payroll services to other Iranian clients. Santander UK became aware of this account activity in September 2013 and exited the relationship in January 2014. No revenue was generated by Santander UK on these accounts.

(e) An Iranian national, resident in the U.K., who is currently designated by the U.S. and the U.K. under the Iran Sanctions regime held a mortgage with Santander UK that was issued prior to any such designation. No further drawdown has been made (or would be allowed) under this mortgage although we continue to receive repayment installments. In 2013, total revenue in connection with the mortgage was £10,421 whilst net profits were negligible relative to the overall profits of Santander UK. Santander UK does not intend to enter into any new relationships with this customer, and any disbursements will only be made in accordance with applicable sanctions. The same Iranian national also holds two investment accounts with Santander Asset Management UK Limited, which was a part of the Group until December. The accounts have remained frozen throughout 2013. The investment returns are being automatically reinvested, and no disbursements have been made to the customer. Total revenue for the Group in connection with the investment accounts was £247 whilst net profits in 2013 were negligible relative to the overall profits of Santander Spain.

In addition, the Group has certain legacy export credits and performance guarantees with Bank Mellat, which are included in the U.S. Department of the Treasury's Office of Foreign Assets Control's Specially Designated Nationals and Blocked Persons List. The Bank entered into two bilateral credit facilities in February 2000 in an aggregate principal amount of €25.9 million. Both credit facilities matured in 2012. In addition, in 2005 Santander Spain participated in a syndicated credit facility for Bank Mellat of €15.5 million, which matures on July 6, 2015. As of December 31, 2013, the Group was owed €4.3 million under this credit facility.

Bank Mellat has been in default under all of these agreements in recent years and Santander Spain has been and expects to continue to be repaid any amounts due by official export credit agencies, which insure between 95% and 99% of the outstanding amounts under these credit facilities. No funds have been extended by Santander under these facilities since they were granted.

The Group also has certain legacy performance guarantees for the benefit of Bank Sepah and Bank Mellat (stand-by letters of credit to guarantee the obligations – either under tender documents or under contracting agreements – of contractors who participated in public bids in Iran) that were in place prior to April 27, 2007. However, should any of the contractors default in their obligations under the public bids, the Group would not be able to pay any amounts due to Bank Sepah or Bank Mellat because any such payments would be frozen pursuant to Council Regulation (EU) No. 961/2010.

In the aggregate, all of the transactions described above resulted in approximately €72,000 gross revenues and approximately €123,000 net loss to the Group in 2013, all of which resulted from the performance of export credit

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agencies rather than any Iranian entity. The Group has undertaken significant steps to withdraw from the Iranian market such as closing its representative office in Iran and ceasing all banking activities therein, including correspondent relationships, deposit taking from Iranian entities and issuing export letters of credit, except for the legacy transactions described above. The Group is not contractually permitted to cancel these arrangements without either (i) paying the guaranteed amount – which payment would be frozen as explained above (in the case of the performance guarantees), or (ii) forfeiting the outstanding amounts due to it (in the case of the export credits). As such, the Group intends to continue to provide the guarantees and hold these assets in accordance with company policy and applicable laws.

## 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 twelve other buildings in the vicinity of our headquarters, and we rent six other buildings. At December 31, 2013, we owned the locations at which 25.4% of our branches were located. The remaining branches operate at rented locations. We believe that our existing physical facilities are adequate for our needs.

Main properties as of December 31, 2013    Number

**Central Offices**

|        |    |
|--------|----|
| Owned  | 4  |
| Rented | 6  |
| Total  | 10 |

**Branches(1)**

|        |     |
|--------|-----|
| Owned  | 122 |
| Rented | 359 |
| Total  | 481 |

**Other property(2)**

|        |    |
|--------|----|
| Owned  | 51 |
| Rented | 7  |
| Total  | 58 |

(1) Some branches are located inside central office buildings and other properties. Including these branches, the total number of branches is 493. 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     | HP/Lenovo | Platform applications  |
| Call Center | Avaya     | Telephone system   |
|             | Genesys   | Integration Voice/data   |
|             | Nice      | Voice recorder   |
|             | Nortel    | IVR  |

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The main software systems that we use are:

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Accounting Standards Applied in 2013

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-IASB in order to comply with requirements of the SEC. As required by the General Banking Law, which subjects Chilean banks to the regulatory supervision of the SBIF, and which mandates that Chilean banks abide by the accounting standards stipulated by the SBIF, our locally-filed consolidated financial statements have been prepared in accordance with Chilean Bank GAAP as issued by the SBIF. The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions, as described further below. Therefore, our locally-filed consolidated financial statements have been adjusted according to 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.

*Differences between IFRS and Chilean Bank GAAP*

As stated above, Chilean Bank GAAP, as prescribed by the *Compendium of Accounting Standards* (the "Compendium"), differs in certain respects from 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 receivable. IFRS does not require any such deadline for charge-offs. A charge-off due to impairment would be recorded, if and only if, all efforts at collection of the loan or account receivable had been exhausted. 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 upon 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 IFRS guidelines although we would not expect it to be material.

#### *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.

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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*

The main difference between Chilean bank GAAP and IFRs regarding loan loss allowances is that under Chilean Bank GAAP, we use an expected loss model, and under IFRS, we use an incurred loss approach. Additionally, Chilean Bank GAAP includes the following norms, which are not included in our IFRS loan loss allowance:

On December 29, 2009, the SBIF issued Circular No. 3,489, which incorporates changes to several provisions of the Compendium. 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 Compendium. According to specific instructions from the SBIF in Letter to Management No. 10 dated December 21, 2010, the SBIF stated that it would 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. However, the Bank reverses this minimum provision for purposes of its IFRS consolidated financial statements.

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 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

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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.

**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 records its allowances following its internal models for the recording of incurred debt. These models have been approved by the Board. To establish impairment losses, the Bank carries out an evaluation of outstanding loans and accounts receivable from customers, as detailed below:

Individual assessment of debtors: when debtors are recorded as individually significant, *i.e.*, when they have significant debt levels or, even for those that do not have these levels, could be classified in a group of financial assets with similar credit risk features and who, due to the size, complexity or level of exposure, require detailed information. See “Item 5. Operating and Financial Review and Prospects—F. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio—Credit Approval: Loans approved on an individual basis” and “Note 1—Summary of Significant Accounting Policies—(o) Allowances for loan losses” of our Audited Consolidated Financial Statements.

Group assessment of debtors: when there is no evidence of impairment for individually-assessed debtors—whether or not significant—the Bank groups debtors with similar risk credit features and assesses them for impairment. Debtors individually assessed for impairment and for whom a loss due to impairment has been recorded, are not included in the group assessment of impairment. See “Item 5. Operating and Financial Review and Prospects—F. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio—Credit Approval: Loans approved on a group basis” and “Note 1—Summary of Significant Accounting Policies—(o) Allowances for loan losses” of our Audited Consolidated Financial Statements.

#### *Derivative activities*

As of December 31, 2013, 2012, and 2011, 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 must be 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.

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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.

In 2013, the derivatives classified as held for trading include the debit value adjustments (DVA) for those derivatives in which the Bank has a net liability position with its counterparty. This resulted in income of Ch\$8,324 million in 2013.

*Accounting changes*

IAS 19 – “Employee Benefits Revised” was implemented as of January 1, 2013. Regarding the Pension Plan (Defined benefits), the main change of the new version of the IAS 19 is the inability to defer the costs of ‘past services’ of the defined benefit plans, (immediate recognition is required) as well as the recognition of actuarial gains and losses in other comprehensive income and the elimination of the “corridor approach.” The amendments require an accounting change that must be applied retroactively following IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The required adjustments to comply with the IAS 19 - Employee Benefits amendments within the Consolidated Balance Sheet as of December 31, 2012 are as follows:

|  | <b>Closing balance</b> |                    | <b>Adjusted balance</b> |
|--|------------------------|--------------------|-------------------------|
|  | <b>as of</b>           | <b>Adjustments</b> | <b>as of</b>            |
|  | <b>December 31,</b>    |                    | <b>December 31,</b>     |
| Consolidated Statement of Financial Position | <b>2012</b>            |                    | <b>2012</b>             |
|  | <b>Ch\$mnn</b>         | <b>Ch\$mnn</b>     | <b>Ch\$mnn</b>          |
| Asset  |                        |                    |                         |
| Deferred taxes                               | 181,678                | 197                | 181,875                 |
| Other assets                                 | 658,873                | (983)              | (*) 657,090             |
| Total Assets                                 | 840,551                | (786)              | 839,765                 |
| Liabilities                                  |                        |                    |                         |
| Provisions                                   | 191,796                | 96                 | 191,892                 |
| Total Liabilities                            | 191,796                | 96                 | 191,892                 |
| Equity                                       |                        |                    |                         |
| Reserves                                     | 976,561                | (1,101)            | (**) 975,460            |
| Income for the period                        | 356,493                | 315                | (***) 356,808           |
| Minus: Provision for mandatory dividends     | (106,948)              | (96)               | (107,044)               |
| Total Equity                                 | 1,226,106              | (882)              | 1,225,224               |

(\*) Corresponds to decrease in deferred past service costs

(\*\*) Corresponds to the effect, net of taxes, on pension plans that was deferred as of December 31, 2011

(\*\*\*) Corresponds to an effect on income for the period

The adjustments required by the IAS 19 modifications as of January 1, 2012 are as follows:

|   | <b>Opening balance</b>     |                    | <b>Adjusted balance</b>    |
|---|----------------------------|--------------------|----------------------------|
|   | <b>as of</b>               | <b>Adjustments</b> | <b>as of</b>               |
| <b>Consolidated Statement of Financial Position</b> | <b>January 1,<br/>2012</b> |                    | <b>January 1,<br/>2012</b> |
|   | <b>Ch\$mnn</b>             | <b>Ch\$mnn</b>     | <b>Ch\$mnn</b>             |
| <b>Assets</b>                                       |                            |                    |                            |
| Deferred taxes                                      | 136,521                    | 276                | 136,797                    |
| Other assets  | 550,326                    | (1,377)            | (*) 548,949                |
| <b>Total Assets</b>                                 | <b>686,847</b>             | <b>(1,101)</b>     | <b>685,746</b>             |
| <b>Equity</b>                                       |                            |                    |                            |
| Reserves  | 802,528                    | (1,101)            | (**) 801,427               |
| <b>Total Equity</b>                                 | <b>802,528</b>             | <b>(1,101)</b>     | <b>801,427</b>             |

(\*) Corresponds to decrease in pension plan for deferred pension costs

(\*\*) Corresponds to pension plans amount pending of deferral as of December 31, 2011 (net of income tax)

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The adjusted Consolidated Balance Sheet with modifications required by IAS 19 - Employee Benefits are as follows:

|   | Closing balance IAS 19 |              | Adjusted balance     |
|---|------------------------|--------------|----------------------|
|   | as of                  | adjustments  | as of                |
|   | December 31,<br>2012   |              | December 31,<br>2012 |
|   | Ch\$mnn                | Ch\$mnn      | Ch\$mnn              |
| <b>ASSETS</b>                                   |                        |              |                      |
| Cash and deposits in banks                      | 1,250,414              | -            | 1,250,414            |
| Cash items in process of collection             | 520,267                | -            | 520,267              |
| Trading investments                             | 338,287                | -            | 338,287              |
| Investments under resale agreements             | 6,993                  | -            | 6,993                |
| Financial derivative contracts                  | 1,293,212              | -            | 1,293,212            |
| Interbank loans, net                            | 90,414                 | -            | 90,414               |
| Loans and accounts receivable from customers    | 18,326,190             | -            | 18,326,190           |
| Available for sale investments                  | 1,826,158              | -            | 1,826,158            |
| Held to maturity investments                    | -                      | -            | -                    |
| Investments in associates and other companies   | 7,614                  | -            | 7,614                |
| Intangible assets                               | 87,347                 | -            | 87,347               |
| Property, plant, and equipment                  | 162,214                | -            | 162,214              |
| Current taxes                                   | 10,227                 | -            | 10,227               |
| Deferred taxes                                  | 181,678                | 197          | 181,875              |
| Other assets                                    | 658,873                | (983)        | 657,890              |
| <b>TOTAL ASSETS</b>                             | <b>24,759,888</b>      | <b>(786)</b> | <b>24,759,102</b>    |
| <b>LIABILITIES</b>                              |                        |              |                      |
| Deposits and other demand liabilities           | 4,970,019              | -            | 4,970,019            |
| Cash items in process of being cleared          | 284,953                | -            | 284,953              |
| Obligations under repurchase agreements         | 304,117                | -            | 304,117              |
| Time deposits and other time liabilities        | 9,112,213              | -            | 9,112,213            |
| Financial derivative contracts                  | 1,146,161              | -            | 1,146,161            |
| Interbank borrowings                            | 1,438,003              | -            | 1,438,003            |
| Issued debt instruments                         | 4,571,289              | -            | 4,571,289            |
| Other financial liabilities                     | 192,611                | -            | 192,611              |
| Current taxes                                   | 525                    | -            | 525                  |
| Deferred taxes                                  | 9,544                  | -            | 9,544                |
| Provisions                                      | 191,796                | 96           | 191,892              |
| Other liabilities                               | 341,274                | -            | 341,274              |
| <b>TOTAL LIABILITIES</b>                        | <b>22,562,505</b>      | <b>96</b>    | <b>22,562,601</b>    |
| <b>EQUITY</b>                                   |                        |              |                      |
| <b>Attributable to the Bank's shareholders:</b> | <b>2,163,118</b>       | <b>(882)</b> | <b>2,162,236</b>     |
| Capital   | 891,303                | -            | 891,303              |

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|  |                   |              |                   |
|--|-------------------|--------------|-------------------|
| Reserves                                 | 976,561           | (1,101)      | 975,460           |
| Valuation adjustments                    | (3,781)           | -            | (3,781)           |
| <b>Retained earnings</b>                 | <b>299,035</b>    | <b>219</b>   | <b>299,254</b>    |
| Retained earnings of prior years         | 49,490            | -            | 49,490            |
| Income for the period                    | 356,493           | 315          | 356,808           |
| Minus: Provision for mandatory dividends | (106,948)         | (96)         | (107,044)         |
| <b>Non-controlling interest</b>          | <b>34,265</b>     | <b>-</b>     | <b>34,265</b>     |
| <b>TOTAL EQUITY</b>                      | <b>2,197,383</b>  | <b>(882)</b> | <b>2,196,501</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>      | <b>24,759,888</b> | <b>(786)</b> | <b>24,759,102</b> |

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The necessary adjustments made to the Income Statement for comparative purposes as of December 31, 2012 are detailed below:

|  | Closing balance as<br>of<br><br>December 31<br>2012<br>Ch\$mnn | IAS 19<br><br>adjustments<br>Ch\$mnn | Adjusted balance<br>as of<br><br>December 31<br>2012<br>Ch\$mnn |
|--|--|--------------------------------------|---|
| <b>OPERATING INCOME</b>                                      |  |                                      |   |
| Interest income  | 1,890,953  | -                                    | 1,890,953   |
| Interest expense   | (848,219)  | -                                    | (848,219)   |
| <b>Net interest income</b>                                   | <b>1,042,734</b>   | <b>-</b>                             | <b>1,042,734</b>  |
| Fee and commission income                                    | 360,427  | -                                    | 360,467   |
| Fees and commissions expense                                 | (89,855)   | -                                    | (89,855)  |
| <b>Net fee and commission income</b>                         | <b>270,572</b>   | <b>-</b>                             | <b>270,572</b>  |
| Net income from financial operations                         | (64,079)   | -                                    | (64,079)  |
| Foreign exchange profit (loss), net                          | 146,378  | -                                    | 146,378   |
| Other operating income                                       | 13,105   | -                                    | 13,105  |
| <b>Net operating profit before provision for loan losses</b> | <b>1,408,710</b>   | <b>-</b>                             | <b>1,408,710</b>  |
| Provisions for loan losses                                   | (403,692)  | -                                    | (403,692)   |
| <b>NET OPERATING PROFIT</b>                                  | <b>1,005,018</b>   | <b>-</b>                             | <b>1,005,018</b>  |
| Personnel salaries and expenses                              | (300,298)  | 394                                  | (299,904)   |
| Administrative expenses                                      | (183,379)  | -                                    | (183,379)   |
| Depreciation and amortization                                | (56,369)   | -                                    | (56,369)  |
| Impairment   | (90)   | -                                    | (90)  |
| Other operational expenses                                   | (59,637)   | -                                    | (59,637)  |
| <b>TOTAL OPERATIONAL EXPENSES</b>                            | <b>(599,773)</b>   | <b>394</b>                           | <b>(599,379)</b>  |
| <b>OPERATING INCOME</b>                                      | <b>405,245</b>   | <b>394</b>                           | <b>405,639</b>  |
| Income from investments in associates and other companies    | 267  | -                                    | 267   |
| <b>Income before tax</b>                                     | <b>405,512</b>   | <b>394</b>                           | <b>405,906</b>  |
| Income tax expense   | (44,394)   | (79)                                 | (44,473)  |
| <b>NET INCOME FOR THE PERIOD</b>                             | <b>361,118</b>   | <b>315</b>                           | <b>361,433</b>  |
| <b>Attributable to:</b>                                      |  |                                      |   |
| Bank shareholders  | 356,493  | 315                                  | 356,808   |
| Non-controlling interest                                     | 4,625  | -                                    | 4,625   |
| Earnings per share attributable to Bank shareholders:        |  |                                      |   |
| (expressed in Chilean pesos)                                 |  |                                      |   |
| Basic earnings   | 1.892  | 0.001                                | 1.893   |
| Diluted earnings   | 1.892  | 0.001                                | 1.893   |

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The adjustments required by IAS 19 as of December 31, 2011 are detailed below:

|  | Closing balance as of<br>December 31, 2011 | IAS 19<br>adjustments | Adjusted balance<br>as of<br>December 31, 2011 |
|--|--|-----------------------|--|
|  | MCh\$                                      | MCh\$                 | MCh\$  |
| <b>OPERATING INCOME</b>                                      |  |                       |  |
| Interest income  | 1,768,735                                  | -                     | 1,768,735                                      |
| Interest expense   | (796,435)                                  | -                     | (796,435)                                      |
| <b>Net interest income</b>                                   | <b>972,300</b>                             | <b>-</b>              | <b>972,300</b>                                 |
| Fee and commission income                                    | 363,041                                    | -                     | 363,041  |
| Fees and commissions expense                                 | (85,205)                                   | -                     | (85,205)                                       |
| <b>Net fee and commission income</b>                         | <b>277,836</b>                             | <b>-</b>              | <b>277,836</b>                                 |
| Net income from financial operations                         | 170,857                                    | -                     | 170,857  |
| Foreign exchange profit (loss), net                          | (76,660)                                   | -                     | (76,660)                                       |
| Other operating income                                       | 18,749                                     | -                     | 18,749   |
| <b>Net operating profit before provision for loan losses</b> | <b>1,363,082</b>                           | <b>-</b>              | <b>1,363,082</b>                               |
| Provisions for loan losses                                   | (316,137)                                  | -                     | (316,137)                                      |
| <b>NET OPERATING PROFIT</b>                                  | <b>1,046,945</b>                           | <b>-</b>              | <b>1,046,945</b>                               |
| Personnel salaries and expenses                              | (280,613)                                  | 573                   | (280,040)                                      |
| Administrative expenses                                      | (166,825)                                  | -                     | (166,825)                                      |
| Depreciation and amortization                                | (53,466)                                   | -                     | (53,466)                                       |
| Impairment   | (116)                                      | -                     | (116)  |
| Other operational expenses                                   | (64,208)                                   | -                     | (64,208)                                       |
| <b>TOTAL OPERATIONAL EXPENSES</b>                            | <b>(565,228)</b>                           | <b>573</b>            | <b>(564,655)</b>                               |
| <b>OPERATING INCOME</b>                                      | <b>481,717</b>                             | <b>-</b>              | <b>482,290</b>                                 |
| Income from investments in associates and other companies    | 2,140                                      | -                     | 2,140  |
| <b>Income before tax</b>                                     | <b>483,857</b>                             | <b>573</b>            | <b>484,430</b>                                 |
| Income tax expense   | (77,193)                                   | (115)                 | (77,308)                                       |
| <b>NET INCOME FOR THE PERIOD</b>                             | <b>406,664</b>                             | <b>458</b>            | <b>407,122</b>                                 |
| <b>Attributable to:</b>                                      |  |                       |  |
| Bank shareholders  | 401,733                                    | 458                   | 402,191  |
| Non-controlling interest                                     | 4,931                                      | -                     | 4,931  |
| Earnings per share attributable to Bank shareholders:        |  |                       |  |
| (expressed in Chilean pesos)                                 |  |                       |  |
| Basic earnings   | 2.132                                      | 0.002                 | 2.134  |
| Diluted earnings   | 2.132                                      | 0.002                 | 2.134  |

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## 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 Chile. In 2013, the Chilean economy grew approximately 4.1% compared to 5.5% in 2012 and 6.0% in 2011. In the same period, internal demand increased 3.4% with increases of 0.4% in investment and 5.6% of household consumption. As of December 2013, the unemployment rate was 5.7% compared to 6.1% as of December 2012 and 6.6% as of December 2011. The exchange rate depreciated in 2013 by 9.4%. CPI inflation reached 3.0% in 2013, as the peso depreciated, compared to CPI of 1.5% in 2012 and 4.4% in 2011. Despite the higher inflation rate, the Central Bank commenced a process of lowering interest rates as the economy began to show signs of deceleration, especially in investment levels. In January 2012, the Central Bank policy rate was set at 5.0%, and had been reduced to 4.5% by year-end 2013. As of the date of this report, the rate was 4.0%. Going forward, economic activity is expected to continue to increase, but possibly at a slower pace.

The growth of the Chilean banking sector evolved in line with overall economic developments, with an increase in the volume of loans and deposits. Total loans as of December 31, 2013 in the Chilean financial system were Ch\$110,250,707 million (US\$210 billion), excluding Corpbanca's banking operations in Colombia, an increase of 10.2% in the last twelve months. Total customer deposits (defined as time deposits plus checking accounts), excluding Corpbanca's operations in Colombia, totaled Ch\$92,121,735 million (US\$176 billion) as of December 31, 2013, an increase of 8.5% in the last twelve months. The non-performing loan (defined as loans with an installment that is at least 90 days past-due) to total loans ratio has remained constant at 2.2% as of December 31, 2013 compared to 2.1% as of December 31, 2012.

## 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 month. One UF equaled Ch\$ 23.309,56 at December 31, 2013, Ch\$22,840.75 at December 31, 2012, and Ch\$22,294.03 at December 31, 2011. 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. Inflation measured as the annual variation of the UF was 2.1% in 2013, 2.5% in 2012, and 3.9% in 2011. 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.* 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.

*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

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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 2013, the loss from the swaps taken in order to hedge mainly for inflation and interest rate risk and included in net interest income totaled a loss of Ch\$67,239 million compared to a loss of Ch\$57,118 million in 2012 and a loss of Ch\$58,775 million in 2011.

The average gap between our total assets and total liabilities linked to the inflation, including hedging was Ch\$3,735,888 million in 2013 compared to Ch\$3,106,779 million in 2012 and Ch\$2,349,038 million in 2011. In the year ended December 31, 2013, the net gain from inflation-sensitive income was Ch\$346,410 million, an increase of 11.5% compared to 2012. The lower UF inflation rate in 2013 compared to 2012 was compensated by a larger UF gap, which was due to the growth of funding, mainly deposits in nominal pesos.

|                                    | As of December 31,    |           |           | % Change  | % Change  |
|------------------------------------|-----------------------|-----------|-----------|-----------|-----------|
|                                    | 2013                  | 2012      | 2011      | 2013/2012 | 2012/2011 |
| Inflation sensitive income         |                       |           |           |           |           |
|                                    | (In millions of Ch\$) |           |           |           |           |
| Interest earned on UF assets(1)    | 631,953               | 648,594   | 703,286   | (2.6%)    | (7.8%)    |
| Interest paid on UF liabilities(1) | (218,304)             | (280,695) | (388,349) | (22.2%)   | (27.7%)   |
| Hedging results                    | (67,239)              | (57,118)  | (58,775)  | 17.7%     | (2.8%)    |
| Net gain                           | 346,410               | 310,781   | 256,162   | 11.5%     | 21.3%     |

(1)

Excludes results from hedging.

*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. Operating and Financial Review and Prospects—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 30.0%, 29.4% and 27.4% for the years ended December 31, 2013, 2012 and 2011, 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. Operating and Financial Review and Prospects—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

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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. The Central Bank exchange rate depreciated 9.4% in 2013, which led to a pickup in CPI inflation in 2013. See "Item 3. Key Information—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 2013, 2012 and 2011, the Bank held more liabilities than assets in foreign currencies, mainly the U.S. dollar, as a result of an ample supply of U.S. dollar 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. Including derivatives, the Bank seeks to run no foreign currency risk in its non-trading balance sheet. 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. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Foreign exchange fluctuations" for more detail on the Bank's exposure to foreign currency.

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.

We also set an absolute limit on the size of Santander-Chile's consolidated net foreign currency trading position. At December 31, 2013, the Bank's consolidated net foreign currency position was equal to US\$200 million. As the Bank's non-trading portfolio has no net exposure to foreign currency risk, the Bank's total exposure to foreign currency is reflected in the trading portfolio exposure to foreign currency. The Bank's average exposure to foreign currency was US\$1.5 million in 2013. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—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.

## Segmentation criteria

The accounting policies used to determine the Bank's income and expenses by business segment are the same as those described in the summary of accounting policies in "Note 1—Summary of Significant Accounting Policies" 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 for the segment 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.

During the second half of 2013, the Institutional segment was moved from Individual and SME Division to the Companies and institutional Division. All prior year segment information has been presented under the revised division definitions.

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## Results of Operations for the Years Ended December 31, 2013, 2012 and 2011

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, 2013, 2012 and 2011.

|   | 2013               | 2012             | 2011             | % Change       | % Change       |
|---|--------------------|------------------|------------------|----------------|----------------|
|   | (ThU.S.\$)         | (Ch\$ million)   |                  | 2013 / 2012    | 2012 / 2011    |
| <b>CONSOLIDATED INCOME STATEMENT DATA</b>                 |                    |                  |                  |                |                |
| <b>IFRS:</b>  |                    |                  |                  |                |                |
| <b>Interest income and expense</b>                        |                    |                  |                  |                |                |
| Interest income   | 3,569,638          | 1,871,289        | 1,953,176        | (1.0%)         | 6.9%           |
| Interest expense  | (1,515,532)        | (794,482)        | (796,435)        | (6.3%)         | 6.5%           |
| <b>Net interest income</b>                                | <b>2,054,106</b>   | <b>1,076,807</b> | <b>1,156,741</b> | <b>3.3%</b>    | <b>7.2%</b>    |
| <b>Fees and income from services</b>                      |                    |                  |                  |                |                |
| Fees and commission income                                | 660,282            | 346,126          | 363,041          | (4.0%)         | (0.7%)         |
| Fees and commission expense                               | (221,831)          | (116,289)        | (85,205)         | (10%)          | 8.8%           |
| <b>Total net fees and commission income</b>               | <b>438,451</b>     | <b>229,837</b>   | <b>277,836</b>   | <b>(15.1%)</b> | <b>(2.6%)</b>  |
| <b>Other operating income</b>                             |                    |                  |                  |                |                |
| Net income from financial operations                      | (38,705)           | (20,286)         | 170,857          | (68.3%)        | –%             |
| Foreign exchange profit (loss), net                       | 276,089            | 144,726          | (76,660)         | (1.1%)         | –%             |
| Financial transactions, net                               | 237,384            | 124,432          | 94,197           | 51.2%          | (12.6%)        |
| Other operating income                                    | 168,170            | 88,153           | 18,749           | 572.7%         | (30.1%)        |
| <b>Total other operating income</b>                       | <b>405,554</b>     | <b>212,592</b>   | <b>112,946</b>   | <b>122.8%</b>  | <b>(15.5%)</b> |
| <b>Net operating profit before loan losses</b>            | <b>2,898,111</b>   | <b>1,519,908</b> | <b>1,363,082</b> | <b>7.8%</b>    | <b>3.3%</b>    |
| Provision for loan losses                                 | (708,626)          | (371,462)        | (316,137)        | (8.0%)         | 27.7%          |
| <b>Net operating profit</b>                               | <b>2,189,485</b>   | <b>1,147,446</b> | <b>1,046,945</b> | <b>14.2%</b>   | <b>(4.0%)</b>  |
| <b>Operating expenses</b>                                 |                    |                  |                  |                |                |
| Personnel salaries and expenses                           | (588,218)          | (308,349)        | (280,040)        | 2.8%           | 7.1%           |
| Administrative expenses                                   | (359,007)          | (188,113)        | (166,825)        | 2.6%           | 9.9%           |
| Depreciation and amortization                             | (116,509)          | (61,075)         | (53,466)         | 8.3%           | 5.4%           |
| Impairment of property, plan and equipment                | (465)              | (244)            | (116)            | 171.1%         | (22.4%)        |
| Other operating expenses                                  | (99,844)           | (52,335)         | (64,208)         | (12.2%)        | (7.1%)         |
| <b>Total operating expenses</b>                           | <b>(1,164,043)</b> | <b>(610,117)</b> | <b>(564,655)</b> | <b>1.8%</b>    | <b>6.1%</b>    |
| <b>Operating income</b>                                   | <b>1,025,442</b>   | <b>537,329</b>   | <b>482,290</b>   | <b>32.5%</b>   | <b>(15.9%)</b> |
| <b>Other non-operating results</b>                        |                    |                  |                  |                |                |
| Income from investments in associates and other companies | 2,713              | 1,422            | 2,140            | 432.6%         | (87.5%)        |
| <b>Total other non-operating results</b>                  | <b>2,713</b>       | <b>1,422</b>     | <b>2,140</b>     | <b>432.6%</b>  | <b>(87.5%)</b> |
| <b>Income before tax</b>                                  | <b>1,028,155</b>   | <b>538,751</b>   | <b>484,430</b>   | <b>32.8%</b>   | <b>(16.2%)</b> |
| Income tax  | (180,332)          | (94,530)         | (77,308)         | 112.6%         | (42.5%)        |
| <b>Net income for the year</b>                            | <b>847,823</b>     | <b>444,221</b>   | <b>407,122</b>   | <b>23.0%</b>   | <b>(11.2%)</b> |
| <b>Net income for the period attributable to:</b>         |                    |                  |                  |                |                |

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|                            |         |         |        |         |         |         |
|----------------------------|---------|---------|--------|---------|---------|---------|
| Equity holders of the Bank | 843,750 | 442,295 | 56,808 | 402,191 | 24.0%   | (11.3%) |
| Non-controlling interests  | 4,073   | 2,135   | 4,625  | 4,931   | (53.8%) | (6.2%)  |

Amounts stated in U.S. dollars at and for the year ended December 31, 2013 have been translated from Chilean (1) pesos at the exchange rate of Ch\$524.20 = U.S.\$1.00 as of December 31, 2013. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates” for more information on exchange rate.

*Results of operations for the years ended December 31, 2013 and 2012.* Net income for the year ended December 31, 2013 increased 23.0% to Ch\$444,429 million. Our return on annualized average equity was 18.9% in 2013 compared to 16.5% in 2012.

In 2013, *net operating profit before loan losses* was Ch\$1,519,190 million, an increase of 7.8% compared to 2012. Our net interest income increased 3.3% to Ch\$1,076,762 million in 2013 from Ch\$1,042,734 million in 2012. The average balance of our interest-earning assets increased by 7.6% in 2013 compared to 2012. Our net interest margin decreased to 4.63% in 2013 from 4.82% in 2012. Net interest margins were negatively affected by the fall in the average nominal rate we earned on our interest earning assets. This was mainly due to: (i) a switch in the loan mix away from higher yielding, but riskier segments such as Banefe, a lower interest rate environment and a decline in the UF inflation rate in 2013 compared to 2012.

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*Net fees and commission income* decreased 15.1% to Ch\$229,836 million in the year ended December 31, 2013 compared to the same period in 2012. Fees in 2013 were negatively affected by new regulations that lowered brokerage fees from mandatory insurance for mortgage loans and the difficulties in increasing fees following stricter regulations issued by the SERNAC Financiero, the newly formed consumer protection agency for financial services.

*Results of financial transactions, net*, which is the sum of net profit from financial operations and net foreign exchange gains (loss), totaled Ch\$124,437 million in the year ended December 31, 2013, an increase of 51.2% compared to the same period in 2012. These results include the results of our Treasury Division's trading business and financial transactions with customers as well the results of our Financial Management Division. Client treasury services decreased 9.8% in 2013 compared to 2012 and represented the majority of our financial transaction income. In 2013, the results from Santander Global Connect decreased 14.9% compared to 2012. In the first half of 2013, demand for hedging and derivative products on behalf of our clients was low given the low volatility of the exchange rate. Once the U.S. federal reserve announced the tapering of quantitative easing, the volatility of the exchange rate increased and business volumes recovered. The results from market-making with client services decreased 2.1% in 2013, mainly due to lower business volumes of tailor-made treasury services sold to specific corporate clients, especially in the first half of the year. The results from non-client treasury income totaled a gain of Ch\$45,319 million in 2013 compared to a loss of Ch\$5,395 million in 2012. In 2013, the net results of our Financial Management Division were positive, since the Bank has a greater spot position in liabilities denominated in foreign currency than assets. These principally U.S. dollar-denominated liabilities are hedged through derivatives (short term foreign currency swaps) with minimal foreign currency exposure, but this does result in the existence of a short-term interest rate differential between US dollars and Chilean pesos, which produces a financial result registered in financial transactions, net. This result is positive when interest rates in the US are trending up and local rates are falling and vice versa. In 2013, local rates, especially in the second half of the year decreased relative to US rates.

*Other operating income* totaled a gain of Ch\$88,155 million in the year ended December 31, 2013, a 572.7% increase from the corresponding period in 2012. The main reasons for this increase was the gain of Ch\$78,122 million recognized from the sale of our asset management subsidiary, Santander Asset Management S.A. Administradora General de Fondos.

*Provisions for loan losses, net of recoveries* totaled Ch\$371,462 million in 2013 and decreased 8.0% compared to the amount of provisions recorded in 2012. This decline was mainly due to the 20.4% decrease in net provision expense from consumer loans. In June 2012, the Bank updated its allowance model for consumer loans, which mainly impacted the provisions established for renegotiated loans, and resulted in a provision of Ch\$24,753 million. Excluding this effect, provisions for consumer loans decreased 12.7% in 2013 compared to 2012. In 2013, the Bank in order to lower credit risk in its consumer loan book modified its strategy by focusing growth in less risky segments to individuals in Commercial banking and by decreasing consumer loans in Santander Banefe. As a result of this shift in strategy, impaired consumer loans decreased 11.1% and non-performing consumer loans decreased 21.1% in 2013 compared to 2012.

As a result of the factors mentioned above, net operating profit increased 14.2% in 2013 compared to 2012 and totaled Ch\$1,147,728 million.

*Operating expenses* increased 1.8% compared to 2012. The efficiency ratio was 40.2% in 2013 compared to 42.5% in 2012. The 2.8% increase in personnel salaries and expenses was mainly due to higher salaries. Total salary expenses, including bonuses increased 4.0% in 2013 compared to 2012, totaling Ch\$265,500 million.

Administrative expenses increased 2.6% in 2013 compared to 2012. The increase in administrative expenses was mainly due to: (i) the 33.1% increase in security and valuable transport services which increased from Ch\$11,929 million in 2012 to Ch\$15,879 million in 2013. In 2013 the Bank had to increase the expenditure dedicated to securing and protecting ATM machines given the increase in theft and more regulations regarding ATM security, (ii) the 17.2% increase in expenses relating to IT and communication systems from Ch\$24,873 million in 2012 to Ch\$29,144 million in 2013, in line with the Bank's improvements of its CRM systems, phone banking and internet banking services; (iii) the 15.0% increase in expenses relating to outsourced computer services related to various IT upgrades, (iv) a 7.1% rise in branch rental expenses due to the greater number of branches rented following the sale of branches in 2012 and

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2011 and (v) a 7.5% rise in expenses relating to the maintenance and repair of property as the Bank refurbished branches and introduced its new brand Santander Select and transformed 44 branches into this new format for mid-higher income clients.

*Other operating expenses* were Ch\$52,338 million in 2013, a 12.2% decrease compared to 2012. This decrease was mainly due to lower provisions and expenses for repossessed assets that totaled Ch\$4,824 million in 2013 compared to Ch\$10,176 million in 2012. This was offset by higher customer service expenses that includes costs related to our call center and higher other costs, which increased due to the Ch\$2,283 million in expenses recorded in 2013 from the costs incurred in adopting chip technology for our ATM and credit cards.

Our *income tax expense* increased by 112.6% in the year ended December 31, 2013 compared to the same period in 2012. The effective tax rate was 17.5% in 2013 compared to 11.0% in 2012. The higher effective tax rate in 2013 compared to 2012 was due to the fact that in September 2012, the statutory tax rate was increased from 18.5% to 20.0% and this created an income tax reversal of Ch\$16,221 million in 2012, corresponding to the adjustment of deferred tax assets to the higher statutory rate.

*Results of operations for the years ended December 31, 2012 and 2011.* Consolidated net income for the year ended December 31, 2012 decreased 11.2% to Ch\$361,433 million. Our return on annualized average equity was 16.5% in 2012 compared to 20.4% in 2011.

In 2012, *net operating profit before loan losses* was Ch\$1,408,710 million, an increase of 3.3% compared to 2011. Our net interest income increased 7.2% to Ch\$1,042,734 million in 2012 from Ch\$972,300 million in 2011. The average balance of our interest-earning assets increased by 6.2% in 2012 compared to 2011. Our net interest margin improved 4 basis points to 4.82% in 2012 from 4.78% in 2011. This was mainly due to stricter pricing policy on our loans and an improved funding mix, partially offset by the lower yield earned on UF interest earning assets, which was mainly due to lower UF inflation in the year.

*Net fees and commission income* decreased 2.6% to Ch\$270,572 million in the year ended December 31, 2012 compared to the same period in 2011. In 2012, the Bank executed a profound overhaul of its Client Relationship Management (CRM) systems and other changes to its commercial team front-office functions. The Bank expects this to improve productivity in the future, but in the short-term, this caused some disruptions in business activity due to training and other factors, which negatively affected fee income in the Commercial banking segment. At the same time, the Bank modified its admission policies for loan origination, which resulted in lower business activity and client growth, especially in the individuals segment. Finally, the negative effects of the SERNAC Financiero increased the difficulty of rising fees.

*Results of financial transactions, net*, which is the sum of net profit from financial operations and net foreign exchange profits, totaled Ch\$82,299 million in the year ended December 31, 2012, a decrease of 12.6% compared to the same period in 2011. These results include the results of our Treasury Division's trading business and financial transactions with customers as well the results of our Financial Management Division. Client treasury services decreased 1.0% in 2012 compared to 2011 and represented the majority of our financial transaction income. In 2012, the results from Santander Global Connect ("SGC") totaled Ch\$52,703 million and decreased 15.8% compared to 2011, as 2011 figures included large non-recurring operations. 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. The results from market-making with client services increased 34.9% in 2012 compared to 2011, totaling Ch\$34,991 million. This was mainly due to growth in tailor-made treasury services sold to specific corporate clients. The results from non-client Treasury Division income totaled a loss of Ch\$5,395 million in 2012 compared to a gain of Ch\$5,642 million in 2011. The non-client Treasury Division figures in 2011 included larger gains from the sale of loans compared to 2012 and the gain of Ch\$5,705 million recorded from the sale of shares in Visa Inc.

*Other operating income* totaled a gain of Ch\$13,105 million in the year ended December 31, 2012, and decreased 30.1% compared to 2011. The main reasons for this decrease were the lower gains from income from assets received in lieu of payments and lower income from the sale of branches. Branches are risk weighted at 100% and, therefore, from a regulatory capital perspective, it is more efficient to rent them than to own them.

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*Provisions for loan losses* totaled Ch\$403,692 million in 2012 and increased 27.7% compared to the amount of provisions recorded in 2011. The increase was mainly due to a rise in net provision expense of consumer loans. Net provisions established for the Bank's consumer loans increased by 36.4% to Ch\$280,094 million in 2012 compared to 2011. In June 2012, the Bank updated its allowance model for consumer loans, which mainly impacted the provisions established for renegotiated loans, and resulted in a provision of Ch\$24,753 million. At the same time, the increase was also due to the tightening of renegotiation policies for consumer loans that led to a greater amount of impaired consumer loans entering non-performing status and subsequently being charged-off. The negative effects of the Ley Dicom, which reduced the effectiveness of the negative credit bureau data used in our credit scoring models, also impacted provisions and charge-offs in 2012.

As a result of the factors mentioned above, net operating profit decreased 4.0% in 2012 compared to 2011 and totaled Ch\$1,005,018 million.

*Operating expenses* increased 6.1% in 2012 and totaled Ch\$599,379 million compared to the corresponding period in 2011. Personnel salaries and expenses increased by 7.1% from the corresponding period in 2011 mainly due to higher salaries and headcount. Administrative expenses increased 9.9% in the year ended December 31, 2012 compared to the corresponding period in 2011. In 2012, the Bank focused on its Transformation Plan, which is a broad overhaul and improvement of our retail banking activities, especially among Individuals in Commercial banking and SMEs. This also entails greater expenses related to IT projects being carried out to improve productivity. Our efficiency ratio was 42.5% in 2012 and 41.4% in 2011.

*Other operating expenses* were Ch\$59,637 million in 2012, a 7.1% decrease compared to 2011. This decrease was mainly due to: (i) lower provisions and expenses for repossessed assets that totaled Ch\$10,176 million in 2012, compared to Ch\$12,782 million in 2011 and (ii) lower operating charge-offs that totaled Ch\$8,366 million in 2012, compared to Ch\$9,884 million in 2011.

Our *income tax expense* decreased by 42.5% in the year ended December 31, 2012 compared to the same period in 2011. The effective tax rate was 11.0% in 2012 compared to 16.0% in 2011. In September 2012, the statutory tax rate was permanently increased from 18.5% to 20% and this created an income tax reversal of Ch\$16,221 million in 2012, corresponding to the adjustment of deferred tax assets to the higher statutory rate.

Net interest income

| Year ended December 31,                   |      |      | % Change            |
|---|------|------|---------------------|
| 2013                                      | 2012 | 2011 | 2013/2012 2012/2011 |
| (in millions of Ch\$, except percentages) |      |      |                     |

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|  |                  |                  |                |              |             |
|--|------------------|------------------|----------------|--------------|-------------|
| Individuals (Commercial banking)   | 506,192          | 499,422          | 453,139        | 1.4%         | 10.2%       |
| Individuals (Santander Banefe)   | 99,182           | 123,043          | 117,154        | (19.4%)      | 5.0%        |
| Small and mid-sized companies  | 260,856          | 233,622          | 207,008        | 11.7%        | 12.9%       |
| Companies and institutional  | 193,749          | 176,649          | 167,674        | 9.7%         | 5.4%        |
| <b>Total commercial banking</b>  | <b>1,059,979</b> | <b>1,032,736</b> | <b>944,975</b> | <b>2.6%</b>  | <b>9.3%</b> |
| <b>Global banking &amp; markets</b>  | <b>72,932</b>    | <b>50,477</b>    | <b>48,942</b>  | <b>44.5%</b> | <b>3.1%</b> |
| Other (1)  | (56,149)         | (40,479)         | (21,617)       | 38.7%        | 87.3%       |
| <b>Net interest income</b>   | <b>1,076,762</b> | <b>1,042,734</b> | <b>972,300</b> | <b>3.3%</b>  | <b>7.2%</b> |
| Average interest-earning assets  | 23,267,735       | 21,620,090       | 20,355,039     | 7.6%         | 6.2%        |
| Average non-interest-bearing demand deposits   | 4,620,849        | 4,177,432        | 3,575,544      | 10.6%        | 16.8%       |
| <b>Net interest margin (2)</b>   | <b>4.63%</b>     | <b>4.82%</b>     | <b>4.78%</b>   |              |             |
| Average shareholders' equity and average non-interest-bearing demand deposits to total average interest-earning assets | 30.0%            | 29.4%            | 27.4%          |              |             |

Consists mainly of net interest income from the Financial Management Division and the cost of funding our fixed income trading portfolio. Each segment obtains funding from its clients. Any surplus deposits are transferred to the (1) 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.

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

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For the years ended December 31, 2013 and 2012. Our net interest income totaled Ch\$1,076,762 million in the year ended December 31, 2013, an increase of 3.3% from Ch\$1,042,734 million in 2012. Average interest earning assets increased 7.6% in the same period, driven mainly by lending to Individuals in commercial banking, Companies and institutional lending, SME and Global banking & markets and a decrease in loans to individuals in Santander Banefe. Net interest margin in 2013 was 4.63% compared to 4.82% in 2012. Net interest margins were negatively affected by the decrease of the average nominal rate we earned on our interest earning assets. This was mainly due to: (i) a switch in the loan mix away from higher yielding, but riskier segments such as Banefe, (ii) a lower interest rate environment and (iii) a decline in the UF inflation rate in 2013 compared to 2012.

|   |             |             |             |
|---|-------------|-------------|-------------|
| Average nominal interest rate earned on interest earning assets | 2013        | 2012        | 2011        |
| Ch\$  | 11.7%       | 12.2%       | 11.2%       |
| UF  | 6.5%        | 7.1%        | 8.4%        |
| Foreign currencies  | 1.7%        | 2.0%        | 0.8%        |
| <b>Total</b>  | <b>8.0%</b> | <b>8.8%</b> | <b>8.7%</b> |

The average rate paid on our interest bearing liabilities decreased from 5.3% in 2012 to 4.6% in 2013. This was mainly due to a lower rate paid on UF denominated liabilities as a result of the lower UF inflation in the year. The Bank's funding mix also improved in 2013. The ratio of average shareholders' equity and average non-interest bearing demand deposits to total average interest earning assets increased from 29.4% in 2012 to 30.0% in 2013. Average non-interest bearing demand deposits increased 10.6% in 2013 compared to 2012.

|  |             |             |             |
|--|-------------|-------------|-------------|
| Average nominal interest rate paid on interest bearing liabilities | 2013        | 2012        | 2011        |
| Ch\$   | 6.0%        | 6.2%        | 6.3%        |
| UF   | 5.9%        | 6.6%        | 8.1%        |
| Foreign currencies   | 1.9%        | 2.7%        | 0.9%        |
| <b>Total</b>   | <b>4.6%</b> | <b>5.3%</b> | <b>5.1%</b> |

The changes in net interest income by sub-segment in 2013 as compared to 2012 were as follows:

Net interest income from Individuals in Commercial banking increased 1.4%, mainly as a result of the 8.6% increase in loan volumes in this segment. The Bank focused growth in the high end of this segment in order to focus on margins net of risks, especially considering that in 2014 the new maximum rate legislation was going to begin to affect the low end of the consumer market.

Net interest income from Individuals in Santander Banefe decreased 19.4% in 2013. Loans in this segment fell 0.4% as the Bank focused growth in the higher income levels in this segment to increase profitability net of provisions, especially considering that in 2014 the new maximum rate legislation was going to begin to affect the profitability of this segment.

Net interest income from Small and mid-sized companies increased 11.7% in 2013, mainly as a result of the 11.5% increase in loans to this sub-segment and an improved funding mix.

Net interest income from Companies and institutions increased 9.7% in 2013, mainly as a result of the 14.0% increase in loans to this sub-segment due to the positive evolution of the Chilean economy. This was partially offset by increased competition in this sub-segment, which lowered loan yields, but this sub-segment has a less risky loan profile, which was a focus of the Bank in 2013.

Loans in the Global banking and markets segment increased 19.1% in 2013, which led to a 44.5% increase in net interest income in this segment. Yields on emerging market debt in 2013 increased as the U.S. federal reserve bank commenced its program of tapering of quantitative easing. This led to greater domestic demand for financing on behalf of large corporations and higher loan yields.

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\$56,149 million in 2013 compared to a loss of Ch\$40,479 million in 2012. The lower UF inflation rate negatively affected net interest income from this segment. At the same time, in 2013, the Bank continued to reduce its excess cash position and to lend more, which resulted in lower financial investment income.

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

|                                  | Year ended December 31,                   |                   |                   | % Change     |             |
|----------------------------------|---|-------------------|-------------------|--------------|-------------|
|                                  | 2013                                      | 2012              | 2011              | 2013/2012    | 2012/2011   |
|                                  | (in millions of Ch\$, except percentages) |                   |                   |              |             |
| Individuals (Commercial banking) | 9,710,249                                 | 8,941,860         | 8,484,493         | 8.6%         | 5.4%        |
| Individuals (Santander Banefe)   | 727,452                                   | 730,362           | 804,852           | (0.4%)       | (9.3%)      |
| Small and mid-sized companies    | 3,223,215                                 | 2,890,251         | 2,560,736         | 11.5%        | 12.9%       |
| Companies and institutional      | 5,031,752                                 | 4,414,211         | 4,005,908         | 14.0%        | 10.2%       |
| Global banking & markets         | 2,219,045                                 | 1,863,595         | 1,494,752         | 19.1%        | 24.7%       |
| Other (1)                        | 149,048                                   | 126,373           | 84,041            | 17.9%        | 50.4%       |
| <b>Total loans</b>               | <b>21,060,761</b>                         | <b>18,966,652</b> | <b>17,434,782</b> | <b>11.1%</b> | <b>8.8%</b> |

(1)

Includes interbank loans.

For the years ended December 31, 2012 and 2011. Our net interest income totaled Ch\$1,042,734 million in the year ended December 31, 2012, an increase of 7.2% from Ch\$972,300 million in 2011. Average interest earning assets increased 6.2% in the same period, driven mainly by lending to Companies, SME and Global banking & markets. Net interest margin in 2012 was 4.82% compared to 4.78% in 2011. Net interest margins were positively affected by the average nominal rate we earned on our non-inflation linked interest earning assets. This was mainly due to a stricter pricing policy on our loans. This was offset by the lower yield earned on UF interest earning assets, which decreased from 8.4% in 2011 to 7.1% in 2012, mainly due to lower UF inflation in the year.

|   |             |             |             |
|---|-------------|-------------|-------------|
| Average nominal interest rate earned on interest earning assets | 2013        | 2012        | 2011        |
| Ch\$  | 11.7%       | 12.2%       | 11.2%       |
| UF  | 6.5%        | 7.1%        | 8.4%        |
| Foreign currencies  | 1.7%        | 2.0%        | 0.8%        |
| <b>Total</b>  | <b>8.0%</b> | <b>8.7%</b> | <b>8.7%</b> |

The average rate paid on our interest bearing liabilities increased from 5.1% in 2011 to 5.3% in 2012. The Bank's funding mix also improved in 2012 and the ratio of average shareholders' equity and average non-interest bearing demand deposits to total average interest earning assets increased from 27.4% in 2011 to 29.4% in 2012. Average non-interest bearing demand deposits increased 16.8% in 2012 compared to 2011.

The changes in net interest income by sub-segment in 2012 as compared to 2011 were as follows:

Net interest income from Individuals in Commercial banking increased 10.2%, mainly as a result of the 5.4% increase in loan volumes in this segment and higher loan yields as a direct result of a stricter pricing policy enforced in this segment. This was also due to an improved funding mix.

Net interest income from Individuals in Santander Banefe increased 5.0%, mainly as a result of higher loan prices, partially offset by the 9.3% decrease in loan volumes as a result of the Bank's more conservative stance regarding loan growth in this segment.

Net interest income from Small and mid-sized companies increased 12.9%, mainly as a result of the 10.2% increase in loans to this sub-segment and an improved funding mix.

Net interest income from the Companies and institutional lending sub-segment increased 5.5%, mainly as a result of the 10.2% increase in loans to this sub-segment due to the positive evolution of the Chilean economy. This was partially offset by increased competition in this sub-segment, which lowered loan yields, but this sub-segment has a less risky loan profile, which was a focus of the Bank in 2012 given the increase in risk in the Individuals sub-segment.

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Loans in the Global banking and markets segment increased 24.7% in 2012 compared to 2011, which led to a 3.1% increase in net interest income in this segment, and driven by a favorable economic environment, but offset by increased price competition.

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\$40,479 million in 2012 compared to a loss of Ch\$21,617 million in 2011. Despite a similar result from hedging, the lower UF inflation rate negatively affected net interest income from this segment. At the same time, in 2012, the Bank reduced its excess cash position, especially in the second half of 2012 as international markets stabilized, which resulted in lower financial investment income. This was mainly executed by pre-paying the Bank’s more expensive interest bearing liabilities such as some bonds and foreign bank borrowings.

## Fee and commission income

*For the years ended December 31, 2013 and 2012.* Net fees and commission income decreased 15.1% to Ch\$229,836 million in the twelve-month period ended December 31, 2013 compared to the same period in 2012. In 2013, the Bank completed the overhaul of its Client Relationship Management (CRM) systems and other changes to its commercial team front-office functions. This has resulted in greater client base and product growth. This was offset by the new regulations that lowered fees from brokering mandatory insurance for mortgage loans (mainly fire and earthquake insurance) and the difficulties in increasing fees following stricter regulations issued by the SERNAC Financiero, the newly formed consumer protection agency for financial services. See “Item 3. Key Information—D. Risk Factors—Chile’s banking regulatory and capital markets environment is continually evolving and may change.”

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, 2013, 2012 and 2011.

|                             | Year ended December 31, |        |        | % Change  |           |
|-----------------------------|-------------------------|--------|--------|-----------|-----------|
|                             | 2013                    | 2012   | 2011   | 2013/2012 | 2012/2011 |
|                             | (in millions of Ch\$)   |        |        |           |           |
| Collections                 | 45,190                  | 56,472 | 61,803 | (20.0%)   | (8.6%)    |
| Credit, debit and ATM cards | 39,325                  | 53,934 | 59,525 | (27.1%)   | (9.4%)    |
| Insurance brokerage         | 32,253                  | 32,499 | 34,066 | (0.8%)    | (4.6%)    |
| Asset management            | 31,154                  | 33,414 | 37,618 | (6.8%)    | (11.2%)   |
| Letters of credit           | 30,131                  | 28,523 | 24,388 | 5.6%      | 17.0%     |

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|  |                |                |                |                |               |
|--|----------------|----------------|----------------|----------------|---------------|
| Checking accounts                            | 28,044         | 28,755         | 28,725         | (2.5%)         | 0.1%          |
| Custody and brokerage services               | 6,195          | 9,585          | 10,517         | (35.4%)        | (8.9%)        |
| Lines of credit                              | 7,025          | 9,296          | 11,602         | (24.4%)        | (19.9%)       |
| Others                                       | 10,519         | 18,094         | 9,592          | (41.9%)        | 88.6%         |
| <b>Total fees and commission income, net</b> | <b>229,836</b> | <b>270,572</b> | <b>277,836</b> | <b>(15.1%)</b> | <b>(2.6%)</b> |

Fees from collections decreased by 20.0% in 2013 compared to 2012. In July 2012, new regulations regarding the sale of mandatory insurance for mortgage loans was introduced. At year-end 2012, as per new regulations, we auctioned to the lowest bidder the mandatory insurance products that are sold with mortgage loans. This negatively impacted collection fees where this income is recognized.

Fees from credit, debit and ATM cards decreased by 27.1%, reflecting the reduction of clients in the Bank's Santander Banefe unit, as the Bank reduced its exposure to clients with unhealthy financial behavior. This had a negative impact on certain fees, specifically credit card, checking account and line of credit fees, but the Bank expects this to have a positive impact on asset quality in this segment in future periods. The Bank also reduced or eliminated fees on ATM and debit cards in line with the new guidelines set by the SBIF and Sernac Financiero.

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Fees from our asset management business decreased 6.8% in 2013 compared to 2012 due to lower growth of equity funds given the poor performance of the local stock market. In December 2013, our Asset Management business was sold for a price of Ch\$90,281 million. This operation generated Ch\$78,122 million of profit recorded within Other operating income. Going forward, the Bank will continue to distribute asset management products, but will no longer manage the assets.

Insurance brokerage fees decreased by 0.8% in 2013. This was mainly due to lower business volumes in our insurance brokerage subsidiary.

Fees from checking accounts decreased 2.5% in 2013 compared to 2012. This was mainly due to competitive pressures on checking account maintenance fees and increased restrictions on the increase of fees following the creation of the SERNAC Financiero.

Fees from letters of credit and other contingent operations increased 5.6% in 2013. This decrease was mainly due to positive performance of our international and foreign trade financing businesses with clients and also due to the depreciation of the peso against the U.S. dollar since this business is mainly transacted in foreign currency.

Brokerage and custody fees decreased 35.4% in 2013 as compared to 2012. This fall was mainly due to the poor performance of the local equity markets, which hurt brokerage activity.

Fees from lines of credit decreased 24.4% in 2013 compared to 2012. This decrease was mainly due to a decrease in lines of credit as the Bank reduced its exposure to clients with unhealthy financial behavior, though the Bank expects this to have a positive impact on asset quality in the Individuals segment in future periods. The decrease was also due to increased restrictions on the increase of fees following the creation of the SERNAC Financiero.

The fall in other fee income of 41.9% in 2013 compared to 2012 was mainly due to higher fee expenses paid higher expenses related to fees paid for our collection efforts. This was offset by higher fees in our Companies, SMES and Institutional business segments as the Bank focused on increasing banking services and activities with these clients. Fees from foreign currency exchange services increased 9.9% to Ch\$3,554 million in 2013 compared to 2012. Financial advisory fees increased 5.8% to Ch\$6,146 million in 2013 compared to 2012. Fees from office banking totaled Ch\$1,812 million and increased 22.3% in 2013 compared to 2012 due to greater usage of this platform by Company segment clients.

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

|  | Year ended December 31, |                |                | % Change       | % Change      |
|--|-------------------------|----------------|----------------|----------------|---------------|
|  | 2013                    | 2012           | 2011           | 2013/2012      | 2012/2011     |
|  | (in millions of Ch\$)   |                |                |                |               |
| Individuals (Commercial banking)             | 123,496                 | 141,946        | 149,970        | (13.0%)        | (5.4%)        |
| Individuals (Santander Banefe)               | 25,648                  | 33,853         | 37,206         | (24.2%)        | (9.0%)        |
| Small and mid-sized companies                | 37,641                  | 38,115         | 38,274         | (1.2%)         | (0.4%)        |
| Companies and institutional                  | 29,249                  | 28,373         | 26,141         | 3.1%           | 8.5%          |
| Global banking and markets                   | 18,022                  | 19,159         | 31,908         | (5.9%)         | (40.0%)       |
| Other  | (4,220)                 | 9,126          | (5,663)        | –%             | –%            |
| <b>Total fees and commission income, net</b> | <b>229,836</b>          | <b>270,572</b> | <b>277,836</b> | <b>(15.1%)</b> | <b>(2.6%)</b> |

Fees from Individuals in Commercial banking decreased 13.0% in 2013 compared to 2012. Fees from Individuals in Santander Banefe decreased 24.2% in the same period. As mentioned, the Bank executed a profound overhaul of its Client Relationship Management (CRM) systems and other changes to its commercial team front-office functions. At the same time, the Bank modified its admission policies for loan origination, which resulted in lower business activity and client growth, especially in lower income individuals. Additionally, fees in this segment were impacted by the SERNAC Financiero's restrictions on the increase of fees and the new regulations regarding the selling of mandatory insurance for mortgage loans.

The 1.2% decrease in fees in 2013 from Small and mid-sized companies was mainly due to the SERNAC Financiero's restrictions on the increase of fees to higher business activity in various products and services.

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The 3.1% increase in fees in Companies and institutional sub-segments, respectively, reflects the higher fees from letters of credits, office banking and foreign currency services, as well as greater business activity in general with these clients.

Fees from the Global banking and markets segment decreased by 5.9%, primarily due to a fall in volumes our brokerage unit and other corporate fees.

*For the years ended December 31, 2012 and 2011.* Net fees and commission income decreased 2.6% to Ch\$270,572 million in the twelve-month period ended December 31, 2012 compared to the same period in 2011.

Fees from Individuals in Commercial banking decreased 5.4% in 2012 compared to 2011. Fees from Individuals in Santander Banefe decreased 9.0% in 2012 compared to 2011. In 2012, the Bank executed a profound overhaul of its Client Relationship Management (CRM) systems and other changes to its commercial team front-office functions. At the same time, the Bank modified its admission policies for loan origination, which resulted in lower business activity and client growth, especially in individuals. Additionally, these fees were impacted by the SERNAC Financiero's restrictions on the increase of fees.

Fees from Small and mid-sized companies decreased 0.4% in 2012 compared to 2011. Despite higher business activity more intense competition lowered fee income.

The 8.5% increases in fees in the Companies and institutions sub-segments reflect the Bank's increased focus on increasing banking services and activities with these clients in 2012. This included increases in cash management fees, foreign currency operations, financial advisory services and other net corporate service fees.

Fees from the Global banking and markets segment decreased by 40.0%, primarily due to a fall in volumes our brokerage unit and several other large one-time transactions executed in 2011 and not repeated in 2012.

Financial transactions, net

The following table sets forth information regarding our income (loss) from financial transactions for the years ended December 31, 2013, 2012 and 2011.

|  | Year ended December 31, % Change % Change |               |               |                      |
|--|---|---------------|---------------|----------------------|
|  | 2013                                      | 2012          | 2011          | 2013/2012 2012/2011  |
|  | (in millions of Ch\$)                     |               |               |                      |
| Net income from financial operations     | (20,289)                                  | (64,079)      | 170,857       | (68.3%) -%           |
| Foreign exchange profit (loss), net      | 144,726                                   | 146,378       | (76,660)      | (1.1%) -%            |
| <b>Total financial transactions, net</b> | <b>124,437</b>                            | <b>82,299</b> | <b>94,197</b> | <b>51.2% (12.6%)</b> |

*For the years ended December 31, 2013 and 2012.* Total financial transactions, net, which is the sum of trading activities, fair value adjustments in our securities portfolio and foreign exchange transactions, totaled Ch\$124,437 million in the year ended December 31, 2013, an increase of 51.2% compared to the same period in 2012. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well the results of our Financial Management Division.

Net income from financial operations was a loss of Ch\$20,289 million in 2013 compared to a loss of Ch\$64,079 million in 2012. The lower loss compared to 2012 was mainly due to:

- Lower losses from derivatives classified as trading. This was mainly due to lower losses from the Bank's forwards that hedge foreign currency risk and are recognized as results from our Asset and Liability Management. Derivatives are mainly composed of forward and swap contracts that hedge our spot position in foreign currency. Our spot position includes all assets and liabilities in foreign currency and assets and liabilities in Ch\$ linked to (i) U.S.\$ that are not derivatives. For more details, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management— Market risk – local and foreign financial management." If we have more foreign currency assets than liabilities in our spot position, as hedges and the Chilean peso appreciates, we usually record a low or negative result from the fair value of derivatives held for trading. In the same situation, but if the

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Chilean peso depreciates, we usually record a better result from the fair value of derivatives held for trading compared to the previous period. This is offset by foreign exchange transaction results, which include the mark-to-market of our spot foreign currency position, net of hedge-accounted derivatives. In 2013, the period end exchange rate depreciated 9.4% compared to the period end exchange rate of 2012. The average exchange rate in 2013 depreciated 1.2% compared to the average exchange rate in 2012. This explains the difference in results from derivatives classified as trading, which totaled a loss of Ch\$68,201 million in 2013 compared to a loss of Ch\$104,344 million in 2012.

In 2013, the derivatives classified as trading include the debit value adjustments (DVA) for those derivatives in (ii) which the Bank has a net liability position with its counterparty. This resulted in income of Ch\$8,324 million in 2013.

(iii) Falling long-term interest rates, which resulted in higher realized gains from the sales of our available-for-instruments, which totaled Ch\$10,258 million, and

Higher other results due to a Ch\$4,502 million gain from the re-purchase of issued bonds. This was offset by (iv) lower realized gains and interest from our trading investment portfolio given the reduction in the size of this portfolio between 2013 and 2012.

|  | Year ended December 31, |                 | % Change       | % Change            |
|--|-------------------------|-----------------|----------------|---------------------|
|  | 2013                    | 2012            | 2011           | 2013/2012 2012/2011 |
|  | (in millions of Ch\$)   |                 |                |                     |
| Derivatives classified as trading                  | (68,201)                | (104,344)       | 116,877        | (34.6%) -%          |
| Trading investments                                | 29,985                  | 36,338          | 38,819         | (17.5%) (6.4%)      |
| Sale of loans                                      | 3,177                   | 4,835           | 9,692          | (34.3%) (50.1%)     |
| Available-for-sale instruments sales               | 10,258                  | (1,764)         | (3,356)        | -% (47.4%)          |
| Other results                                      | 4,492                   | 856             | 8,825          | 424.8% (90.3%)      |
| <b>Net income (loss) from financial operations</b> | <b>(20,289)</b>         | <b>(64,079)</b> | <b>170,857</b> | <b>(68.3%) -%</b>   |

The net result from foreign exchange transactions totaled a gain of Ch\$144,726 million compared to a gain of Ch\$146,378 million in 2012. As mentioned, in 2013, the period end exchange rate depreciated 9.4% compared to the period end exchange rate of 2012. The average exchange rate in 2013 depreciated 1.2% compared to the average exchange rate in 2012. Foreign currency exchange differences totaled a net loss of Ch\$242,841 million in 2013 compared to a gain of Ch\$270,990 million in 2012. This difference was mainly the result of the depreciation of the Chilean peso against the U.S. dollar in 2013 compared to an appreciation in 2012.

|   | Year ended December 31, |           | % Change  | % Change            |
|---|-------------------------|-----------|-----------|---------------------|
|   | 2013                    | 2012      | 2011      | 2013/2012 2012/2011 |
|   | (in millions of Ch\$)   |           |           |                     |
| Net profit or loss from foreign currency exchange differences | (242,841)               | 270,990   | (257,986) | -% -%               |
| Hedge-accounting derivatives                                  | 379,910                 | (120,610) | 177,553   | -% -%               |

|   |                |                |                 |               |           |
|---|----------------|----------------|-----------------|---------------|-----------|
| Translation gains and losses over assets and liabilities indexed to foreign currencies, net | 7,657          | (4,002)        | 3,773           | -%            | -%        |
| <b>Net results from foreign exchange profit (loss)</b>                                      | <b>144,726</b> | <b>146,378</b> | <b>(76,660)</b> | <b>(1.1%)</b> | <b>-%</b> |

The effects on net income from the change in value of our spot foreign currency position are generally positive if the peso appreciates and negative if the peso depreciates as our spot funding base in foreign currency is larger than our spot asset position in foreign currency. This increase was largely offset by the fair value of foreign exchange derivatives in net gains from trading and fair value, as described above in connection with 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

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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   |                |               | % Change      |                |
|--|-----------------------|----------------|---------------|---------------|----------------|
|  | 31,<br>2013           | 2012           | 2011          | 2013/2012     | 2012/2011      |
|  | (in millions of Ch\$) |                |               |               |                |
| Santander Global Connect                 | 44,860                | 52,703         | 62,625        | (14.9%)       | (15.8%)        |
| Market-making with clients               | 34,258                | 34,991         | 25,930        | (2.1%)        | 34.9%          |
| <b>Client treasury services</b>          | <b>79,118</b>         | <b>87,694</b>  | <b>88,555</b> | <b>(9.8%)</b> | <b>(1.0%)</b>  |
| Sale of loans and charged-off loans      | 3,218                 | 4,835          | 9,692         | (33.4%)       | (50.1%)        |
| Proprietary trading                      | (1,963)               | 8,213          | 16,022        | -%            | (48.7%)        |
| Financial Management Division (1)        | 44,064                | (18,443)       | (20,072)      | -%            | (8.1%)         |
| <b>Non-client treasury income (loss)</b> | <b>45,319</b>         | <b>(5,395)</b> | <b>5,642</b>  | <b>-%</b>     | <b>-%</b>      |
| <b>Total financial transactions, net</b> | <b>124,437</b>        | <b>82,299</b>  | <b>94,197</b> | <b>51.2%</b>  | <b>(12.6%)</b> |

(1) 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 decreased 9.8% in 2013 compared to 2012 and represented the majority of our financial transaction income. 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. In 2013, the results from Santander Global Connect decreased 14.9% compared to 2012. In the first half of 2013, demand for hedging and derivative products on behalf of our clients was low given the low volatility of the exchange rate. Once the U.S. federal reserve announced the tapering of quantitative easing, the volatility of the exchange rate increased and business volumes recovered (see Graph). The results from market-making with client services decreased 2.1% in 2013, mainly due to lower business volumes of tailor-made treasury services sold to specific corporate clients, especially in the first half of the year. These results may vary year-to-year as some large operations with corporate clients may not be repeated in subsequent years.

Source: Bloomberg

The results from non-client treasury income totaled a gain of Ch\$45,319 million in 2013 compared to a loss of Ch\$5,395 million in 2012. In 2013, the net results of our Financial Management Division were positive, since the Bank has a greater spot position in liabilities denominated in foreign currency than assets. These principally U.S. dollar-denominated liabilities are hedged through derivatives (short term foreign currency swaps) with minimal foreign currency exposure, but this does result in the existence of a short-term interest rate differential between US dollars and Chilean pesos, which produces a financial result registered in financial transactions, net. This result is positive when interest rates in the US are trending up and local rates are falling and vice versa. In 2013, local rates, especially in the second half of the year began, to go down relative to US rates. This better result from our Financial Management division in this line is partially offset by lower net interest income where the interest earned on peso- or UF-denominated asset is declining and the interest expense of the lower-yielding U.S.\$-denominated liabilities is rising.

*For the years ended December 31, 2012 and 2011.* Total financial transactions, net, which is the sum of trading activities, fair value adjustments in our securities portfolio and foreign exchange transactions, totaled Ch\$82,299

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million in the year ended December 31, 2012, a decrease of 12.6% compared to the same period in 2011. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well the results of our Financial Management Division.

Net income from financial operations was a loss of Ch\$64,079 million in 2012 compared to a gain of Ch\$170,857 million in the corresponding period in 2011. In 2012, the Chilean peso appreciated 8.2%, compared to an 11.3% depreciation in 2011. This explains the difference in results from derivatives classified as trading, which totaled a loss of Ch\$104,344 million in 2012 compared to a gain of Ch\$116,877 million in 2011. Derivatives are mainly composed of forward and swap contracts that hedge our spot position in foreign currency. Our spot position includes all assets and liabilities in foreign currency and assets and liabilities in Ch\$ linked to U.S.\$ that are not derivatives. For more details, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—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 include the mark-to-market of our spot foreign currency position, net of hedge-accounted derivatives.

The lower results from trading investments are mainly due to lower interest income from this portfolio, as 94% of the assets in the portfolio are denominated in UFs and, therefore, when inflation decelerated in 2012, interest income from these assets decreased. The negative result from the available for sale portfolio is mainly due to higher long-term 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.

The income from the sale of loans totaled Ch\$4,835 million in 2012 compared to Ch\$9,692 million in 2011, mainly as a result of lower gains from the sale of loans that have been previously charged-off. The Bank has re-focused its collection efforts from selling charged-off loans to in-house collection efforts. These loans were sold to various non-related collection companies and asset managers.

The decrease in other results was mainly due to the gain in 2011 of Ch\$5,705 million recorded from the sale of all of the Bank's shares in Visa Inc, which was included in other results in 2011.

The net result from foreign exchange transactions totaled a gain of Ch\$146,378 million in 2012 compared to a loss of Ch\$76,660 million in 2011, due to the appreciation of the peso in 2012 compared to depreciation in 2011. Foreign currency exchange differences totaled a net gain of Ch\$270,990 million in 2012 compared to a loss of Ch\$257,986 million in 2011. This increase was mainly the result of the appreciation of the Chilean peso against the U.S. dollar in 2012 compared to depreciation in 2011. The effects on net income from the change in value of our spot foreign currency position are generally positive if the peso appreciates and negative if the peso depreciates as our spot funding base in foreign currency is larger than our spot asset position in foreign currency. This increase was largely offset by

the fair value of foreign exchange derivatives in net gains from trading and fair value, as described above in connection with 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 discussion by line of business.

Client treasury services decreased 1.0% in 2012 compared to 2011 and represented the majority of our financial transaction income. 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. In 2012, the results from Santander Global Connect decreased 15.8% as 2011 figures included large non-recurring transactions that were not repeated in 2012 in the Global banking and markets segment. The results from market-making with client services increased 34.9% in 2012, mainly due to growth in tailor-made treasury services sold to specific corporate clients. These results may vary year-to-year as some large operations with corporate clients may not be repeated in subsequent years.

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The results from non-client treasury income totaled a loss of Ch\$5,395 million in 2012 compared to a gain of Ch\$5,642 million in 2011. The non-client treasury figures in 2011 included larger gains from the sale of loans compared to 2012 and the gain recorded from the sale of shares in Visa Inc. Additionally, in 2012, the Bank reduced its involvement in proprietary trading activities, as this is not a core business unit.

Finally, in 2012, the net results of our Financial Management Division were negative, since the Bank has more liabilities denominated in foreign currency than assets. These principally U.S. dollar-denominated liabilities are hedged through derivatives (short term foreign currency swaps) with minimal foreign currency exposure, but due to the existence of a short term interest rate differential between US dollars and Chilean pesos, this produces a financial cost registered in financial transactions, net. This higher cost is partially offset by net interest income where the interest earned on the higher-yielding peso- or UF-denominated asset is recorded and the interest expense of the lower-yielding U.S.\$-denominated liabilities is also recorded.

## Other operating income

|   | Year ended            |               |               | % Change        | % Change       |
|---|-----------------------|---------------|---------------|-----------------|----------------|
|   | December 31,          |               |               |                 |                |
|   | 2013                  | 2012          | 2011          | 2013/2012       | 2012/2011      |
|   | (In millions of Ch\$) |               |               |                 |                |
| <b>Income from assets received in lieu of payment</b>         | <b>6,571</b>          | <b>2,654</b>  | <b>5,629</b>  | <b>147.6%</b>   | <b>(52.9%)</b> |
| <b>Net results from sale of investment in other companies</b> | <b>78,122</b>         | <b>599</b>    | <b>-</b>      | <b>12942.1%</b> | <b>100.0%</b>  |
| Operational leases  | 328                   | 142           | 305           | 131.0%          | (53.4%)        |
| Gain on sale of Bank property, plant and equipment            | 176                   | 9,194         | 11,863        | (98.1%)         | (22.5%)        |
| Recovery of generic provisions for contingencies              | 77                    | -             | -             | 100.0%          | 0.0%           |
| Insurance coverage for earthquake                             | 725                   | 262           | 437           | 176.7%          | (40.0%)        |
| Other   | 2,156                 | 254           | 515           | 748.8%          | (50.7%)        |
| <b>Sub-total other income</b>                                 | <b>3,462</b>          | <b>9,852</b>  | <b>13,120</b> | <b>(64.9%)</b>  | <b>(24.9%)</b> |
| <b>Total other operating income</b>                           | <b>88,155</b>         | <b>13,105</b> | <b>18,749</b> | <b>572.7%</b>   | <b>(30.1%)</b> |

*For the years ended December 31, 2013 and 2012.* Total other operating income totaled a gain of Ch\$88,155 million in the year ended December 31, 2013, a 572.7% increase from the corresponding period in 2012. The main reason for this increase was the gain recognized from the sale of our asset management subsidiary, Santander Asset Management S.A. Administradora General de Fondos.

In December 2013 our subsidiary Santander Asset Management S.A. Administradora General de Fondos was sold through a formal offer of purchase received in May 2013. The sale price was Ch\$90,281 million for 100% of the shares. 99.99% were acquired by SAM Investment Holdings Limited and the remaining 0.01% by Santander Asset Management UK Holdings Limited, both related to Grupo Santander. This operation generated a gain of Ch\$78,122 million recorded within the net results from sale of investments in other companies. Additionally, the entities entered

into a management service agreement for a 10-year period. The Audit Committee and the Board of Directors recommended the transaction. On December 5, 2013 an Extraordinary Shareholders' meeting was held. The offer was accepted and thus, on December 6, 2013 the SBIF was informed of this transaction.

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Apart from this item, other operating income was positively affected by the higher gains from income received from assets in lieu of payment and negatively affected from lower gains from the sale of branches as we did not sell branches in 2013.

|         | Number of<br>branches<br>(Ch\$ millions) | Book value | Selling price | Profit |
|---------|--|------------|---------------|--------|
| 2013–   | –  | –          | –             | –      |
| 2012/17 | 6,367                                    | 14,931     | 8,564         |        |
| 2011/8  | 6,237                                    | 17,330     | 11,093        |        |

For the years ended December 31, 2012 and 2011. Total other operating income totaled a gain of Ch\$13,105 million in the year ended December 31, 2012, a 30.1% decrease from the corresponding period in 2011. The main reasons for this decrease were the lower gains from income from assets received in lieu of payments and lower income from the sale of branches. In 2012, the profit from the sale of branches totaled Ch\$8,564 million compared to Ch\$11,093 million in 2011. Branches are risk weighted at 100% and, therefore, from a regulatory capital perspective, it is more efficient to rent them than to own them.

The decrease was partially offset by the Ch\$ 599 million profit recognized from the sale of 7.71% of the Bank's shares in Transbank S.A. to Banco BBVA. Transbank is the main credit card processor in Chile.

## Provision for loan losses

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

|   | Year ended December 31, |                  |                  | % Change % Change |              |
|---|-------------------------|------------------|------------------|-------------------|--------------|
|   | 2013                    | 2012             | 2011             | 2013/2012         | 2012/2011    |
|   | (in millions of Ch\$)   |                  |                  |                   |              |
| Provision for loan losses                               | (418,675)               | (431,237)        | (343,821)        | (2.9%)            | 25.4%        |
| Charge-off of loans analyzed on an individual basis (1) | (8,071)                 | (5,470)          | (8,141)          | 47.6%             | (32.8%)      |
| Recoveries on loans previously charged-off              | 55,284                  | 33,015           | 35,825           | 67.5%             | (7.8%)       |
| <b>Provision for loan losses, net</b>                   | <b>(371,462)</b>        | <b>(403,692)</b> | <b>(316,137)</b> | <b>(8.0%)</b>     | <b>27.7%</b> |
| Year end loans (2)                                      | 21,060,761              | 18,966,652       | 17,434,782       | 11.0%             | 8.8%         |
| Non-performing loans (3)                                | 613,301                 | 597,767          | 511,357          | 2.6%              | 16.9%        |
| Impaired loans (4)                                      | 1,477,701               | 1,338,137        | 1,323,355        | 10.4%             | 1.1%         |
| Allowance for loan losses (5)                           | 614,933                 | 550,048          | 488,468          | 11.8%             | 12.6%        |
| Impaired loans / Year end loans (4)                     | 7.02%                   | 7.06%            | 7.59%            |                   |              |

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|   |         |        |        |
|---|---------|--------|--------|
| Non-performing loans / Year end loans (3) | 2.91%   | 3.15%  | 2.93%  |
| Allowances for loan losses / Total loans  | 2.92%   | 2.90%  | 2.80%  |
| Coverage ratio non-performing loans (6)   | 100.27% | 92.02% | 95.52% |

(1) Charge-offs of loans that are analyzed on an individual basis.

(2) Includes Ch\$87,688 million in 2011, Ch\$90,573 million in 2012 and Ch\$125,449 million in 2013 in interbank loans.

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

Impaired loans as of December 31, 2013, 2012 and 2011 include: (A) for loans individually evaluated for impairment, (i) the carrying amount of all loans to clients that are rated C1 through D2 and (ii) the carrying amount of loans to an individual client with a loan that is non-performing, regardless of category, excluding residential mortgage loans, if the past-due amount on the mortgage loan is less than 90 days; and (B) for loans collectively (4) evaluated for impairment, (i) the carrying amount of total loans to a client, when a loan to that client is non-performing or has been renegotiated, excluding performing residential mortgage loans, and (ii) if the loan that is non-performing or renegotiated is a residential mortgage loan, all loans to that client. See “Note 10—Loans and Accounts Receivables from Customers—(a) Loans and accounts receivables from customers” in the Audited Consolidated Financial Statements.

(5) Includes Ch\$11 million in 2011, Ch\$159 million in 2012 and Ch\$495 million in 2013 in allowance for loan losses for interbank loans.

(6) Calculated as allowance for loan losses divided by non-performing loans.

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For the years ended December 31, 2013 and 2012. Provisions for loan losses, net of recoveries totaled Ch\$371,462 million in 2013 and decreased 8.0% compared to the amount of provisions recorded in 2012.

Provision for loan losses, which includes the full amount of provisions recognized as a result of loan growth and change in risk classification as well as the net result of provisions and charge-offs of loans analyzed on a group basis, totaled Ch\$418,675 million in 2013 and decreased 2.9% from 2012. The following table breaks down provision for loans losses by loan product for the years ended December 31, 2013, 2012 and 2011.

|                  | 2013                  | 2012             | 2011             | % Change      |              |
|------------------|-----------------------|------------------|------------------|---------------|--------------|
|                  | (in millions of Ch\$) |                  |                  | 2013/2012     | 2012/2011    |
| Interbank loans  | (336)                 | (148)            | 43               | 127.0%        | -%           |
| Commercial loans | (157,558)             | (129,583)        | (109,532)        | 21.6%         | 18.3%        |
| Mortgage loans   | (33,271)              | (17,865)         | (31,078)         | 86.2%         | (42.5%)      |
| Consumer loans   | (222,964)             | (280,094)        | (205,401)        | (20.4%)       | 36.4%        |
| Contingent loans | (4,546)               | (3,547)          | 2,147            | 28.2%         | (265.2%)     |
| <b>Total (1)</b> | <b>(418,675)</b>      | <b>(431,237)</b> | <b>(343,821)</b> | <b>(2.9%)</b> | <b>25.4%</b> |

(1) Includes the full amount of provisions recognized as a result of loan growth and change in risk classification as well as the net result of provisions and charge-offs of loans analyzed on a group basis

Provisions established for the Bank's consumer loans decreased by 20.4% to Ch\$222,964 million in 2013 compared to 2012. In June 2012, the Bank updated its allowance model for consumer loans, which mainly impacted the provisions established for renegotiated loans, and resulted in a provision of Ch\$24,753 million. Before the June 2012 allowance model update, estimated loss rates were established by the historical behavior of charge-offs net of recoveries for each risk profile. This methodology only considered historical charge-off data for each specific profile and did not include the use of any other statistical information. Since June 2012, the loss rate has been estimated as the product of the Probability of Non-Performance (PNP) and Severity (SEV). PNP and SEV have been established according to the historical behavior of the profiles, and take into account a wider range of variables. See "Item 5. Operating and Financial Review and Prospects—F. Selected Statistical Information-Classification of Loan Portfolio— Classification of Loan Portfolio-Loans analyzed on a group basis—Allowances for consumer loans."

Excluding this effect, provisions for consumer loans decreased 12.7% in 2013 compared to 2012. In 2013, the Bank, in order to lower credit risk in its consumer loan book, modified its strategy by focusing growth in less risky segments to individuals in Commercial banking and by decreasing consumer loans in Santander Banefe. As a result of this shift in strategy, impaired consumer loans decreased 11.1% and non-performing consumer loans decreased 21.1% in 2013 compared to 2012.

Provision expense for commercial loans increased 21.6% in 2013 compared to 2012. This rise was mainly due to commercial loan growth of 11.6% in the year, which increased gross provisions. At the same time, greater provisions were recognized as a result of the increase in the commercial impaired loan ratio from 6.8% in 2012 to 6.9% in 2013. The ratio of non-performing commercial loans to total commercial loans remained stable at 3.1% in both periods.

Provisions for mortgage loans increased 86.2% in 2013 compared to 2012. This rise was due to an increase in impaired mortgage loans from 4.3% in 2012 to 5.7% in 2013. The non-performing ratio for mortgage loans declined from 3.0% in 2012 to 2.8% in 2013. During the year, the indicators corresponding to the renegotiated (including renegotiated loans and modified loans, See “Item 5. Loan Portfolio—Renegotiated loans”) showed values that required updating of the model with more recent loan history and accordingly we updated it with the information available as of March, 2013. It should be noted that this loan category has changed materially in recent years, since after the earthquake of 2010, the Bank offered to its clients certain new restructuring solutions, which led to an increase in the impaired and modified mortgage loan portfolio from 5.9% in 2010 to 8.1% of our total loan portfolio by the end of 2013. Under this scenario the Risk Committee decided that the model needed to be updated in order to capture all relevant information associated with this fluctuation.

Simultaneously in 2013, the Bank resolved a class action suit brought forth by CONADECUS, a consumer protection group, and renegotiated a group of residential mortgage loans that had a bullet payment due in 2013, which

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were offered to clients in 2010, following the earthquake. This also led to the rise in impaired residential mortgage loans and provisions. The Bank's non-renegotiated loan portfolio had a stable evolution in the year, reflecting the positive economic and employment environment.

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

Recoveries on loans previously charged-off increased 67.5% in the year ended December 31, 2013 compared to the corresponding period in 2012. This was a direct result of higher incentives and a reorganization of our collection areas in 2012 and 2013 that has led to an overall improvement in recoveries. The following table shows recoveries of loans previously charged-off by type of loan.

|   | Year ended<br>December 31, |               |               | % Change     | % Change      |
|---|----------------------------|---------------|---------------|--------------|---------------|
|   | 2013                       | 2012          | 2011          | 2013/2012    | 2012/2011     |
|   | (in millions of Ch\$)      |               |               |              |               |
| <b>Recovery of loans previously charged-off</b> |                            |               |               |              |               |
| Consumer loans                                  | 36,004                     | 22,015        | 12,474        | 63.5%        | 76.5%         |
| Residential mortgage loans                      | 4,735                      | 2,305         | 16,135        | 105.4%       | (85.7%)       |
| Commercial loans                                | 14,545                     | 8,695         | 7,216         | 67.3%        | 20.5%         |
| <b>Total recoveries</b>                         | <b>55,284</b>              | <b>33,015</b> | <b>35,825</b> | <b>67.5%</b> | <b>(7.8%)</b> |

In some instances, we will sell a portfolio of charged-off loans to a third party. Gain (loss) on these charged-off loans is recognized as net income from financial transactions in "Note 28—Profit and Loss from Financial Operations" of our Audited Consolidated Financial Statements. The following table sets forth information about our sale of charged-off loans for the year ended December 31, 2013, 2012 and 2011.

|  | Year ended<br>December 31, |       |       | % Change  | % Change  |
|--|----------------------------|-------|-------|-----------|-----------|
|  | 2013                       | 2012  | 2011  | 2013/2012 | 2012/2011 |
|  | (in millions of Ch\$)      |       |       |           |           |
| <b>Gains on sale of loans previously charged-off</b> |                            |       |       |           |           |
| Sale of charged-off loans                            | 1,500                      | 2,090 | 7,324 | (28.2%)   | (71.5%)   |

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

|                                      | Year ended December 31, |                  |                  | % Change      | % Change     |
|--------------------------------------|-------------------------|------------------|------------------|---------------|--------------|
|                                      | 2013                    | 2012             | 2011             | 2013/2012     | 2012/2011    |
|                                      | (in millions of Ch\$)   |                  |                  |               |              |
| Individuals (Commercial banking)     | (157,697)               | (229,958)        | (185,885)        | (31.4%)       | 23.7%        |
| Individuals (Santander Banefe)       | (56,309)                | (73,882)         | (62,252)         | (23.8%)       | 18.7%        |
| Small and mid-sized companies (SMEs) | (101,611)               | (80,144)         | (65,028)         | 26.8%         | 23.2%        |
| Companies and institutional          | (41,497)                | (24,532)         | (11,089)         | 69.2%         | 121.2%       |
| Global banking & markets             | (14,739)                | 5,546            | 7,614            | -%            | (27.2%)      |
| Other                                | 391                     | (722)            | 503              | -%            | -%           |
| <b>Total provisions, net</b>         | <b>(371,462)</b>        | <b>(403,692)</b> | <b>(316,137)</b> | <b>(8.0%)</b> | <b>27.7%</b> |

Net provisions expense from individuals both in commercial banking and Santander Banefe decreased in 2013 compared to 2012 mainly due to the lower provisions from consumer loans as mentioned above.

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Net provision expense from SMEs increased 26.8%. This was due to the 11.5% increase in lending and the increase in credit risk of SME loans and a slight deterioration in asset quality. This led to the 29.6% rise in provisions for commercial loans analyzed on a group basis, which is mainly comprised of SMEs clients.

Net provision expense from Companies and institutional increased 69.2%. This was mainly due to the 14.0% increase in lending and to the downgrade of specific clients in the salmon, fishery, retail and construction sectors.

Net provision expense from global banking and markets totaled Ch\$14,739 million compared to a reversal of Ch\$5,546 million in 2012. This rise was mainly due to the downgrade of specific clients in the construction and retail sectors.

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

*For the years ended December 31, 2012 and 2011.* Provisions for loan losses, net of recoveries totaled Ch\$403,692 million in 2012 and increased 27.7% compared to the amount of provisions recorded in 2011.

Provision for loan losses, which includes the full amount of provisions recognized as a result of loan growth and change in risk classification as well as the net result of provisions and charge-offs of loans analyzed on a group basis, totaled Ch\$431,237 million in 2012 and increased 25.4% from 2011.

Provisions established for the Bank's consumer loans increased by 36.4% to Ch\$280,094 million in 2012 compared to 2011. As mentioned above, in June 2012, the Bank updated its allowance model for consumer loans, which mainly impacted the provisions established for renegotiated loans, and resulted in a provision of Ch\$24,753 million. See "Item 5. Operating and Financial Review and Prospects—F. Selected Statistical Information-Classification of Loan Portfolio-Classification of Loan Portfolio-Loans analyzed on a group basis-Allowances for consumer loans."

Other external factors also affected provisions and charge-offs for consumer loans in 2012. In May 2011, Chile's third-largest department store retailer, La Polar, experienced serious financial difficulties as a result of previously undisclosed and unsound credit practices that were made public once the financial situation of the firm was no longer sustainable. As was the case with other Chilean department stores, La Polar managed its own private label credit card business, which was fully integrated with its retail functions. In Chile, approximately 30-40% of all consumer loans are originated by non-bank entities, competing directly with our Santander Banefe segment. This event resulted in an increase in 2012 in the default rates in the consumer loan industry as banks and non-bank lenders simultaneously tightened credit policies, making credit less available to clients in this segment.

Additionally, this event also was an important trigger for the passage of the Ley Dicom. The Dicom database is a privately-run negative credit bureau database that stores an individual's negative credit history for the past five years. This includes all past-due bank obligations, utilities bills and credit with retailers, bounced checks, past-due student loans and other past-due obligations. In February 2012, this Law was enacted and on a one-time basis, permanently eliminated from the Dicom database clients with negative credit history of Ch\$2,400,000 (U.S.\$4,800) or less. Before the Ley de Dicom was passed, 4.8 million names were listed in the Dicom database, and after its enactment, 2.3 million names were removed from the database. We estimate that 34% of all names of individuals originally removed from the Dicom database were back on by December 2012, and, therefore, we believe that the level of reliability of the Dicom database will be eventually restored. As of February 2012, the percentage of our loan portfolio to debtors that owed less than U.S.\$4,800 was 4%. The enactment of the Ley de Dicom resulted in the removal of the names of 282,047 clients of the Bank from the Dicom negative credit bureau database, or the Dicom database, or 8% of our total clients. This also resulted in greater charge offs and provisions in consumer lending. For more information, please see "Item 3. Key Information—D. Risk Factors—Risks Associated with Our Business—The effectiveness of our credit risk management is affected by the quality and scope of information available in Chile."

Provision expense for commercial loans increased 18.3% in 2012 compared to 2011. This rise was mainly due to commercial loan growth in the year in the Global banking & markets, Companies and SME segments. This was offset by the update that was performed on the provisioning model for commercial loans analyzed on a group basis in 2011. Before 2011, loan loss allowance for this category of loans was mainly determined by the number of days a loan was past-due. Currently, provisions are set according to (i) performing status, (ii) if a client has been renegotiated or not,

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(iii) whether the client is a new client or an existing client and (iv) whether 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.

Provisions established for mortgage loans decreased 42.5% in 2012 compared to 2011. 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) whether the client is a new client or an existing client, (iii) whether the client is a Bank client or a Banefe client and (iv) whether this client has been renegotiated in the system. The total impact of this change on loan loss reserves was Ch\$16,258 in 2011.

## Operating expenses

The following table sets forth information regarding our operating expenses in the years ended December 31, 2013, 2012 and 2011.

|   | Year ended December 31, |                  |                  | % Change    | % Change    |
|---|-------------------------|------------------|------------------|-------------|-------------|
|   | 2013                    | 2012             | 2011             | 2013/2012   | 2012/2011   |
|   | (in millions of Ch\$)   |                  |                  |             |             |
| Personnel salaries and expenses             | (308,344)               | (299,904)        | (280,040)        | 2.8%        | 7.1%        |
| Administrative expenses                     | (188,191)               | (183,379)        | (166,825)        | 2.6%        | 9.9%        |
| Depreciation and amortization               | (61,074)                | (56,369)         | (53,466)         | 8.3%        | 5.4%        |
| Impairment of property, plant and equipment | (244)                   | (90)             | (116)            | 171.1%      | (22.4%)     |
| Other operating expenses                    | (52,338)                | (59,637)         | (64,208)         | (12.2%)     | (7.1%)      |
| <b>Total operating expenses</b>             | <b>(610,191)</b>        | <b>(599,379)</b> | <b>(564,655)</b> | <b>1.8%</b> | <b>6.1%</b> |
| Efficiency ratio(1)                         | 40.2%                   | 42.5%            | 41.4%            |             |             |

(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, financial transactions, net and other operating income.

For the years ended December 31, 2013 and 2012. Operating expenses in the year ended December 31, 2013 increased 1.8% compared to the corresponding period in 2012. The efficiency ratio was 40.2% in 2013 compared to 42.2% in 2012.

The 2.8% increase in personnel salaries and expenses was mainly due to higher salaries. Total salary expenses, including bonuses increased 4.0% in 2013 compared to 2012, totaling Ch\$265,500 million. This rise was partially offset by lower costs of the Bank's stock based compensation plan as the 2013 goals were not achieved and lower costs of the Bank's pension plan. Some of the executives that qualified for this benefit are no longer employees for the Bank lowering the amount of this cost. Headcount as of December 31, 2013 totaled 11,516, a decrease of 1.7% from 2012. In December 2013, the Bank sold its asset management subsidiary which reduced headcount by 90 persons.

Administrative expenses increased 2.6% in the year ended December 31, 2013 compared to the corresponding period in 2012. The increase in administrative expenses was mainly due to: (i) the 33.1% increase in security and valuable transport services which increased from Ch\$11,929 million in 2012 to Ch\$15,879 million in 2013. In 2013 the Bank had to increase the expenditure dedicated to securing and protecting ATM machines given the increase in theft and more regulations regarding ATM security, (ii) the 17.2% increase in expenses relating to the IT and communication systems from Ch\$24,873 million to Ch\$29,144 million in 2013, in line with the Bank's improvements of its CRM systems, phone banking and internet banking services; (iii) the 8.0% increase in expenses relating to outsourced services, (iv) a 7.1% rise in branch rental expenses due to the greater number of branches rented following the sale of branches in 2012 and 2011 and (v) a 7.5% rise in expenses relating to the maintenance and repair of property as the bank refurbished branches and introduced its new brand Santander Select and transformed 44 branches into this new format for mid-higher income clients.

Depreciation and amortization expense increased 8.3%, mainly due to higher amortization expenses of intangible assets such as software and other computer systems that have been updated in recent periods.

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

|  | Year ended December 31, |                  |                  | % Change    | % Change    |
|--|-------------------------|------------------|------------------|-------------|-------------|
|  | 2013                    | 2012             | 2011             | 2013/2012   | 2012/2011   |
|  | (in millions of Ch\$)   |                  |                  |             |             |
| Individuals (Commercial banking)   | (298,173)               | (291,562)        | (251,554)        | 2.3%        | 15.9%       |
| Individuals (Santander Banefe)   | (52,370)                | (51,797)         | (70,719)         | 1.1%        | (26.8%)     |
| Small and mid-sized companies  | (79,633)                | (76,560)         | (74,962)         | 4.0%        | 2.1%        |
| Companies and institutional  | (69,828)                | (65,672)         | (52,009)         | 6.3%        | 26.3%       |
| Global banking and markets   | (37,728)                | (35,476)         | (35,302)         | 6.3%        | 0.5%        |
| Other  | (20,121)                | (18,675)         | (15,901)         | 7.7%        | 17.4%       |
| <b>Total personnel, administrative expenses, depreciation and amortization and impairment(1)</b> | <b>(557,853)</b>        | <b>(539,742)</b> | <b>(500,447)</b> | <b>3.4%</b> | <b>7.9%</b> |

(1) Excludes other operating expenses.

By business segment, the 3.4% increase in costs in 2013 compared to the corresponding period in 2012 was mainly due to the increase in costs in Companies and institutional lending and Global banking and markets. In 2013, the Bank in the companies and institutional segment, decided to place greater strategic emphasis on this segment in which we have a weaker relative position compared to our main competitors.

The following table sets forth information regarding Other operating expenses in the years ended December 31, 2013, 2012 and 2011.

|  | Year ended            |               |               | % Change       | % Change      |
|--|-----------------------|---------------|---------------|----------------|---------------|
|  | December 31,          | 2012          | 2011          | 2013/2012      | 2012/2011     |
|  | (in millions of Ch\$) |               |               |                |               |
| Provisions and expenses for assets received in lieu of payment | 4,824                 | 10,176        | 12,782        | (52.6%)        | (20.4%)       |
| Credit card expenses   | 2,157                 | 6,362         | 6,427         | (66.1%)        | (1.0%)        |
| Customer services  | 10,954                | 8,674         | 8,965         | 26.3%          | (3.2%)        |
| Operating charge-offs  | 8,222                 | 8,366         | 9,884         | (1.7%)         | (15.4%)       |
| Life insurance and general product insurance policies          | 7,348                 | 7,211         | 6,524         | 1.9%           | 10.5%         |
| Additional tax on expenses paid overseas                       | 2,862                 | 3,283         | 3,516         | (12.8%)        | (6.6%)        |
| Provisions for contingencies                                   | 5,805                 | 7,964         | 8,144         | (27.1%)        | (2.2%)        |
| Other  | 10,166                | 7,601         | 7,966         | 33.7%          | (4.6%)        |
| <b>Total</b>   | <b>52,338</b>         | <b>59,637</b> | <b>64,208</b> | <b>(12.2%)</b> | <b>(7.1%)</b> |

Other operating expenses were Ch\$52,338 million in 2013, a 12.2% decrease compared to 2012. This decrease was mainly due to lower provisions and expenses for repossessed assets that totaled Ch\$4,824 million in 2013 compared to Ch\$10,176 million in 2012. This was offset by higher customer service expenses that includes costs related to our call center and higher other costs, which increased due to the Ch\$2,283 million in expenses recorded in 2013 from the costs incurred in adopting chip technology for our ATM and credit cards. See “Note 36—Other operating income and expenses” to our Audited Consolidated Financial Statements for more detail on Other operating expenses.

*For the years ended December 31, 2012 and 2011.* Operating expenses in the year ended December 31, 2012 increased 6.1% compared to the corresponding period in 2011. The efficiency ratio was 42.5% in 2012 compared to 41.4% in 2011.

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The 7.1% increase in personnel salaries and expenses was mainly due to higher salaries and headcount. Total salary expenses, including bonuses increased 6.8% in 2012 compared to 2011, totaling Ch\$255,229 million. Headcount as of December 31, 2012 totaled 11,713, an increase of 1.3% from 2011. Additionally, in April 2012, salaries were increased by the annual CPI index at 3.5% as mandated in the Bank's collective bargaining agreements.

Administrative expenses increased 9.9% in the year ended December 31, 2012 compared to the corresponding period in 2011. In 2012 the Bank focused on its Transformation Plan, which is a broad overhaul and improvement of our retail banking activities, especially among Individuals in Commercial banking and SMEs. The plan also entails greater expenses related to IT projects being carried out to improve productivity. As a result this drove the following increase in administrative expenses: (i) the 17.4% rise in expenses relating to the maintenance and repair of property as the bank refurbished branches; (ii) the 13.0% increase in expenses relating to the IT and communication systems, in line with the Bank's improvements of its CRM systems, phone banking and internet banking services; and (iii) a 10.7% increase in marketing expenses in line with the Bank's objective of improving client image.

Depreciation and amortization expense increased 5.4%, mainly due to higher amortization expenses of intangible assets such as software and other computer systems.

## Income tax expense

|                       | Year ended December 31, % Change |          | % Change |           |           |
|-----------------------|----------------------------------|----------|----------|-----------|-----------|
|                       | 2013                             | 2012     | 2011     | 2013/2012 | 2012/2011 |
|                       | (in millions of Ch\$)            |          |          |           |           |
| Net income before tax | 538,959                          | 405,906  | 484,430  | 32.8%     | (16.2%)   |
| Income tax expense    | (94,530)                         | (44,473) | (77,308) | 112.6%    | (42.5%)   |
| Effective tax rate(1) | 17.5%                            | 11.0%    | 16.0%    |           |           |

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

*For the years ended December 31, 2013 and 2012.* Our income tax expense increased by 112.6% in the year ended December 31, 2013 compared to the same period in 2012. The statutory corporate tax rate in 2013 and 2012 was 20%. The Bank's effective tax rate tends to be below the Chilean statutory rate because for tax purposes the Bank is still required to recognize the effects of price level restatement on equity. The effective tax rate was 17.5% in 2013 compared to 11.0% in 2012. The higher effective tax rate in 2013 compared to 2012 was due to the fact that in September 2012, the statutory tax rate was increased from 18.5% to 20.0% and this created an income tax reversal of Ch\$16,221 million in 2012, corresponding to the adjustment of deferred tax assets to the higher statutory rate. See "Note 15—Current and Deferred Taxes" of the Audited Consolidated Financial Statements for more detail on income tax

expense.

Congress is currently discussing a new tax reform that will change the corporate tax rate. If adopted, the statutory tax rate would be expected to increase to 21% in 2014, 22.5% in 2015, 24% in 2016 and 25% in 2017.

*For the years ended December 31, 2012 and 2011.* Our income tax expense decreased by 42.5% in the year ended December 31, 2012 compared to the same period in 2011. The effective tax rate was 11.0% in 2012 compared to 16.0% in 2011. In September 2012, the statutory tax rate to be applied in 2013 was permanently increased from 18.5% to 20.0% and this created an income tax reversal of Ch\$16,221 million in 2012, corresponding to the adjustment of deferred tax assets to the higher statutory 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.

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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, 2013, the scheduled maturities of our contractual obligations and of other commercial commitments, including accrued interest, were as follows:

| Contractual Obligations   | Demand                | Up to 1 month    | Between 1 and 3 months | Between 3 and 12 months | Subtotal up to 1 year | Between 1 and 5 years | More than 5 years | Subtotal after 1 year | Total             |
|---|-----------------------|------------------|------------------------|-------------------------|-----------------------|-----------------------|-------------------|-----------------------|-------------------|
|   | (in millions of Ch\$) |                  |                        |                         |                       |                       |                   |                       |                   |
| Obligations under repurchase agreements                         | -                     | 185,140          | 18,466                 | 5,366                   | 208,972               | -                     | -                 | -                     | 208,972           |
| Checking accounts, time deposits and other time liabilities (1) | 6,001,375             | 5,351,489        | 2,333,001              | 1,743,525               | 15,429,390            | 87,380                | 55,644            | 143,024               | 15,572,414        |
| Financial derivative contracts                                  | -                     | 126,238          | 89,018                 | 223,031                 | 438,287               | 508,206               | 345,292           | 853,498               | 1,291,785         |
| Interbank borrowings  | 8,199                 | 104,490          | 216,472                | 1,201,070               | 1,530,231             | 152,146               | -                 | 152,146               | 1,682,377         |
| Issued debt instruments   | -                     | 470,600          | 688,261                | 590,027                 | 1,748,888             | 1,548,733             | 1,901,037         | 3,449,770             | 5,198,658         |
| Other financial liabilities (2)                                 | 97,027                | 568              | 1,111                  | 2,992                   | 101,698               | 29,685                | 58,398            | 88,083                | 189,781           |
| Subtotal  | 6,106,601             | 6,238,545        | 3,346,329              | 3,766,011               | 19,457,466            | 2,326,150             | 2,360,371         | 4,686,521             | 24,143,987        |
| Contractual interest payments (3)                               | 2,748                 | 32,671           | 88,135                 | 331,006                 | 454,560               | 943,260               | 609,308           | 1,552,568             | 2,007,128         |
| <b>Total</b>  | <b>6,109,349</b>      | <b>6,271,796</b> | <b>3,434,464</b>       | <b>4,097,017</b>        | <b>19,912,026</b>     | <b>3,269,410</b>      | <b>2,969,679</b>  | <b>6,239,089</b>      | <b>26,151,115</b> |

(1) Includes demand deposits and other demand liabilities, cash items in process of being cleared and time deposits and other time liabilities.

(2) Mainly includes amounts owed to credit card processors and to the Chilean Production Development Corporation (*Corporación de Fomento de la Producción de Chile*), the state development agency.

The table above includes future cash interest payments. For variable rate obligations, we assume the same rate as the last rate known. Various of the payment obligations in the table above are variable debt instruments, since they (3) are denominated in UF, for which we have estimated a long-term inflation rate equal to 3%, which is at the center of the Central Bank's long-term inflation target. No exclusions requiring further explanation have been made in this table.

## Operational Leases

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Certain bank premises and equipment are leased under various operating leases. Future minimum rental commitments as of December 31, 2013 under non-cancelable leases are as follows:

|                                      | As of<br>December 31, 2013<br>(in millions of Ch\$) |
|--------------------------------------|---|
| Due within 1 year                    | 18,941  |
| Due after 1 year but within 2 years  | 16,948  |
| Due after 2 years but within 3 years | 15,161  |
| Due after 3 years but within 4 years | 14,083  |
| Due after 4 years but within 5 years | 12,902  |
| Due after 5 years                    | 61,730  |
| <b>Total</b>                         | <b>139,765</b>                                      |

Other Commercial Commitments

As of December 31, 2013, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

| Other Commercial Commitments        | Up to 1 month         | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | More than 5 years | Total     |
|-------------------------------------|-----------------------|------------------------|-------------------------|-----------------------|-------------------|-----------|
|                                     | (in millions of Ch\$) |                        |                         |                       |                   |           |
| Guarantees                          | 128,171               | 145,878                | 493,530                 | 419,414               | 25,806            | 1,212,799 |
| Confirmed foreign letters of credit | 17,347                | 50,984                 | 24,639                  | 26,543                | 8,087             | 127,600   |

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| Other Commercial Commitments              | Up to 1 month<br>(in millions of Ch\$) | Between 1 and<br>3 months | Between 3 and<br>12 months | Between 1 and<br>5 years | More than 5<br>years | Total            |
|---|--|---------------------------|----------------------------|--------------------------|----------------------|------------------|
| Letters of credit issued                  | 48,634                                 | 101,181                   | 46,210                     | 22,007                   | -                    | 218,032          |
| Pledges and other commercial commitments  | 7,745                                  | 9,292                     | 137,269                    | 19,001                   | 8,109                | 181,416          |
| <b>Total other commercial commitments</b> | <b>201,897</b>                         | <b>307,335</b>            | <b>701,648</b>             | <b>486,965</b>           | <b>42,002</b>        | <b>1,739,847</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.*, basic capital) 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 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, 2013 and 2012 as required by the SBIF.

|   | Consolidated assets as of |                      | Risk-weighted assets <sup>(1)</sup> |                      |
|---|---------------------------|----------------------|-------------------------------------|----------------------|
|   | December 31,<br>2013      | December 31,<br>2012 | December 31,<br>2013                | December 31,<br>2012 |
|   | (Ch\$ million)            |                      |                                     |                      |
| <b>Asset Balance (Net of allowances)</b>      |                           |                      |                                     |                      |
| Cash and deposits in bank                     | 1,571,810                 | 1,250,414            | -                                   | -                    |
| Unsettled transactions                        | 604,077                   | 520,267              | 66,672                              | 75,429               |
| Trading investments                           | 287,567                   | 338,287              | 40,924                              | 21,713               |
| Investments under resale agreements           | 17,469                    | 6,993                | 3,494                               | 6,993                |
| Financial derivative contracts <sup>(4)</sup> | 1,008,026                 | 937,291              | 862,810                             | 830,133              |
| Interbank loans                               | 125,395                   | 90,527               | 25,079                              | 18,105               |

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|   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
| Loans and accounts receivables from customers | 20,327,021        | 18,325,957        | 18,071,792        | 16,205,004        |
| Available for sale investments                | 1,700,993         | 1,826,158         | 238,835           | 200,285           |
| Investments in other companies                | 9,681             | 7,614             | 9,681             | 7,614             |
| Intangibles assets                            | 66,703            | 87,347            | 66,703            | 87,347            |
| Property, plant and equipment                 | 180,215           | 162,214           | 180,215           | 162,214           |
| Current taxes                                 | 1,643             | 10,227            | 164               | 1,023             |
| Deferred taxes                                | 230,215           | 186,407           | 23,022            | 18,641            |
| Other assets                                  | 400,025           | 655,217           | 346,533           | 402,547           |
| <b>Off-balance sheet assets</b>               |                   |                   |                   |                   |
| Contingent loans                              | 3,436,773         | 3,201,028         | 2,013,057         | 1,903,368         |
| <b>Total</b>                                  | <b>29,967,613</b> | <b>27,605,948</b> | <b>21,948,981</b> | <b>19,940,416</b> |

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|                                   | Ratio                                  |                      |                           |                           |
|-----------------------------------|--|----------------------|---------------------------|---------------------------|
|                                   | December 31,<br>2013<br>(Ch\$ million) | December 31,<br>2012 | December 31,<br>2013<br>% | December 31,<br>2012<br>% |
| Basic capital <sup>(2)</sup>      | 2,325,678                              | 2,134,778            | 7.76                      | 7.73                      |
| Regulatory capital <sup>(3)</sup> | 3,033,741                              | 2,734,434            | 13.82                     | 13.71                     |

(1) As required by local regulations.

(2) As a percentage of total assets.

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

(4) Include note to indicate that derivatives are shown as required by Chapter 12-1 RAN.

In line with the future adoption of Basel III regulations in Chile, the SBIF has recently discussed increasing the minimum regulatory capital ratio from 8% to 10.5%, which would require an amendment to the General Banking Law. Although we currently have a regulatory capital ratio of 13.82%, this change could require us to inject additional capital into 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 III was 12.57% as of December 31, 2013 the latest data available. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

## Financial Investments

Financial assets are classified into the following specified categories: financial assets trading investments “at fair value through profit or loss” (FVTPL), “held to maturity” investments, “available for sale investments” (AFS) financial assets and “loans and accounts receivable from customers.” The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

#### Financial assets at FVTPL - Trading investments

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

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A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'net profit (loss) from financial operations' line item

Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Available for sale investments (AFS investments)

AFS investments are non-derivatives that are either designated as AFS or are not classified as (a) loans and accounts receivable from customers, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss (trading investments).

Financial instruments held by the Bank that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Bank also has investments in financial instruments that are not traded in an active market but that are also classified as AFS investments and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Changes in the carrying amount of

AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available for sale investments are recognised in other comprehensive income and accumulated under the heading of Valuation Adjustment. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated as the described in f) above. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

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## a) Trading

|  | As of December 31,    |                |                |
|--|-----------------------|----------------|----------------|
|  | 2013                  | 2012           | 2011           |
|  | (in millions of Ch\$) |                |                |
| <b>Central Bank and Government Securities</b>        |                       |                |                |
| Chilean Central Bank bonds                           | 75,577                | 267,008        | 311,503        |
| Chilean Central Bank notes                           | 100                   | 3,397          | 60,233         |
| Other Chilean Central Bank and government securities | 189,962               | 48,160         | 15,789         |
| <b>Subtotal</b>                                      | <b>265,639</b>        | <b>318,565</b> | <b>387,525</b> |
| <b>Other Chilean Securities</b>                      |                       |                |                |
| Time deposits in Chilean financial institutions      | -                     | 3,531          | -              |
| Mortgage bonds of Chilean financial institutions     | -                     | -              | -              |
| Chilean financial institutions bonds                 | 10,042                | -              | -              |
| Chilean corporate bonds                              | 2,229                 | -              | -              |
| Other Chilean securities                             | -                     | -              | -              |
| <b>Subtotal</b>                                      | <b>12,271</b>         | <b>3,531</b>   | <b>-</b>       |
| <b>Foreign securities</b>                            |                       |                |                |
| Foreign Financial Securities                         | -                     | -              | -              |
| Other foreign financial instruments                  | -                     | -              | -              |
| <b>Subtotal</b>                                      | <b>-</b>              | <b>-</b>       | <b>-</b>       |
| Investments in mutual funds                          | -                     | -              | -              |
| Funds managed by related entities                    | 9,657                 | 16,191         | 22,238         |
| <b>Subtotal</b>                                      | <b>9,657</b>          | <b>16,191</b>  | <b>22,238</b>  |
| <b>Total</b>   | <b>287,567</b>        | <b>338,287</b> | <b>409,763</b> |

## b) Available for sale

|  | As of December 31,    |                  |                  |
|--|-----------------------|------------------|------------------|
|  | 2013                  | 2012             | 2011             |
|  | (in millions of Ch\$) |                  |                  |
| <b>Central Bank and Government Securities</b>        |                       |                  |                  |
| Chilean Central Bank bonds                           | 364,821               | 712,278          | 570,573          |
| Chilean Central Bank notes                           | 1,078                 | 8,270            | 563,114          |
| Other Chilean Central Bank and government securities | 146,295               | 296,010          | 173,839          |
| <b>Subtotal</b>                                      | <b>512,194</b>        | <b>1,016,558</b> | <b>1,307,526</b> |
| <b>Other Chilean Securities</b>                      |                       |                  |                  |
| Time deposits in Chilean financial institutions      | 1,011,354             | 756,136          | 275,022          |
| Mortgage bonds of Chilean financial institutions     | 33,856                | 37,319           | 66,806           |
| Chilean financial institution bonds                  | -                     | -                | -                |
| Chilean corporate bonds                              | -                     | -                | -                |

|  |                          |                  |               |
|--|--------------------------|------------------|---------------|
| Other Chilean securities                       | -                        | 321              | 319           |
| <b>Subtotal</b>                                | <b>1,045,210,793,776</b> | <b>342,147</b>   |               |
| <b>Foreign Financial Securities</b>            |                          |                  |               |
| Central Bank and Government Foreign Securities | 143,589                  | -                | -             |
| Other Foreign financial securities             | -                        | 15,824           | 11,638        |
| <b>Subtotal</b>                                | <b>143,589</b>           | <b>15,824</b>    | <b>11,638</b> |
| <b>Total</b>                                   | <b>1,700,993,182,615</b> | <b>1,661,311</b> |               |

## c) Held-to-maturity

No financial investments were classified as held-to-maturity as of December 31, 2013, 2012 or 2011.

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The following table sets forth an analysis of our investments as of December 31, 2013 by remaining maturity and the weighted average nominal rates of such investments.

|  | Within<br>one year | Weighted<br>average<br>Nominal<br>Rate | After one<br>year but<br>within<br>five years | Weighted<br>average<br>Rate | After five<br>years but<br>within<br>ten years | Weighted<br>average<br>Nominal<br>Rate | After ten<br>years | Weighted<br>average<br>Nominal<br>Rate | Total          | Weighted<br>average<br>Nominal<br>Rate |
|--|--------------------|--|---|-----------------------------|--|--|--------------------|--|----------------|--|
| (in millions of Ch\$ , except rates)             |                    |  |   |                             |  |  |                    |  |                |  |
| <b>Trading</b>                                   |                    |  |   |                             |  |  |                    |  |                |  |
| <b>Central Bank and Government Securities</b>    |                    |  |   |                             |  |  |                    |  |                |  |
| Central Bank bonds                               | 361                | 5.1                                    | 68,896  | 2.1                         | 6,320  | 4.0                                    | -                  | -                                      | 75,577         | 2.2                                    |
| Central Bank notes                               | 17                 | 1.9                                    | 83  | 2.4                         | -  | -                                      | -                  | -                                      | 100            | 2.3                                    |
| Central Bank and government securities           | -                  | -                                      | 129,658                                       | 2.4                         | 60,304   | 2.7                                    | -                  | -                                      | 189,962        | 2.5                                    |
| <b>Subtotal</b>                                  | <b>378</b>         | <b>-</b>                               | <b>198,637</b>                                | <b>-</b>                    | <b>66,624</b>                                  | <b>-</b>                               | <b>-</b>           | <b>-</b>                               | <b>265,639</b> | <b>-</b>                               |
| <b>Other Chilean Securities</b>                  |                    |  |   |                             |  |  |                    |  |                |  |
| Time deposits in Chilean financial institutions  | -                  | -                                      | -   | -                           | -  | -                                      | -                  | -                                      | -              | -                                      |
| Mortgage bonds of Chilean financial institutions | -                  | -                                      | -   | -                           | -  | -                                      | -                  | -                                      | -              | -                                      |
| Chilean financial institutions bonds             | -                  | -                                      | 2,742   | 3.2                         | 7,300  | 3.4                                    | -                  | -                                      | 10,042         | 3.4                                    |
| Chilean corporate bonds                          | -                  | -                                      | 2,229   | 2.9                         | -  | -                                      | -                  | -                                      | 2,229          | 0.8                                    |
| Other Chilean securities                         | -                  | -                                      | -   | -                           | -  | -                                      | -                  | -                                      | -              | -                                      |
| <b>Subtotal</b>                                  | <b>-</b>           | <b>-</b>                               | <b>4,971</b>                                  | <b>-</b>                    | <b>7,300</b>                                   | <b>-</b>                               | <b>-</b>           | <b>-</b>                               | <b>12,271</b>  | <b>-</b>                               |
| <b>Investment in mutual funds</b>                |                    |  |   |                             |  |  |                    |  |                |  |
| Mutual funds administered by related parties     | 9,657              | -                                      | -   | -                           | -  | -                                      | -                  | -                                      | 9,657          | -                                      |
| <b>Subtotal</b>                                  | <b>9,657</b>       | <b>-</b>                               | <b>-</b>                                      | <b>-</b>                    | <b>-</b>                                       | <b>-</b>                               | <b>-</b>           | <b>-</b>                               | <b>9,657</b>   | <b>-</b>                               |
| <b>Total</b>                                     | <b>10,035</b>      | <b>-</b>                               | <b>203,608</b>                                | <b>-</b>                    | <b>73,924</b>                                  | <b>-</b>                               | <b>-</b>           | <b>-</b>                               | <b>287,567</b> | <b>-</b>                               |

| Within<br>one year | Weighted<br>average<br>Nominal | After one<br>year but<br>within | Weighted<br>average<br>Nominal | After five<br>years but<br>within ten | Weighted<br>average<br>Nominal | After ten<br>years | Weighted<br>average<br>Nominal | Total | Weighted<br>average<br>Nominal |
|--------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------------|--------------------------------|--------------------|--------------------------------|-------|--------------------------------|
|--------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------------|--------------------------------|--------------------|--------------------------------|-------|--------------------------------|

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|  | Rate             | five years | Rate           | years    | Rate           | Rate     | Rate          | Rate              |
|--|------------------|------------|----------------|----------|----------------|----------|---------------|-------------------|
| (in millions of Ch\$ , except rates)             |                  |            |                |          |                |          |               |                   |
| <b>Available for sale</b>                        |                  |            |                |          |                |          |               |                   |
| <b>Central Bank and Government Securities</b>    |                  |            |                |          |                |          |               |                   |
| Central Bank bonds                               | 73,613           | 4.6        | 181,906        | 4.3      | 109,302        | 4.6      | -             | 364,821 4.4       |
| Central Bank notes                               | 214              | 2.1        | 864            | 2.9      | -              | -        | -             | 1,078 2.7         |
| Central Bank and government securities           | 10,815           | 4.5        | 91,007         | 4.5      | 44,273         | 5.1      | 201 3.4       | 146,295 4.7       |
| <b>Subtotal</b>                                  | <b>84,642</b>    | <b>-</b>   | <b>273,777</b> | <b>-</b> | <b>153,575</b> | <b>-</b> | <b>201</b>    | <b>512,194 -</b>  |
| <b>Other Chilean Securities</b>                  |                  |            |                |          |                |          |               |                   |
| Time deposits in Chilean financial institutions  | 1,011,354        | 1.1        | -              | -        | -              | -        | -             | 1,011,354 1.1     |
| Mortgage bonds of Chilean financial institutions | 71               | 1.5        | 1,504          | 3.8      | 7,943          | 3.9      | 24,337 3.9    | 33,856 3.8        |
| Chilean financial institutions bonds             | -                | -          | -              | -        | -              | -        | -             | - -               |
| Chilean corporate bonds                          | -                | -          | -              | -        | -              | -        | -             | - -               |
| Other Chilean securities                         | -                | -          | -              | -        | -              | -        | -             | - -               |
| <b>Subtotal</b>                                  | <b>1,011,425</b> | <b>-</b>   | <b>1,504</b>   | <b>-</b> | <b>7,943</b>   | <b>-</b> | <b>24,337</b> | <b>1,045,210-</b> |
| <b>Other financial securities</b>                |                  |            |                |          |                |          |               |                   |
| Central Bank and Government Foreign Securities   | -                | -          | -              | -        | 143,589        | 3.3      | -             | 143,589 3.3       |
| Other Foreign financial securities               | -                | -          | -              | -        | -              | -        | -             | - -               |
| <b>Subtotal</b>                                  | <b>-</b>         | <b>-</b>   | <b>-</b>       | <b>-</b> | <b>143,589</b> | <b>-</b> | <b>-</b>      | <b>143,589 -</b>  |
| <b>Total</b>                                     | <b>1,096,067</b> | <b>-</b>   | <b>275,281</b> | <b>-</b> | <b>305,107</b> | <b>-</b> | <b>24,538</b> | <b>1,700,993-</b> |

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## 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. Operating and Financial Review and Prospects—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.

The following table sets forth the balance of our liquidity portfolio managed by our Financial Management Division in the manner in which it is presented to the Asset and Liability Committee (ALCO) and the Board. The ALCO has determined that our liquidity portfolio must be comprised of cash plus assets that can be readily convertible into cash either through the Central Bank window, overnight deposits or instruments or the local secondary market. The management of the Bank’s liquidity portfolio is performed by the Financial Management Division under rules determined by the ALCO.

|                                  | December 31, 2013 | December 31, 2012 |
|----------------------------------|-------------------|-------------------|
|                                  | Ch\$ million      |                   |
| <b>Balance as of (1):</b>        |                   |                   |
| Trading investments              | 287,567           | 338,287           |
| Available for sale investments   | 1,700,993         | 1,826,158         |
| Encumbered assets (net) (2)      | (71,896)          | (151,620)         |
| Net cash (3)                     | 248,073           | (195)             |
| Net interbank deposits (4)       | 984,666           | 875,537           |
| <b>Total liquidity portfolio</b> | <b>3,149,403</b>  | <b>2,888,167</b>  |

|                                | December 31, 2013 | December 31, 2012 |
|--------------------------------|-------------------|-------------------|
|                                | Ch\$ million      |                   |
| <b>Average balance as of:</b>  |                   |                   |
| Trading investments            | 412,012           | 488,367           |
| Available for sale investments | 1,706,631         | 2,008,324         |

|                                  |                  |                  |
|----------------------------------|------------------|------------------|
| Encumbered assets (net) (2)      | (100,021)        | (72,399)         |
| Net cash (3)                     | 29,812           | 89,849           |
| Net interbank deposits (4)       | 858,699          | 501,561          |
| <b>Total liquidity portfolio</b> | <b>2,907,133</b> | <b>3,015,702</b> |

(1) The figures used by the Financial Management Division to calculate liquidity portfolio are performed in accordance with the Bank's local Chilean Bank GAAP financial statements.

(2) Assets encumbered through repurchase agreements are deducted from the liquidity portfolio

(3) Cash minus reserve requirements

(4) Includes overnight deposits in the Central Bank, domestic banks and foreign banks

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- and foreign currency denominated time deposits with a term of less than a year. See "Item 4. Information on the Company—C. Business Overview—Competition—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

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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 Disclosures 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, |             |           |
|---|-------------------------|-------------|-----------|
|   | 2013                    | 2012        | 2011      |
|   | Millions of Ch\$        |             |           |
| Net cash provided by (used in) operating activities | 645,166                 | (1,153,932) | 1,556,890 |

Our operating activities generated cash of Ch\$645,166 million in 2013. The consumption of cash due to loan growth was more than offset by growth of deposits and other liabilities. In 2012, operating activities consumed cash in an amount of Ch\$1,153,932 million. In the fourth quarter of 2011 and first quarter of 2012, the Bank increased its cash

position in light of greater market uncertainty abroad. As market conditions improved in the second half of 2012, the ALCO permitted the Financial Management Division to return to more normal levels of liquidity by prepaying costlier liabilities. Loan growth was also a factor in the consumption of cash in operating activities.

|  | Year ended December<br>31, |          |          |
|--|----------------------------|----------|----------|
|  | 2013                       | 2012     | 2011     |
|  | Millions of Ch\$           |          |          |
| Net cash used in investment activities | 30,000                     | (72,087) | (52,095) |

In 2013, the Bank's investment activities generated cash in an amount of Ch\$30,000 million. This was mainly due to the sale of our asset management business for Ch\$90,281 million. In 2012, cash used in investing activities was Ch\$72,087 million, mainly due to investments in property, equipment and technology as part of investment programs to modernize and improve the efficiency in retail banking activities.

|                                       | Year ended December 31, |           |           |
|---------------------------------------|-------------------------|-----------|-----------|
|                                       | 2013                    | 2012      | 2011      |
|                                       | Millions of Ch\$        |           |           |
| Net cash used in financing activities | (240,687)               | (265,258) | (289,416) |

In 2013, 2012 and 2011, the net cash used in financing activities can be explained by the Bank's annual dividend payment each year partially offset by issuances of subordinated debt in 2013.

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## Deposits and Other Borrowings

The following table sets forth our average balance of liabilities for the years ended December 31, 2013, 2012 and, 2011, in each case together with the related average nominal interest rates paid thereon.

|  | 2013                                   |                                      |                            | 2012               |                                      |                            | 2011               |                                      |                            |
|--|--|--------------------------------------|----------------------------|--------------------|--------------------------------------|----------------------------|--------------------|--------------------------------------|----------------------------|
|  | Average<br>Balance                     | % of Total<br>Average<br>Liabilities | Average<br>Nominal<br>Rate | Average<br>Balance | % of Total<br>Average<br>Liabilities | Average<br>Nominal<br>Rate | Average<br>Balance | % of Total<br>Average<br>Liabilities | Average<br>Nominal<br>Rate |
|  | (millions of Ch\$, except percentages) |                                      |                            |                    |                                      |                            |                    |                                      |                            |
| <b>Interest-bearing liabilities</b>              |  |                                      |                            |                    |                                      |                            |                    |                                      |                            |
| Savings accounts                                 | 103,760                                | 0.4%                                 | 1.9%                       | 102,420            | 0.4%                                 | 2.5%                       | 103,085            | 0.4%                                 | 3.6%                       |
| Time deposits                                    | 9,949,401                              | 36.8%                                | 4.5%                       | 9,659,815          | 38.5%                                | 5.2%                       | 9,107,719          | 37.7%                                | 4.9%                       |
| Central Bank borrowings                          | 221                                    | 0.0%                                 | 6.3%                       | 4,469              | 0.0%                                 | 5.2%                       | 3,097              | 0.0%                                 | 6.0%                       |
| Repurchase agreements                            | 266,883                                | 1.0%                                 | 5.6%                       | 369,338            | 1.5%                                 | 4.2%                       | 249,174            | 1.0%                                 | 3.5%                       |
| Mortgage finance bonds                           | 102,778                                | 0.4%                                 | 8.0%                       | 131,070            | 0.5%                                 | 8.6%                       | 174,224            | 0.7%                                 | 9.2%                       |
| Other interest bearing liabilities               | 6,850,953                              | 25.3%                                | 4.7%                       | 5,927,893          | 23.6%                                | 5.3%                       | 6,128,052          | 25.4%                                | 5.2%                       |
| <b>Subtotal interest-bearing liabilities</b>     | <b>17,273,996</b>                      | <b>63.9%</b>                         | <b>4.6%</b>                | <b>16,195,005</b>  | <b>64.5%</b>                         | <b>5.3%</b>                | <b>15,765,351</b>  | <b>65.2%</b>                         | <b>5.1%</b>                |
| <b>Non-interest bearing liabilities</b>          |  |                                      |                            |                    |                                      |                            |                    |                                      |                            |
| Non-interest bearing deposits                    | 4,620,849                              | 17.1%                                |                            | 4,177,432          | 16.6%                                |                            | 3,575,544          | 14.8%                                |                            |
| Derivatives                                      | 1,467,723                              | 5.4%                                 |                            | 1,141,169          | 4.5%                                 |                            | 1,457,638          | 6.1%                                 |                            |
| Other non-interest bearing liabilities           | 1,325,975                              | 4.9%                                 |                            | 1,395,112          | 5.6%                                 |                            | 1,340,699          | 5.6%                                 |                            |
| Shareholders' equity                             | 2,349,448                              | 8.7%                                 |                            | 2,187,716          | 8.8%                                 |                            | 1,994,487          | 8.3%                                 |                            |
| <b>Subtotal non-interest bearing liabilities</b> | <b>9,763,995</b>                       | <b>36.1%</b>                         |                            | <b>8,901,429</b>   | <b>35.5%</b>                         |                            | <b>8,368,368</b>   | <b>34.8%</b>                         |                            |
| <b>Total liabilities</b>                         | <b>27,037,991</b>                      | <b>100.0%</b>                        |                            | <b>25,096,434</b>  | <b>100.0%</b>                        |                            | <b>24,133,719</b>  | <b>100.0%</b>                        |                            |

Our most important source of funding is our deposits. Average time deposits plus non-interest bearing demand deposits represented 53.8% of our average total liabilities and shareholders' equity in 2013. 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 funding with institutional clients, diversifying our bond holder base and broadening our core deposit funding. 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, 2013, 2012, 2011, 2010 and 2009.

|   | 2013                  | 2012              | 2011              | 2010              | 2009              |
|---|-----------------------|-------------------|-------------------|-------------------|-------------------|
|   | (in millions of Ch\$) |                   |                   |                   |                   |
| <b>Demand deposits and other demand obligations</b> |                       |                   |                   |                   |                   |
| Current accounts                                    | 4,403,526             | 4,006,143         | 3,543,776         | 3,330,352         | 2,776,607         |
| Other deposits and demand accounts                  | 569,395               | 455,315           | 350,519           | 368,934           | 303,495           |
| Other demand obligations                            | 647,842               | 508,561           | 519,520           | 537,148           | 453,432           |
| <b>Subtotals</b>                                    | <b>5,620,763</b>      | <b>4,970,019</b>  | <b>4,413,815</b>  | <b>4,236,434</b>  | <b>3,533,534</b>  |
| <b>Time deposits and other time deposits</b>        |                       |                   |                   |                   |                   |
| Time deposits                                       | 9,567,855             | 9,008,902         | 8,816,766         | 7,154,396         | 4,219,392         |
| Time saving accounts                                | 104,143               | 101,702           | 102,831           | 103,191           | 98,985            |
| Other time deposits                                 | 3,274                 | 1,609             | 1,517             | 1,170             | 2,856,880         |
| <b>Subtotals</b>                                    | <b>9,675,272</b>      | <b>9,112,213</b>  | <b>8,921,114</b>  | <b>7,258,757</b>  | <b>7,175,257</b>  |
| <b>Total deposits and other commitments</b>         | <b>15,296,035</b>     | <b>14,082,232</b> | <b>13,334,929</b> | <b>11,495,191</b> | <b>10,708,791</b> |

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## Maturity of Interest Bearing Deposits

The following table sets forth information regarding the currency and maturity of our interest bearing deposits as of December 31, 2013, 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                       | 0.03%          | 0.14%          | 0.00%              | 0.03%          |
| Savings accounts                      | 0.01%          | 9.95%          | 0.00%              | 1.09%          |
| Time deposits:                        |                |                |                    |                |
| Maturing within 3 months              | 79.54%         | 50.77%         | 93.76%             | 78.68%         |
| Maturing after 3 but within 6 months  | 13.21%         | 19.39%         | 3.88%              | 12.40%         |
| Maturing after 6 but within 12 months | 6.56%          | 12.14%         | 0.89%              | 6.27%          |
| Maturing after 12 months              | 0.65%          | 7.61%          | 1.47%              | 1.53%          |
| <b>Total time deposits</b>            | <b>99.96%</b>  | <b>89.91%</b>  | <b>100.00%</b>     | <b>98.88%</b>  |
| <b>Total deposits</b>                 | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b>     | <b>100.00%</b> |

The following table sets forth information regarding the maturity of our outstanding time deposits in excess of U.S.\$100,000 as of December 31, 2013.

|                                       | Ch\$                  | UF             | Foreign Currencies | Total            |
|---------------------------------------|-----------------------|----------------|--------------------|------------------|
|                                       | (in millions of Ch\$) |                |                    |                  |
| Time deposits:                        |                       |                |                    |                  |
| Maturing within 3 months              | 5,577,023             | 525,762        | 1,425,451          | 7,528,236        |
| Maturing after 3 but within 6 months  | 926,479               | 200,830        | 58,959             | 1,186,268        |
| Maturing after 6 but within 12 months | 460,167               | 125,762        | 13,520             | 599,449          |
| Maturing after 12 months              | 45,291                | 78,820         | 22,375             | 146,486          |
| <b>Total time deposits</b>            | <b>7,008,960</b>      | <b>931,174</b> | <b>1,520,305</b>   | <b>9,460,439</b> |

## 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.

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|  | 2013                                      |  | 2012             |  | 2011             |  |
|--|---|--|------------------|--|------------------|--|
|  | Balance                                   | Weighted-Average Nominal Interest Rate | Balance          | Weighted-Average Nominal Interest Rate | Balance          | Weighted-Average Nominal Interest Rate |
|  | (in millions of Ch\$, except percentages) |  |                  |  |                  |  |
| Obligations arising from repurchase agreements | 208,972                                   | 0.3%                                   | 304,117          | 0.4%                                   | 544,381          | 0.4%                                   |
| Obligations with the Central Bank              | 220                                       | 0.5%                                   | 398              | 0.5%                                   | 810              | 0.5%                                   |
| Loans from domestic financial institutions     | 500                                       | 0.0%                                   | -                | -%                                     | -                | -%                                     |
| Foreign obligations                            | 1,529,511                                 | 0.3%                                   | 1,272,994        | 0.4%                                   | 1,740,254        | 0.5%                                   |
| <b>Total short-term borrowings</b>             | <b>1,739,203</b>                          | <b>0.3%</b>                            | <b>1,577,509</b> | <b>0.4%</b>                            | <b>2,285,445</b> | <b>0.5%</b>                            |

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

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|  | 2013                                      |                                     | 2012               |                                     | 2011               |                                     |
|--|---|-------------------------------------|--------------------|-------------------------------------|--------------------|-------------------------------------|
|  | Average<br>Balance                        | Average<br>Nominal<br>Interest Rate | Average<br>Balance | Average<br>Nominal<br>Interest Rate | Average<br>Balance | Average<br>Nominal<br>Interest Rate |
|  | (in millions of Ch\$, except percentages) |                                     |                    |                                     |                    |                                     |
| Obligations arising from repurchase agreements | 266,883                                   | 5.6%                                | 369,338            | 4.2%                                | 249,174            | 3.5%                                |
| Obligations with the Central Bank              | 221                                       | 6.3%                                | 4,469              | 5.2%                                | 3,097              | 6.0%                                |
| Loans from domestic financial institutions     | 33,834                                    | 4.6%                                | 6,171              | 3.7%                                | 24,912             | 3.0%                                |
| Foreign obligations                            | 1,543,337                                 | 1.0%                                | 1,578,051          | 0.8%                                | 1,812,802          | 1.3%                                |
| <b>Total short-term borrowings</b>             | <b>1,844,275</b>                          | <b>1.8%</b>                         | <b>1,958,029</b>   | <b>1.4%</b>                         | <b>2,089,985</b>   | <b>1.6%</b>                         |

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

|  | Maximum<br>2013 Month-<br>End Balance | Maximum<br>2012 Month-<br>End Balance | Maximum<br>2011 Month-<br>End Balance |
|--|---------------------------------------|---------------------------------------|---------------------------------------|
|  | (in millions of Ch\$)                 |                                       |                                       |
| Obligations arising from repurchase agreements | 471,486                               | 571,211                               | 544,381                               |
| Obligations with the Central Bank              | 370                                   | 766                                   | 1,241                                 |
| Loans from domestic financial institutions     | 251,600                               | 70,000                                | 244,071                               |
| Foreign obligations                            | 1,802,127                             | 1,854,398                             | 2,024,146                             |
| <b>Total short-term borrowings</b>             | <b>2,525,583</b>                      | <b>2,496,375</b>                      | <b>2,813,839</b>                      |

## Total Borrowings

|   | As of December 31, 2013 |                  |                  |
|---|-------------------------|------------------|------------------|
|   | Long-term               | Short-term       | Total            |
|   | (in millions of Ch\$)   |                  |                  |
| Central Bank credit lines for renegotiations of loans (a) | -                       | 220              | 220              |
| Obligations under repurchase agreements                   | -                       | 208,972          | 208,972          |
| Mortgage finance bonds (b)                                | 6,493                   | 95,174           | 101,667          |
| Senior bonds (c)  | 1,603,929               | 2,586,989        | 4,190,918        |
| Mortgage bonds(d)   | 70,339                  | -                | 70,339           |
| Subordinated bonds(e)                                     | 138,466                 | 697,268          | 835,734          |
| Borrowings from domestic financial institutions           | -                       | 500              | 500              |
| Foreign borrowings(f)                                     | 152,146                 | 1,529,511        | 1,681,657        |
| Other obligations(g)                                      | 101,698                 | 88,083           | 189,781          |
| <b>Total borrowings</b>                                   | <b>2,073,071</b>        | <b>5,206,717</b> | <b>7,279,788</b> |

|   | As of December 31, 2012 |                  |                  |
|---|-------------------------|------------------|------------------|
|   | Long-term               | Short-term       | Total            |
|   | (in millions of Ch\$)   |                  |                  |
| Central Bank credit lines for renegotiations of loans | -                       | 398              | 398              |
| Obligations under repurchase agreements               | -                       | 304,117          | 304,117          |
| Mortgage finance bonds                                | 6,863                   | 121,223          | 128,086          |
| Senior bonds  | 534,852                 | 3,182,361        | 3,717,213        |
| Subordinated bonds                                    | 16,037                  | 709,953          | 725,990          |
| Borrowings from domestic financial institutions       | -                       | -                | -                |
| Foreign borrowings                                    | 164,611                 | 1,272,994        | 1,437,605        |
| Other obligations                                     | 101,335                 | 91,276           | 192,611          |
| <b>Total borrowings</b>                               | <b>823,698</b>          | <b>5,682,322</b> | <b>6,506,020</b> |

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

## (a) Credit lines for renegotiations of loans

Central Bank borrowings include credit lines for the renegotiations of loans and other Central Bank borrowings. The maturities of the outstanding amounts due are as follows:

|                   | As of<br>December 31,<br>2013<br>(in millions of Ch\$) | As of<br>December 31,<br>2012 |
|-------------------|--|-------------------------------|
| Due within 1 year | 220  | 398                           |
| <b>Total</b>      | <b>220</b>   | <b>398</b>                    |

## (b) Mortgage finance bonds

These bonds are used to finance mortgage loans. Their principal amounts are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. Loans are indexed to UF and pay a yearly interest rate of 5.21% as of December 31, 2013.

|                                     | As of<br>December 31,<br>2013<br>(in millions<br>of Ch\$) |
|-------------------------------------|---|
| Due within 1 year                   | 6,493   |
| Due after 1 year but within 2 years | 9,760   |

|                                      |                |
|--------------------------------------|----------------|
| Due after 2 years but within 3 years | 8,768          |
| Due after 3 years but within 4 years | 9,921          |
| Due after 4 years but within 5 years | 12,511         |
| Due after 5 years                    | 54,214         |
| <b>Total mortgage finance bonds</b>  | <b>101,667</b> |

(c) Senior Bonds

The following table sets forth, at the dates indicated, our issued senior bonds. The bonds are denominated principally in UFs or U.S. dollars, and are principally used to fund assets with similar durations.

|                        | As of December 31,    |           |           |
|------------------------|-----------------------|-----------|-----------|
|                        | 2013                  | 2012      | 2011      |
|                        | (in millions of Ch\$) |           |           |
| Senior Bonds in UF     | 1,964,905             | 2,025,105 | 2,001,713 |
| Senior Bonds in U.S.\$ | 1,658,789             | 1,269,454 | 1,268,763 |

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As of  
December 31,  
2013 2012 2011  
(in millions of  
Ch\$)

|                           |                  |                  |                  |
|---------------------------|------------------|------------------|------------------|
| Senior Bonds in CHF       | 246,284          | 90,249           | 119,394          |
| Senior Bonds in Ch\$      | 277,530          | 293,933          | 211,255          |
| Senior Bonds in CNY       | 43,410           | 38,472           | -                |
| <b>Total senior bonds</b> | <b>4,190,918</b> | <b>3,717,213</b> | <b>3,601,125</b> |

The maturities of these bonds are as follows:

|                                      |   |
|--------------------------------------|---|
|                                      | As of<br>December 31,<br>2013<br>(in millions<br>of Ch\$) |
| Due within 1 year                    | 1,603,929   |
| Due after 1 year but within 2 years  | 674,784   |
| Due after 2 years but within 3 years | 338,853   |
| Due after 3 years but within 4 years | 321,589   |
| Due after 4 years but within 5 years | 154,368   |
| Due after 5 years                    | 1,097,395   |
| <b>Total bonds</b>                   | <b>4,190,918</b>  |

In 2013, the Bank placed bonds for UF 13,768,000; Ch\$ 32,500,000,000; CHF 300,000,000; and U.S.\$ 250,000,000 detailed as follows:

| Series    | Amount       | Term      | Issuance rate         | Issuance date | Series issued amount | Maturity date |
|-----------|--------------|-----------|-----------------------|---------------|----------------------|---------------|
| E1 Series | UF 2,742,000 | 5 years   | 3.5% per annum simple | 02-01-2011    | UF 4,000,000         | 02-01-2016    |
| E2 Series | UF 952,000   | 7 years   | 3.0% per annum simple | 01-01-2012    | UF 4,000,000         | 07-01-2018    |
| E3 Series | UF 2,244,000 | 8.5 years | 3.5% per annum simple | 01-01-2011    | UF 4,000,000         | 07-01-2019    |
| E6 Series | UF 3,720,000 | 10 years  | 3.5% per annum simple | 04-01-2012    | UF 4,000,000         | 04-01-2022    |
| E9 Series | UF 2,000,000 | 10 years  |                       | 01-01-2013    | UF 2,000,000         | 01-01-2023    |

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|                   |            |                       |          |                           |            |                    |            |
|-------------------|------------|-----------------------|----------|---------------------------|------------|--------------------|------------|
| FD Series         | UF         | 110,000               | 5 years  | 3.5% per annum simple     | 08-01-2010 | UF 110,000         | 08-01-2015 |
| EC Series         | UF         | 2,000,000             | 10 years | 3.0% per annum simple     | 11-28-2013 | UF 2,000,000       | 09-01-2023 |
| <b>Total UF</b>   | <b>UF</b>  | <b>13,768,000</b>     |          |                           |            |                    |            |
| E4 Series         | CLP        | 7,500,000,000         | 5 years  | 6.75 % per annum simple   | 06-01-2011 | CLP 50,000,000,000 | 06-01-2016 |
| E8 Series         | CLP        | 25,000,000,000        | 10 years | 6.6% per annum simple     | 11-01-2012 | CLP 25,000,000,000 | 11-01-2022 |
| <b>CLP Total</b>  | <b>CLP</b> | <b>32,500,000,000</b> |          |                           |            |                    |            |
| CHF floating bond | CHF        | 150,000,000           | 4 years  | Libor (3 months) + 100 bp | 03-28-2013 | CHF 150,000,000    | 03-28-2017 |
| CHF Bond          | CHF        | 150,000,000           | 6 years  | 1.75% per annum simple    | 09-26-2013 | CHF 150,000,000    | 09-26-2019 |
| <b>CHF Total</b>  | <b>CHF</b> | <b>300,000,000</b>    |          |                           |            |                    |            |
| USD floating bond | USD        | 250,000,000           | 5 years  | Libor (3 months) + 100 bp | 06-07-2013 | USD 250,000,000    | 06-07-2018 |
| <b>USD Total</b>  | <b>USD</b> | <b>250,000,000</b>    |          |                           |            |                    |            |

During 2013, the Bank performed a partial repurchase of bonds for Ch\$ 49,245,000,000

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## (d) Mortgage bonds

These bonds are used to finance mortgage loans with certain characteristics such as loan-to-value ratios below 80% and a debt servicing ratio of the client lower than 20%. All outstanding mortgage bonds are UF denominated.

The maturities of our mortgage bonds are as follows:

|                                     | <b>As of December</b> |                |
|-------------------------------------|-----------------------|----------------|
|                                     | <b>31,</b>            |                |
|                                     | <b>2013</b>           | <b>2012</b>    |
|                                     | <b>Ch\$mnn</b>        | <b>Ch\$mnn</b> |
| Due within 1 year                   | -                     | -              |
| Due after 1 year but within 2 years | -                     | -              |
| Due after 2 year but within 3 years | -                     | -              |
| Due after 3 year but within 4 years | -                     | -              |
| Due after 4 year but within 5 years | -                     | -              |
| Due after 5 years                   | 70,339                | -              |
| <b>Total senior bonds</b>           | <b>70,339</b>         | <b>-</b>       |

In 2013, the Bank issued bonds for UF 3,000,000, detailed as follows:

| <b>Series</b> | <b>Amount</b>          | <b>Term</b> | <b>Issuance rate</b>  | <b>Issuance date</b> | <b>Series issued amount</b> | <b>Maturity date</b> |
|---------------|------------------------|-------------|-----------------------|----------------------|-----------------------------|----------------------|
| BH            | UF 3,000,000           | 15 years    | 3.2% per annum simple | 07-31-2013           | UF 3,000,000                | 07-31-2028           |
| <b>Total</b>  | <b>UF UF 3,000,000</b> |             |                       |                      |                             |                      |

## (e) 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,    |                |                |
|--|-----------------------|----------------|----------------|
|  | 2013                  | 2012           | 2011           |
|  | (in millions of Ch\$) |                |                |
| Subordinated bonds denominated in U.S.\$ | 139,802               | 174,285        | 316,169        |
| Subordinated bonds linked to the UF      | 695,932               | 551,705        | 545,702        |
| <b>Total subordinated bonds</b>          | <b>835,734</b>        | <b>725,990</b> | <b>861,871</b> |

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

|                                      | As of December 31, 2013 |
|--------------------------------------|-------------------------|
|                                      | (in millions of Ch\$)   |
| Due within 1 year                    | 138,466                 |
| Due after 1 year but within 2 years  | 14,039                  |
| Due after 2 years but within 3 years | 4,140                   |
| Due after 3 years but within 4 years | -                       |
| Due after 4 years but within 5 years | -                       |
| Due after 5 years                    | 679,089                 |
| <b>Total subordinated bonds</b>      | <b>835,734</b>          |

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During 2013, the Bank issued subordinated bonds in an aggregate principal amount of UF 5,900,000. The following chart shows details related to subordinated bond issuances:

| Series       | Amount              | Term     | Issuance rate          | Issuance date | Series issued amount | Maturity date |
|--------------|---------------------|----------|------------------------|---------------|----------------------|---------------|
| G5 Series UF | 1,900,000           | 20 years | 3.9 % per annum simple | 04-05-2011    | UF 4,000,000         | 04-01-2031    |
| H1 Series UF | 4,000,000           | 30 years | 3.9 % per annum simple | 11-04-2011    | UF 4,000,000         | 04-01-2041    |
| <b>Total</b> | <b>UF 5,900,000</b> |          |                        |               |                      |               |

## (f) 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,<br>2013<br>(in millions of Ch\$) |
|--|--|
| Due within 1 year                                      | 1,529,511  |
| Due after 1 year but within 2 years                    | 152,146  |
| Due after 2 years but within 3 years                   | -  |
| Due after 3 years but within 4 years                   | -  |
| Due after 5 years                                      | -  |
| <b>Total loans from foreign financial institutions</b> | <b>1,681,657</b>                                       |

## (f) Other obligations

Other obligations are summarized as follows:

|                                      | As of<br>December 31,<br>2013<br>MCh\$ |
|--------------------------------------|--|
| Long term obligations                |  |
| Due after 1 years but within 2 years | 3,389                                  |
| Due after 2 years but within 3 years | 2,389                                  |

|   |                |
|---|----------------|
| Due after 3 years but within 4 years                      | 3,045          |
| Due after 4 years but within 5 years                      | 20,862         |
| Due after 5 years   | 58,398         |
| <b>Long-term financial obligations subtotals</b>          | <b>88,083</b>  |
| Short term obligations:                                   |                |
| Amounts due to credit card operators                      | 97,027         |
| Acceptance of letters of credit                           | 741            |
| Other long-term financial obligations, short-term portion | 3,930          |
| <b>Short-term financial obligations subtotals</b>         | <b>101,698</b> |
| <b>Other financial obligations totals</b>                 | <b>189,781</b> |

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## 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 is contingent loans. Contingent loans consist of guarantees granted by us in Ch\$, UF and foreign currencies (principally U.S.\$), 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, 2013, 2012 and 2011:

|   | As of December 31,    |                  |                  |
|---|-----------------------|------------------|------------------|
|   | 2013                  | 2012             | 2011             |
|   | (in millions of Ch\$) |                  |                  |
| Issued and documented letters of credit     | 218,032               | 199,420          | 184,649          |
| Confirmed foreign letters of credit         | 127,600               | 113,878          | 52,889           |
| Documented guarantees                       | 1,212,799             | 1,046,114        | 920,986          |
| Other guarantees                            | 181,416               | 139,059          | 147,081          |
| <b>Subtotals</b>                            | <b>1,739,847</b>      | <b>1,498,471</b> | <b>1,305,605</b> |
| Lines of credit with immediate availability | 5,141,831             | 4,933,335        | 4,673,525        |
| Other irrevocable obligation                | 47,376                | 63,828           | 95,150           |
| <b>Totals</b>                               | <b>6,929,054</b>      | <b>6,495,634</b> | <b>6,074,280</b> |

## Asset and Liability Management

Please refer to "Item 11. Quantitative and Qualitative Disclosures about Market Risk" for information 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, 2013, 2012 and 2011:

|                                  | Year Ended            |               |               |
|----------------------------------|-----------------------|---------------|---------------|
|                                  | December 31,          |               |               |
|                                  | 2013                  | 2012          | 2011          |
|                                  | (in millions of Ch\$) |               |               |
| Land and Buildings               | 17,470                | 17,177        | 8,326         |
| Machinery, Systems and Equipment | 20,171                | 14,570        | 8,503         |
| Furniture, Vehicles, Other(1)    | 3,148                 | 4,991         | 9,860         |
| <b>Total</b>                     | <b>40,789</b>         | <b>36,738</b> | <b>26,689</b> |

(1) Includes assets ceded under operating leases.

The increase in capital expenditures in 2013 was mainly due to higher investments in IT hardware and software, and to refurbish branches as we launched the Santander Select branch model and we also closed or transformed 16 Santander Banefe branches.

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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 this “Item 5. Operating 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. Operating and Financial Review and Prospects—C. Operating Results—Impact of Inflation.”

Average Balances, 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:

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

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

$N_p$  = nominal average rate for peso-denominated assets and liabilities for the period;

$N_d$  = 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 ( $R_d$ ) 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% ( $N_d = 0.10$ ), assuming a 5.0% annual devaluation rate ( $D = 0.05$ ) and a 12.0% annual inflation rate ( $I = 0.12$ ):

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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 past-due 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 past-due (*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, 2013, 2012 and 2011.

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|                                 | Year ended December 31,<br>2013             |                    |                      |                            | 2012               |                    |                      |                            | 2011               |                    |                      |                            |
|---------------------------------|---|--------------------|----------------------|----------------------------|--------------------|--------------------|----------------------|----------------------------|--------------------|--------------------|----------------------|----------------------------|
|                                 | Average<br>Balance                          | Interest<br>Earned | Average<br>Real Rate | Average<br>Nominal<br>Rate | Average<br>Balance | Interest<br>Earned | Average<br>Real Rate | Average<br>Nominal<br>Rate | Average<br>Balance | Interest<br>Earned | Average<br>Real Rate | Average<br>Nominal<br>Rate |
|                                 | (in millions of Ch\$, except for rate data) |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |                            |
| <b>ASSETS</b>                   |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |                            |
| <b>Interest-earning assets</b>  |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |                            |
| <b>Deposits in Central Bank</b> |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |                            |
| Ch\$                            | 246,757                                     | 4,092              | (0.7%)               | 1.7%                       | 528,682            | 18,346             | 2.0%                 | 3.5%                       | 497,897            | 16,005             | (1.2%)               | 1.7%                       |
| UF                              | –   | –                  | –%                   | –%                         | –                  | –                  | –%                   | –%                         | –                  | –                  | –%                   | –%                         |
| Foreign currencies              | –   | –                  | –%                   | –%                         | –                  | –                  | –%                   | –%                         | –                  | –                  | –%                   | –%                         |
| <b>Subtotal</b>                 | <b>246,757</b>                              | <b>4,092</b>       | <b>(0.7%)</b>        | <b>1.7%</b>                | <b>528,682</b>     | <b>18,346</b>      | <b>2.0%</b>          | <b>3.5%</b>                | <b>497,897</b>     | <b>16,005</b>      | <b>(1.2%)</b>        | <b>1.7%</b>                |
| <b>Financial investments</b>    |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |                            |
| Ch\$                            | 1,067,737                                   | 68,060             | 3.9%                 | 6.4%                       | 1,593,870          | 82,257             | 3.6%                 | 5.2%                       | 1,704,483          | 71,129             | (0.3%)               | 6.4%                       |
| UF                              | 434,485                                     | 14,945             | 1.0%                 | 3.4%                       | 132,209            | 10,961             | 6.7%                 | 8.3%                       | 220,986            | 21,971             | 5.3%                 | 3.4%                       |
| Foreign currencies              | 523,584                                     | 2,013              | 7.4%                 | 0.4%                       | 593,645            | 636                | (9.5%)               | 0.1%                       | 854,965            | (25,201)           | 3.5%                 | 0.4%                       |
| <b>Subtotal</b>                 | <b>2,025,806</b>                            | <b>85,018</b>      | <b>4.2%</b>          | <b>4.2%</b>                | <b>2,319,724</b>   | <b>93,854</b>      | <b>0.4%</b>          | <b>4.0%</b>                | <b>2,780,434</b>   | <b>67,899</b>      | <b>1.3%</b>          | <b>4.2%</b>                |
| <b>Commercial Loans</b>         |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |                            |
| Ch\$                            | 5,474,890                                   | 496,055            | 6.5%                 | 9.1%                       | 4,874,036          | 559,194            | 9.8%                 | 11.5%                      | 4,491,613          | 409,074            | 4.5%                 | 9.1%                       |
| UF                              | 3,689,570                                   | 250,748            | 4.3%                 | 6.8%                       | 3,746,119          | 261,493            | 5.4%                 | 7.0%                       | 3,268,257          | 272,236            | 3.7%                 | 6.8%                       |
| Foreign currencies              | 2,645,594                                   | 57,157             | 9.3%                 | 2.2%                       | 1,907,824          | 53,175             | (7.0%)               | 2.8%                       | 1,662,095          | 44,586             | 9.5%                 | 2.2%                       |
| <b>Subtotal</b>                 | <b>11,810,054</b>                           | <b>803,960</b>     | <b>6.4%</b>          | <b>6.8%</b>                | <b>10,527,979</b>  | <b>873,862</b>     | <b>5.2%</b>          | <b>8.3%</b>                | <b>9,421,965</b>   | <b>725,896</b>     | <b>5.1%</b>          | <b>6.8%</b>                |
| <b>Consumer loans</b>           |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |                            |
| Ch\$                            | 3,196,286                                   | 607,136            | 16.2%                | 19.0%                      | 2,735,628          | 525,209            | 17.4%                | 19.2%                      | 2,526,772          | 539,961            | 16.2%                | 19.0%                      |
| UF                              | 100,042                                     | 9,951              | 7.4%                 | 9.9%                       | 120,620            | 11,570             | 8.0%                 | 9.6%                       | 96,286             | 9,722              | 5.4%                 | 9.9%                       |
| Foreign currencies              | 22,187                                      | 1                  | 7.0%                 | –%                         | 16,009             | –                  | (9.6%)               | –%                         | 14,374             | –                  | 6.6%                 | –%                         |
| <b>Subtotal</b>                 | <b>3,318,515</b>                            | <b>617,088</b>     | <b>15.9%</b>         | <b>18.6%</b>               | <b>2,872,257</b>   | <b>536,779</b>     | <b>16.9%</b>         | <b>18.7%</b>               | <b>2,637,432</b>   | <b>549,683</b>     | <b>15.9%</b>         | <b>18.6%</b>               |
| <b>Mortgage loans</b>           |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |                            |
| Ch\$                            | 31,403                                      | 2,267              | 4.7%                 | 7.2%                       | 28,170             | 2,236              | 6.4%                 | 7.9%                       | 27,811             | 2,626              | 4.8%                 | 7.2%                       |
| UF                              | 5,554,152                                   | 356,304            | 4.0%                 | 6.4%                       | 5,157,859          | 363,496            | 5.5%                 | 7.0%                       | 4,800,402          | 397,408            | 3.7%                 | 6.4%                       |
| Foreign currencies              | –   | –                  | –%                   | –%                         | –                  | –                  | –%                   | –%                         | –                  | –                  | –%                   | –%                         |
| <b>Subtotal</b>                 | <b>5,585,555</b>                            | <b>358,571</b>     | <b>4.0%</b>          | <b>6.4%</b>                | <b>5,186,029</b>   | <b>365,732</b>     | <b>5.5%</b>          | <b>7.2%</b>                | <b>4,828,213</b>   | <b>400,034</b>     | <b>3.7%</b>          | <b>6.4%</b>                |
| <b>Interbank Loans</b>          |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |                            |
| Ch\$                            | 5,102                                       | 195                | 1.4%                 | 3.8%                       | 214                | –                  | (1.5%)               | –%                         | 73,505             | 3,486              | 0.3%                 | 3.8%                       |
| UF                              | –   | –                  | –%                   | –%                         | –                  | –                  | –%                   | –%                         | –                  | –                  | –%                   | –%                         |
| Foreign currencies              | 3   | –                  | 7.0%                 | –%                         | 129,581            | 790                | (9.0%)               | 0.6%                       | 5,206              | –                  | 6.6%                 | –%                         |

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|   |                   |                  |             |             |                   |                  |               |             |                   |                  |             |
|---|-------------------|------------------|-------------|-------------|-------------------|------------------|---------------|-------------|-------------------|------------------|-------------|
| <b>Subtotal</b>                               | <b>5,105</b>      | <b>195</b>       | <b>1.4</b>  | <b>3.8%</b> | <b>129,795</b>    | <b>790</b>       | <b>(9.0%)</b> | <b>0.6%</b> | <b>78,711</b>     | <b>3,486</b>     | <b>0.7%</b> |
| <b>Investments under agreements to resell</b> |                   |                  |             |             |                   |                  |               |             |                   |                  |             |
| Ch\$  | 31,446            | 2,050            | 4.1%        | 6.5%        | 2,580             | 163              | 4.8%          | 6.3%        | 23,993            | 3,678            | 10.4%       |
| UF  | 90                | 5                | 3.1%        | 5.6%        | 17,900            | 1,074            | 4.4%          | 6.0%        | 35,009            | 1,949            | 1.1%        |
| Foreign currencies                            | –                 | –                | –%          | –%          | –                 | –                | –%            | –%          | –                 | –                | –%          |
| <b>Subtotal</b>                               | <b>31,536</b>     | <b>2,055</b>     | <b>4.1%</b> | <b>6.5%</b> | <b>20,480</b>     | <b>1,237</b>     | <b>4.5%</b>   | <b>6.0%</b> | <b>59,002</b>     | <b>5,627</b>     | <b>4.9%</b> |
| <b>Threshold</b>                              |                   |                  |             |             |                   |                  |               |             |                   |                  |             |
| Ch\$  | –                 | –                | –%          | –%          | 2                 | -                | (1.5%)        | –%          | –                 | –                | –%          |
| UF  | –                 | –                | –%          | –%          | -                 | -                | –%            | –%          | –                 | –                | –%          |
| Foreign currencies                            | 244,407           | 225              | 7.1%        | 0.1%        | 35,142            | 353              | (8.7%)        | 1.0%        | 51,385            | 105              | 6.8%        |
| <b>Subtotal</b>                               | <b>244,407</b>    | <b>225</b>       | <b>7.1%</b> | <b>0.1%</b> | <b>35,144</b>     | <b>353</b>       | <b>(8.7%)</b> | <b>1.0%</b> | <b>51,385</b>     | <b>105</b>       | <b>6.8%</b> |
| <b>Total interest-earning assets</b>          |                   |                  |             |             |                   |                  |               |             |                   |                  |             |
| Ch\$  | 10,053,621        | 1,179,855        | 9.1%        | 11.7%       | 9,763,182         | 1,187,405        | 10.5%         | 12.2%       | 9,346,074         | 1,045,959        | 6.5%        |
| UF  | 9,778,339         | 631,953          | 4.0%        | 6.5%        | 9,174,707         | 648,594          | 5.5%          | 7.1%        | 8,420,940         | 703,286          | 3.7%        |
| Foreign currencies                            | 3,435,775         | 59,396           | 8.8%        | 1.7%        | 2,682,201         | 54,954           | (7.7%)        | 2.0%        | 2,588,025         | 19,490           | 7.4%        |
| <b>Subtotal</b>                               | <b>23,267,735</b> | <b>1,871,204</b> | <b>6.9%</b> | <b>8.0%</b> | <b>21,620,090</b> | <b>1,890,353</b> | <b>6.1%</b>   | <b>8.8%</b> | <b>20,355,039</b> | <b>1,768,735</b> | <b>5.5%</b> |

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|  | Year ended December 31,<br>2013             |                    |                      | 2012                       |                    |                    | 2011                 |                            |                    |                    |                      |
|--|---|--------------------|----------------------|----------------------------|--------------------|--------------------|----------------------|----------------------------|--------------------|--------------------|----------------------|
|  | Average<br>Balance                          | Interest<br>Earned | Average<br>Real Rate | Average<br>Nominal<br>Rate | Average<br>Balance | Interest<br>Earned | Average<br>Real Rate | Average<br>Nominal<br>Rate | Average<br>Balance | Interest<br>Earned | Average<br>Real Rate |
|  | (in millions of Ch\$, except for rate data) |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |
| <b>ASSETS</b>                                      |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |
| <b>Non-interest earning assets</b>                 |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |
| <b>Cash</b>  |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |
| Ch\$   | 678,021                                     | –                  | –                    | –                          | 544,044            | –                  | –                    | –                          | 448,889            | –                  | –                    |
| UF   | –   | –                  | –                    | –                          | –                  | –                  | –                    | –                          | –                  | –                  | –                    |
| Foreign currencies                                 | 74,779                                      | –                  | –                    | –                          | 17,304             | –                  | –                    | –                          | 16,275             | –                  | –                    |
| <b>Subtotal</b>                                    | <b>752,800</b>                              | <b>–</b>           | <b>–</b>             | <b>–</b>                   | <b>561,348</b>     | <b>–</b>           | <b>–</b>             | <b>–</b>                   | <b>465,164</b>     | <b>–</b>           | <b>–</b>             |
| <b>Allowance for loan losses</b>                   |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |
| Ch\$   | (625,960)                                   | –                  | –                    | –                          | (582,581)          | –                  | –                    | –                          | (535,656)          | –                  | –                    |
| UF   | –   | –                  | –                    | –                          | –                  | –                  | –                    | –                          | –                  | –                  | –                    |
| Foreign currencies                                 | –   | –                  | –                    | –                          | –                  | –                  | –                    | –                          | –                  | –                  | –                    |
| <b>Subtotal</b>                                    | <b>(625,960)</b>                            | <b>–</b>           | <b>–</b>             | <b>–</b>                   | <b>(582,581)</b>   | <b>–</b>           | <b>–</b>             | <b>–</b>                   | <b>(535,656)</b>   | <b>–</b>           | <b>–</b>             |
| <b>Property, plant and equipment</b>               |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |
| Ch\$   | 131,372                                     | –                  | –                    | –                          | 174,948            | –                  | –                    | –                          | 159,813            | –                  | –                    |
| UF   | –   | –                  | –                    | –                          | –                  | –                  | –                    | –                          | 40                 | –                  | –                    |
| Foreign currencies                                 | –   | –                  | –                    | –                          | –                  | –                  | –                    | –                          | –                  | –                  | –                    |
| <b>Subtotal</b>                                    | <b>131,372</b>                              | <b>–</b>           | <b>–</b>             | <b>–</b>                   | <b>174,948</b>     | <b>–</b>           | <b>–</b>             | <b>–</b>                   | <b>159,853</b>     | <b>–</b>           | <b>–</b>             |
| <b>Derivatives</b>                                 |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |
| Ch\$   | 1,686,654                                   | –                  | –                    | –                          | 1,334,464          | –                  | –                    | –                          | 1,824,381          | –                  | –                    |
| UF   | –   | –                  | –                    | –                          | –                  | –                  | –                    | –                          | (178,373)          | –                  | –                    |
| Foreign currencies                                 | 2,459                                       | –                  | –                    | –                          | (26,517)           | –                  | –                    | –                          | (39,820)           | –                  | –                    |
| <b>Subtotal</b>                                    | <b>1,689,113</b>                            | <b>–</b>           | <b>–</b>             | <b>–</b>                   | <b>1,307,847</b>   | <b>–</b>           | <b>–</b>             | <b>–</b>                   | <b>1,606,188</b>   | <b>–</b>           | <b>–</b>             |
| <b>Financial investments trading<sup>(1)</sup></b> |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |
| Ch\$   | 215,003                                     | –                  | –                    | –                          | 185,018            | –                  | –                    | –                          | 203,886            | –                  | –                    |
| UF   | 166,124                                     | –                  | –                    | –                          | 257,719            | –                  | –                    | –                          | 436,435            | –                  | –                    |
| Foreign currencies                                 | 86  | –                  | –                    | –                          | 4                  | –                  | –                    | –                          | 9,791              | –                  | –                    |
| <b>Subtotal</b>                                    | <b>381,213</b>                              | <b>–</b>           | <b>–</b>             | <b>–</b>                   | <b>442,741</b>     | <b>–</b>           | <b>–</b>             | <b>–</b>                   | <b>650,112</b>     | <b>–</b>           | <b>–</b>             |
| <b>Other assets</b>                                |   |                    |                      |                            |                    |                    |                      |                            |                    |                    |                      |
| Ch\$   | 952,902                                     | –                  | –                    | –                          | 975,585            | –                  | –                    | –                          | 979,549            | –                  | –                    |

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|   |                   |                  |   |                   |                  |   |   |                   |                  |   |
|---|-------------------|------------------|---|-------------------|------------------|---|---|-------------------|------------------|---|
| UF                                      | 64,511            | –                | – | 69,937            | –                | – | – | 100,291           | –                | – |
| Foreign currencies                      | 424,305           | –                | – | 526,419           | –                | – | – | 353,179           | –                | – |
| <b>Subtotal</b>                         | <b>1,441,718</b>  | –                | – | <b>1,571,941</b>  | –                | – | – | <b>1,433,019</b>  | –                | – |
| <b>Total noninterest earning assets</b> |                   |                  |   |                   |                  |   |   |                   |                  |   |
| Ch\$                                    | 3,037,992         | –                | – | 2,631,478         | –                | – | – | 3,080,862         | –                | – |
| UF                                      | 230,635           | –                | – | 327,656           | –                | – | – | 358,393           | –                | – |
| Foreign currencies                      | 501,629           | –                | – | 517,210           | –                | – | – | 339,425           | –                | – |
| <b>Total</b>                            | <b>3,770,256</b>  | –                | – | <b>3,476,344</b>  | –                | – | – | <b>3,778,680</b>  | –                | – |
| <b>TOTAL ASSETS</b>                     |                   |                  |   |                   |                  |   |   |                   |                  |   |
| Ch\$                                    | 13,091,613        | 1,179,855        | – | 12,394,660        | 1,187,405        | – | – | 12,426,936        | 1,045,959        | – |
| UF                                      | 10,008,974        | 631,953          | – | 9,502,363         | 648,594          | – | – | 8,779,333         | 703,286          | – |
| Foreign currencies                      | 3,931,404         | 59,396           | – | 3,199,411         | 54,954           | – | – | 2,927,450         | 19,490           | – |
| <b>Total</b>                            | <b>27,037,991</b> | <b>1,871,204</b> |   | <b>25,096,434</b> | <b>1,890,953</b> |   |   | <b>24,133,719</b> | <b>1,768,735</b> | – |

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|   | Year ended December 31,<br>2013             |                  |                      |                            | 2012               |                  |                      |                            | 2011               |                  |                      |  |
|---|---|------------------|----------------------|----------------------------|--------------------|------------------|----------------------|----------------------------|--------------------|------------------|----------------------|--|
|   | Average<br>Balance                          | Interest<br>Paid | Average<br>Real Rate | Average<br>Nominal<br>Rate | Average<br>Balance | Interest<br>Paid | Average<br>Real Rate | Average<br>Nominal<br>Rate | Average<br>Balance | Interest<br>Paid | Average<br>Real Rate |  |
|   | (in millions of Ch\$, except for rate data) |                  |                      |                            |                    |                  |                      |                            |                    |                  |                      |  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |   |                  |                      |                            |                    |                  |                      |                            |                    |                  |                      |  |
| <b>Interest-bearing liabilities</b>         |   |                  |                      |                            |                    |                  |                      |                            |                    |                  |                      |  |
| Savings accounts                            |   |                  |                      |                            |                    |                  |                      |                            |                    |                  |                      |  |
| Ch\$  | 1,105                                       | 3                | (2.0%)               | 0.3%                       | 1,015              | 2                | (1.3%)               | 0.2%                       | 1,092              | 3                | (4.0%)               |  |
| UF  | 102,655                                     | 1,906            | (0.5%)               | 1.9%                       | 101,405            | 2,537            | 1.0%                 | 2.5%                       | 101,993            | 3,712            | (0.8%)               |  |
| Foreign currencies                          | –   | –                | –%                   | –%                         | –                  | –                | –%                   | –%                         | –                  | –                | –%                   |  |
| <b>Subtotal</b>                             | <b>103,760</b>                              | <b>1,909</b>     | <b>(0.5%)</b>        | <b>1.9%</b>                | <b>102,420</b>     | <b>2,539</b>     | <b>1.0%</b>          | <b>2.5%</b>                | <b>103,085</b>     | <b>3,715</b>     | <b>0.8%</b>          |  |
| <b>Time deposits</b>                        |   |                  |                      |                            |                    |                  |                      |                            |                    |                  |                      |  |
| Ch\$  | 7,148,978                                   | 386,545          | 3.0%                 | 5.4%                       | 6,383,384          | 384,895          | 4.5%                 | 6.0%                       | 5,187,931          | 288,282          | 1.1%                 |  |
| UF  | 819,695                                     | 57,379           | 4.5%                 | 7.0%                       | 1,430,807          | 109,163          | 6.0%                 | 7.6%                       | 2,086,118          | 143,899          | 2.4%                 |  |
| Foreign currencies                          | 1,980,728                                   | 6,061            | 7.3%                 | 0.3%                       | 1,845,624          | 9,048            | (9.1%)               | 0.5%                       | 1,833,670          | 13,392           | 7.4%                 |  |
| <b>Subtotal</b>                             | <b>9,949,401</b>                            | <b>449,985</b>   | <b>4.0%</b>          | <b>4.5%</b>                | <b>9,659,815</b>   | <b>503,106</b>   | <b>2.1%</b>          | <b>5.2%</b>                | <b>9,107,719</b>   | <b>445,573</b>   | <b>2.7%</b>          |  |
| <b>Central Bank borrowings</b>              |   |                  |                      |                            |                    |                  |                      |                            |                    |                  |                      |  |
| Ch\$  | –   | –                | –%                   | –%                         | 4,070              | 218              | 3.8%                 | 5.4%                       | 2,094              | 177              | 3.8%                 |  |
| UF  | 221   | 14               | 3.9%                 | 6.3%                       | 399                | 14               | 2.0%                 | 3.5%                       | 1,003              | 8                | (3.5%)               |  |
| Foreign currencies                          | –   | –                | –%                   | –%                         | –                  | –                | –%                   | –%                         | –                  | –                | –%                   |  |
| <b>Subtotal</b>                             | <b>221</b>                                  | <b>14</b>        | <b>3.9%</b>          | <b>6.3%</b>                | <b>4,469</b>       | <b>232</b>       | <b>3.6%</b>          | <b>5.2%</b>                | <b>3,097</b>       | <b>185</b>       | <b>1.4%</b>          |  |
| <b>Repurchase agreements</b>                |   |                  |                      |                            |                    |                  |                      |                            |                    |                  |                      |  |
| Ch\$  | 258,971                                     | 15,089           | 3.4%                 | 5.8%                       | 360,538            | 15,326           | 2.7%                 | 4.3%                       | 214,930            | 7,922            | (0.7%)               |  |
| UF  | –   | –                | –%                   | –%                         | –                  | –                | –%                   | –%                         | 18,564             | 808              | (0.1%)               |  |
| Foreign currencies                          | 7,912                                       | 9                | 7.1%                 | 0.1%                       | 8,800              | 73               | (8.8%)               | 0.8%                       | 15,680             | 31               | 6.8%                 |  |
| <b>Subtotal</b>                             | <b>266,883</b>                              | <b>15,098</b>    | <b>3.5%</b>          | <b>5.6%</b>                | <b>369,338</b>     | <b>15,399</b>    | <b>2.4%</b>          | <b>4.2%</b>                | <b>249,174</b>     | <b>8,761</b>     | <b>(0.2%)</b>        |  |
| <b>Mortgage finance bonds</b>               |   |                  |                      |                            |                    |                  |                      |                            |                    |                  |                      |  |
| Ch\$  | –   | –                | –%                   | –%                         | –                  | –                | –%                   | –%                         | –                  | –                | –%                   |  |
| UF  | 102,778                                     | 8,235            | 5.5%                 | 8.0%                       | 131,070            | 11,254           | 7.0%                 | 8.6%                       | 174,224            | 16,027           | 4.6%                 |  |
| Foreign currencies                          | –   | –                | –%                   | –%                         | –                  | –                | –%                   | –%                         | –                  | –                | –%                   |  |
| <b>Subtotal</b>                             | <b>102,778</b>                              | <b>8,235</b>     | <b>5.5%</b>          | <b>8.0%</b>                | <b>131,070</b>     | <b>11,254</b>    | <b>7.0%</b>          | <b>8.6%</b>                | <b>174,224</b>     | <b>16,027</b>    | <b>4.6%</b>          |  |
| <b>Other interest-bearing liabilities</b>   |   |                  |                      |                            |                    |                  |                      |                            |                    |                  |                      |  |
| Ch\$  | 393,354                                     | 62,642           | 13.2%                | 15.9%                      | 395,033            | 39,171           | 8.3%                 | 9.9%                       | 344,561            | 64,171           | 13.6%                |  |
| UF  | 2,654,931                                   | 150,770          | 3.2%                 | 5.7%                       | 2,570,059          | 157,727          | 4.6%                 | 6.1%                       | 2,427,992          | 223,895          | 4.6%                 |  |
| Foreign currencies                          | 3,802,668                                   | 105,789          | 10.0%                | 2.8%                       | 2,962,081          | 118,791          | (5.9%)               | 4.0%                       | 3,355,499          | 34,108           | 7.7%                 |  |
| <b>Subtotal</b>                             | <b>6,850,953</b>                            | <b>319,201</b>   | <b>7.5%</b>          | <b>4.7%</b>                | <b>5,927,893</b>   | <b>315,689</b>   | <b>(0.4%)</b>        | <b>5.3%</b>                | <b>6,128,052</b>   | <b>322,174</b>   | <b>6.8%</b>          |  |
| <b>Total interest-bearing</b>               |   |                  |                      |                            |                    |                  |                      |                            |                    |                  |                      |  |

**liabilities**

|                    |                   |                |             |             |                   |                |             |             |                   |                |             |
|--------------------|-------------------|----------------|-------------|-------------|-------------------|----------------|-------------|-------------|-------------------|----------------|-------------|
| Ch\$               | 7,802,408         | 464,279        | 3.5%        | 6.0%        | 7,144,040         | 439,612        | 4.6%        | 6.2%        | 5,750,608         | 360,555        | 1.8%        |
| UF                 | 3,680,280         | 218,304        | 3.5%        | 5.9%        | 4,233,740         | 280,695        | 5.1%        | 6.6%        | 4,809,894         | 388,349        | 3.5%        |
| Foreign currencies | 5,791,308         | 111,859        | 9.1%        | 1.9%        | 4,817,225         | 127,912        | (7.2%)      | 2.7%        | 5,204,849         | 47,531         | 7.6%        |
| <b>Total</b>       | <b>17,273,996</b> | <b>794,442</b> | <b>5.4%</b> | <b>4.6%</b> | <b>16,195,005</b> | <b>848,219</b> | <b>1.2%</b> | <b>5.3%</b> | <b>15,765,351</b> | <b>796,435</b> | <b>4.2%</b> |

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|  | Year ended December 31,                     |                |                   |                      | 2012              |                |                   |                      | 2011              |               |                   |                      |
|--|---|----------------|-------------------|----------------------|-------------------|----------------|-------------------|----------------------|-------------------|---------------|-------------------|----------------------|
|  | Average Balance                             | Interest Paid  | Average Real Rate | Average Nominal Rate | Average Balance   | Interest Paid  | Average Real Rate | Average Nominal Rate | Average Balance   | Interest Paid | Average Real Rate | Average Nominal Rate |
|  | (in millions of Ch\$, except for rate data) |                |                   |                      |                   |                |                   |                      |                   |               |                   |                      |
| <b>NON-INTEREST-BEARING LIABILITIES</b>                                |   |                |                   |                      |                   |                |                   |                      |                   |               |                   |                      |
| <b>Non-interest bearing demand deposits</b>                            |   |                |                   |                      |                   |                |                   |                      |                   |               |                   |                      |
| Ch\$   | 4,520,789                                   | –              | –                 | –                    | 4,150,121         | –              | –                 | –                    | 3,546,165         | –             | –                 | –                    |
| UF   | 32,787                                      | –              | –                 | –                    | 23,047            | –              | –                 | –                    | 17,115            | –             | –                 | –                    |
| Foreign currencies   | 67,273                                      | –              | –                 | –                    | 4,264             | –              | –                 | –                    | 12,264            | –             | –                 | –                    |
| <b>Subtotal</b>  | <b>4,620,849</b>                            | –              | –                 | –                    | <b>4,177,432</b>  | –              | –                 | –                    | <b>3,575,544</b>  | –             | –                 | –                    |
| <b>Derivatives</b>   |   |                |                   |                      |                   |                |                   |                      |                   |               |                   |                      |
| Ch\$   | 1,466,096                                   | –              | –                 | –                    | 1,140,913         | –              | –                 | –                    | 1,389,878         | –             | –                 | –                    |
| UF   | –   | –              | –                 | –                    | –                 | –              | –                 | –                    | 35,145            | –             | –                 | –                    |
| Foreign currencies   | 1,627                                       | –              | –                 | –                    | 256               | –              | –                 | –                    | 32,615            | –             | –                 | –                    |
| <b>Subtotal</b>  | <b>1,467,723</b>                            | –              | –                 | –                    | <b>1,141,169</b>  | –              | –                 | –                    | <b>1,457,638</b>  | –             | –                 | –                    |
| <b>Other non-interest-bearing liabilities</b>                          |   |                |                   |                      |                   |                |                   |                      |                   |               |                   |                      |
| Ch\$   | 615,977                                     | –              | –                 | –                    | 621,920           | –              | –                 | –                    | 637,053           | –             | –                 | –                    |
| UF   | 247,400                                     | –              | –                 | –                    | 204,532           | –              | –                 | –                    | 279,367           | –             | –                 | –                    |
| Foreign currencies   | 462,598                                     | –              | –                 | –                    | 568,660           | –              | –                 | –                    | 424,279           | –             | –                 | –                    |
| <b>Subtotal</b>  | <b>1,325,975</b>                            | –              | –                 | –                    | <b>1,395,112</b>  | –              | –                 | –                    | <b>1,340,699</b>  | –             | –                 | –                    |
| <b>Shareholders' Equity</b>  |   |                |                   |                      |                   |                |                   |                      |                   |               |                   |                      |
| Ch\$   | 2,349,448                                   | –              | –                 | –                    | 2,187,716         | –              | –                 | –                    | 1,994,487         | –             | –                 | –                    |
| UF   | –   | –              | –                 | –                    | –                 | –              | –                 | –                    | –                 | –             | –                 | –                    |
| Foreign currencies   | –   | –              | –                 | –                    | –                 | –              | –                 | –                    | –                 | –             | –                 | –                    |
| <b>Subtotal</b>  | <b>2,349,448</b>                            | –              | –                 | –                    | <b>2,187,716</b>  | –              | –                 | –                    | <b>1,994,487</b>  | –             | –                 | –                    |
| <b>Total non-interest-bearing liabilities and shareholder's equity</b> |   |                |                   |                      |                   |                |                   |                      |                   |               |                   |                      |
| Ch\$   | 8,952,310                                   | –              | –                 | –                    | 8,100,670         | –              | –                 | –                    | 7,567,583         | –             | –                 | –                    |
| UF   | 280,187                                     | –              | –                 | –                    | 227,579           | –              | –                 | –                    | 331,627           | –             | –                 | –                    |
| Foreign currencies   | 531,498                                     | –              | –                 | –                    | 573,180           | –              | –                 | –                    | 469,158           | –             | –                 | –                    |
| <b>Subtotal</b>  | <b>9,763,995</b>                            | –              | –                 | –                    | <b>8,901,429</b>  | –              | –                 | –                    | <b>8,368,368</b>  | –             | –                 | –                    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                      |   |                |                   |                      |                   |                |                   |                      |                   |               |                   |                      |
| Ch\$   | 16,754,718                                  | 464,279        | –                 | –                    | 15,244,710        | 439,612        | –                 | –                    | 13,318,191        | 360           | –                 | –                    |
| UF   | 3,960,467                                   | 218,304        | –                 | –                    | 4,461,319         | 280,695        | –                 | –                    | 5,141,521         | 388           | –                 | –                    |
| Foreign currencies   | 6,322,806                                   | 111,859        | –                 | –                    | 5,390,405         | 127,912        | –                 | –                    | 5,674,007         | 47,5          | –                 | –                    |
| <b>Total</b>   | <b>27,037,991</b>                           | <b>794,442</b> | –                 | –                    | <b>25,096,434</b> | <b>848,219</b> | –                 | –                    | <b>24,133,719</b> | <b>796</b>    | –                 | –                    |

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

The following table allocates, by currency of denomination, changes in our net 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 2013 compared to 2012 and 2012 compared to 2011. 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.

|                                 | Increase (Decrease) from 2012 to 2013<br>Due to Changes in |                  |                    |   | Increase (Decrease) from 2011 to 2012<br>Due to Changes in |                 |                    |   |
|---------------------------------|--|------------------|--------------------|---|--|-----------------|--------------------|---|
|                                 | Volume   | Rate             | Rate and<br>Volume | <u>Net Change</u><br>from 2012<br>to 2013 | Volume   | Rate            | Rate and<br>Volume | <u>Net Change</u><br>from 2011<br>to 2012 |
| <b>ASSETS</b>                   |  |                  |                    |   |  |                 |                    |   |
| <b>Interest-earning assets</b>  |  |                  |                    |   |  |                 |                    |   |
| <b>Deposits in Central Bank</b> |  |                  |                    |   |  |                 |                    |   |
| Ch\$                            | (9,867)  | (9,516)          | 5,129              | (14,254)                                  | 937  | 1,369           | 35                 | 2,341                                     |
| UF                              | —  | —                | —                  | —   | —  | —               | —                  | —   |
| Foreign currencies              | —  | —                | —                  | —   | —  | —               | —                  | —   |
| <b>Total</b>                    | <b>(9,867)</b>   | <b>(9,516)</b>   | <b>5,129</b>       | <b>(14,254)</b>                           | <b>937</b>   | <b>1,369</b>    | <b>35</b>          | <b>2,341</b>                              |
| <b>Financial investments</b>    |  |                  |                    |   |  |                 |                    |   |
| Ch\$                            | (27,359)   | 19,126           | (5,964)            | (14,197)                                  | (4,824)  | 17,296          | (1,344)            | 11,128                                    |
| UF                              | 25,089   | (6,478)          | (14,627)           | 3,984                                     | (8,824)  | (3,571)         | 1,385              | (11,010)                                  |
| Foreign currencies              | (70)   | 1,781            | (334)              | 1,377                                     | 7,717  | 26,070          | (7,950)            | 25,837                                    |
| <b>Total</b>                    | <b>(2,340)</b>   | <b>14,429</b>    | <b>(20,925)</b>    | <b>(8,836)</b>                            | <b>(5,931)</b>   | <b>39,795</b>   | <b>(7,909)</b>     | <b>25,955</b>                             |
| <b>Commercial loans</b>         |  |                  |                    |   |  |                 |                    |   |
| Ch\$                            | 69,098   | (116,977)        | (15,260)           | (63,139)                                  | 39,470   | 98,926          | 11,724             | 150,120                                   |
| UF                              | (3,958)  | (7,492)          | 705                | (10,745)                                  | 40,661   | (45,235)        | (6,169)            | (10,743)                                  |
| Foreign currencies              | 20,658   | (11,447)         | (5,229)            | 3,982                                     | 6,650  | 1,677           | 262                | 8,589                                     |
| <b>Total</b>                    | <b>85,798</b>  | <b>(135,916)</b> | <b>(19,784)</b>    | <b>(69,902)</b>                           | <b>86,781</b>  | <b>55,368</b>   | <b>5,817</b>       | <b>147,966</b>                            |
| <b>Consumer loans</b>           |  |                  |                    |   |  |                 |                    |   |
| Ch\$                            | 88,446   | (5,471)          | (1,048)            | 81,927                                    | 44,621   | (54,832)        | (4,541)            | (14,752)                                  |
| UF                              | (1,975)  | 362              | (6)                | (1,619)                                   | 2,454  | (482)           | (124)              | 1,848                                     |
| Foreign currencies              | —  | —                | 1                  | 1   | —  | —               | —                  | —   |
| <b>Total</b>                    | <b>86,471</b>  | <b>(5,109)</b>   | <b>(1,053)</b>     | <b>80,309</b>                             | <b>47,075</b>  | <b>(55,314)</b> | <b>(4,665)</b>     | <b>(12,904)</b>                           |
| <b>Mortgage loans</b>           |  |                  |                    |   |  |                 |                    |   |
| Ch\$                            | 255  | (197)            | (27)               | 31  | 33   | (418)           | (5)                | (390)                                     |
| UF                              | 27,741   | (32,555)         | (2,378)            | (7,192)                                   | 30,826   | (61,248)        | (3,490)            | (33,912)                                  |
| Foreign currencies              | —  | —                | —                  | —   | —  | —               | —                  | —   |
| <b>Total</b>                    | <b>27,996</b>  | <b>(32,752)</b>  | <b>(2,405)</b>     | <b>(7,161)</b>                            | <b>30,859</b>  | <b>(61,666)</b> | <b>(3,495)</b>     | <b>(34,302)</b>                           |
| <b>Interbank loans</b>          |  |                  |                    |   |  |                 |                    |   |
| Ch\$                            | —  | 8                | 187                | 195                                       | (3,476)  | (3,486)         | 3,476              | (3,486)                                   |
| UF                              | —  | —                | —                  | —   | —  | —               | —                  | —   |
| Foreign currencies              | (777)  | (777)            | 764                | (790)                                     | 4  | 35              | 751                | 790                                       |

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|   |                |                  |                 |                 |                |                 |                |                |
|---|----------------|------------------|-----------------|-----------------|----------------|-----------------|----------------|----------------|
| <b>Total</b>                                  | <b>(777)</b>   | <b>(769)</b>     | <b>951</b>      | <b>(595)</b>    | <b>(3,472)</b> | <b>(3,451)</b>  | <b>4,227</b>   | <b>(2,696)</b> |
| <b>Investments under agreements to resell</b> |                |                  |                 |                 |                |                 |                |                |
| Ch\$  | 1,819          | 5                | 63              | 1,887           | (3,278)        | (2,161)         | 1,924          | (3,515)        |
| UF  | (1,069)        | (72)             | 72              | (1,069)         | (954)          | 144             | (65)           | (875)          |
| Foreign currencies                            | —              | —                | —               | —               | —              | —               | —              | —              |
| <b>Total</b>                                  | <b>750</b>     | <b>(67)</b>      | <b>135</b>      | <b>818</b>      | <b>(4,232)</b> | <b>(2,017)</b>  | <b>1,859</b>   | <b>(4,390)</b> |
| <b>Threshold</b>                              |                |                  |                 |                 |                |                 |                |                |
| Ch\$  | —              | —                | —               | —               | —              | —               | —              | —              |
| UF  | —              | —                | —               | —               | —              | —               | —              | —              |
| Foreign currencies                            | 2,093          | (316)            | 1,905           | (128)           | (33)           | 411             | (130)          | 248            |
| <b>Total</b>                                  | <b>2,093</b>   | <b>(316)</b>     | <b>1,905</b>    | <b>(128)</b>    | <b>(33)</b>    | <b>411</b>      | <b>(130)</b>   | <b>248</b>     |
| <b>Total interest-earning assets</b>          |                |                  |                 |                 |                |                 |                |                |
| Ch\$  | 122,392        | (113,022)        | (16,920)        | (7,550)         | 73,483         | 56,694          | 11,268         | 141,446        |
| UF  | 45,828         | (46,235)         | (16,234)        | (16,641)        | 64,163         | (110,392)       | (8,463)        | (54,692)       |
| Foreign currencies                            | 21,904         | (10,759)         | (6,703)         | 4,442           | 14,338         | 28,193          | (7,067)        | 35,464         |
| <b>Total</b>                                  | <b>190,124</b> | <b>(170,016)</b> | <b>(39,857)</b> | <b>(19,749)</b> | <b>151,984</b> | <b>(25,505)</b> | <b>(4,262)</b> | <b>122,218</b> |

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|   | Increase (Decrease) from 2012 to 2013<br>Due to Changes in |                 |                    |   | Increase (Decrease) from 2011 to 2012<br>Due to Changes in |                |                    |   |
|---|--|-----------------|--------------------|---|--|----------------|--------------------|---|
|   | Volume   | Rate            | Rate and<br>Volume | <u>Net Change</u><br>from 2012<br>to 2013 | Volume   | Rate           | Rate and<br>Volume | <u>Net Change</u><br>from 2011<br>to 2012 |
| <b>LIABILITIES</b>                        |  |                 |                    |   |  |                |                    |   |
| <b>Interest-bearing liabilities</b>       |  |                 |                    |   |  |                |                    |   |
| <b>Savings accounts</b>                   |  |                 |                    |   |  |                |                    |   |
| Ch\$                                      | –  | 1               | –                  | 1   | –  | (1)            | –                  | (1)                                       |
| UF  | 31   | (608)           | (54)               | (631)                                     | (34)   | (1,135)        | (6)                | (1,175)                                   |
| Foreign currencies                        | –  | –               | –                  | –   | –  | –              | –                  | –   |
| <b>Total</b>                              | <b>31</b>  | <b>(607)</b>    | <b>(54)</b>        | <b>(630)</b>                              | <b>(34)</b>  | <b>(1,136)</b> | <b>(6)</b>         | <b>(1,176)</b>                            |
| <b>Time deposits</b>                      |  |                 |                    |   |  |                |                    |   |
| Ch\$                                      | 45,936   | (38,300)        | (5,986)            | 1,650                                     | 68,323   | 22,130         | 6,160              | 96,613                                    |
| UF  | (46,445)   | (8,585)         | 3,246              | (51,784)                                  | (45,061)   | 14,758         | (4,433)            | (34,736)                                  |
| Foreign currencies                        | 676  | (3,691)         | 28                 | (2,987)                                   | (162)  | (3,913)        | (269)              | (4,344)                                   |
| <b>Total</b>                              | <b>167</b>   | <b>(50,576)</b> | <b>(2,712)</b>     | <b>(53,121)</b>                           | <b>23,100</b>  | <b>32,975</b>  | <b>1,458</b>       | <b>57,533</b>                             |
| <b>Central Bank borrowings</b>            |  |                 |                    |   |  |                |                    |   |
| Ch\$                                      | (220)  | (220)           | 222                | (218)                                     | 167  | (65)           | (61)               | 41  |
| UF  | (6)  | 11              | (5)                | –   | (5)  | 27             | (16)               | 6   |
| Foreign currencies                        | –  | –               | –                  | –   | –  | –              | –                  | –   |
| <b>Total</b>                              | <b>(226)</b>   | <b>(209)</b>    | <b>217</b>         | <b>(218)</b>                              | <b>162</b>   | <b>(38)</b>    | <b>(77)</b>        | <b>47</b>                                 |
| <b>Repurchase agreements</b>              |  |                 |                    |   |  |                |                    |   |
| Ch\$                                      | (4,367)  | 5,408           | (1,278)            | (237)                                     | 5,338  | 1,241          | 825                | 7,404                                     |
| UF  | –  | –               | –                  | –   | (814)  | (814)          | 820                | (808)                                     |
| Foreign currencies                        | (7)  | (62)            | 5                  | (64)                                      | (13)   | 95             | (40)               | 42  |
| <b>Total</b>                              | <b>(4,374)</b>   | <b>5,346</b>    | <b>(1,273)</b>     | <b>(301)</b>                              | <b>4,511</b>   | <b>522</b>     | <b>1,605</b>       | <b>6,638</b>                              |
| <b>Mortgage finance bonds</b>             |  |                 |                    |   |  |                |                    |   |
| Ch\$                                      | –  | –               | –                  | –   | –  | –              | –                  | –   |
| UF  | (2,433)  | (786)           | 200                | (3,019)                                   | (3,976)  | (1,051)        | 254                | (4,773)                                   |
| Foreign currencies                        | –  | –               | –                  | –   | –  | –              | –                  | –   |
| <b>Total</b>                              | <b>(2,433)</b>   | <b>(786)</b>    | <b>200</b>         | <b>(3,019)</b>                            | <b>(3,976)</b>   | <b>(1,051)</b> | <b>254</b>         | <b>(4,773)</b>                            |
| <b>Other interest-bearing liabilities</b> |  |                 |                    |   |  |                |                    |   |
| Ch\$                                      | (166)  | 23,702          | (65)               | 23,471                                    | 9,381  | (29,984)       | (4,397)            | (25,000)                                  |
| UF  | 5,177  | (10,280)        | (1,854)            | (6,957)                                   | 13,215   | (75,123)       | (4,260)            | (66,168)                                  |
| Foreign currencies                        | 33,595   | (35,554)        | (11,043)           | (13,002)                                  | (4,018)  | 100,574        | (11,873)           | 84,683                                    |
| <b>Total</b>                              | <b>38,606</b>  | <b>(22,132)</b> | <b>(12,962)</b>    | <b>3,512</b>                              | <b>18,578</b>  | <b>(4,533)</b> | <b>(20,530)</b>    | <b>(6,485)</b>                            |
| <b>Total interest-bearing liabilities</b> |  |                 |                    |   |  |                |                    |   |
| Ch\$                                      | 41,183   | (9,409)         | (7,107)            | 24,667                                    | 83,209   | (6,679)        | 2,527              | 79,057                                    |
| UF  | (43,676)   | (20,248)        | 1,533              | (62,391)                                  | (36,675)   | (63,338)       | (7,641)            | (107,654)                                 |
| Foreign currencies                        | 34,264   | (39,307)        | (11,010)           | (16,053)                                  | (4,193)  | 96,756         | (12,182)           | 80,381                                    |
| <b>Total</b>                              | <b>31,771</b>  | <b>(68,964)</b> | <b>(16,584)</b>    | <b>(53,777)</b>                           | <b>42,341</b>  | <b>26,739</b>  | <b>(17,296)</b>    | <b>51,784</b>                             |

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## Interest-Earning Assets: Net Interest Margin

The following table analyzes, by currency of denomination, the levels of average interest-earning assets and net interest earned by Santander-Chile, and illustrates the comparative net interest margins obtained, for each of the years indicated in the table.

|  | Year ended December 31, |                   |                   |
|--|-------------------------|-------------------|-------------------|
|  | 2013                    | 2012              | 2011              |
|  | (in millions of Ch\$)   |                   |                   |
| <b>Total average interest-earning assets</b> |                         |                   |                   |
| Ch\$   | 10,053,621              | 9,763,182         | 9,346,074         |
| UF   | 9,778,339               | 9,174,707         | 8,420,940         |
| Foreign currencies                           | 3,435,775               | 2,682,201         | 2,588,025         |
| <b>Total</b>                                 | <b>23,267,735</b>       | <b>21,620,090</b> | <b>20,355,039</b> |
| <b>Net interest earned (1)</b>               |                         |                   |                   |
| Ch\$   | 715,576                 | 747,793           | 685,404           |
| UF   | 413,649                 | 367,899           | 314,937           |
| Foreign currencies                           | (52,463)                | (72,958)          | (28,041)          |
| <b>Total</b>                                 | <b>1,076,762</b>        | <b>1,042,734</b>  | <b>972,300</b>    |
| <b>Net interest margin (2)</b>               |                         |                   |                   |
| Ch\$   | 7.12%                   | 7.66%             | 7.33%             |
| UF   | 4.23%                   | 4.01%             | 3.74%             |
| Foreign currencies                           | (1.53)%                 | (2.72)%           | (1.08)%           |
| <b>Total</b>                                 | <b>4.63%</b>            | <b>4.82%</b>      | <b>4.78%</b>      |

(1) Net interest earned is defined as interest revenue earned less interest expense incurred.

(2) Net interest margin is defined as net interest earned divided by total average interest-earning assets.

## Return on Equity and Assets; Dividend Payout

The following table presents certain information and selected financial ratios for Santander-Chile for the years indicated.

Year ended December 31,

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| Ch\$ million  | 2013       | 2012       | 2011       |
|---|------------|------------|------------|
| Net income  | 444,429    | 361,433    | 407,122    |
| Net income attributable to shareholders                                     | 442,294    | 356,808    | 402,191    |
| Average total assets  | 27,037,991 | 25,096,434 | 24,133,719 |
| Average equity  | 2,349,448  | 2,187,716  | 1,994,487  |
| Net income as a percentage of:  |            |            |            |
| Average total assets  | 1.6%       | 1.4%       | 1.7%       |
| Average equity  | 18.9%      | 16.5%      | 20.4%      |
| Average equity as a percentage of:  |            |            |            |
| Average total assets  | 8.7%       | 8.7%       | 8.3%       |
| Cash dividend (1)   | 265,156    | 232,780    | 261,051    |
| Dividend payout ratio, based on net income attributable to shareholders (1) | 60.0%      | 65.2%      | 64.9%      |

(1) Cash dividend for 2013 represents cash dividend approved by shareholders on April 22, 2014.

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

| Year    | Dividend<br>Ch\$ mn (1) | Per share<br>Ch\$/share (2) | Per ADR<br>Ch\$/ADR (3) | % over<br>earnings (4) | % over<br>earnings (5) |
|---------|-------------------------|-----------------------------|-------------------------|------------------------|------------------------|
| 2010    | 258,752                 | 1.37                        | 1,426.6                 | 60                     | 60                     |
| 2011    | 286,294                 | 1.52                        | 1,578.5                 | 60                     | 57                     |
| 2012    | 261,051                 | 1.39                        | 1,439.1                 | 60                     | 65                     |
| 2013    | 232,780                 | 1.24                        | 494.1                   | 60                     | 65                     |
| 2014(6) | 265,156                 | 1.41                        | 562.8                   | 60                     | 60                     |

(1) Millions of nominal pesos.

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

(3) Calculated on the basis of 1,039 shares per ADS for the periods from 2009-2012. In 2013, it is calculated on the basis of 400 shares per ADS.

(4) Calculated by dividing dividend paid in the year by net income attributable to shareholders for the previous year under Chilean GAAP.

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

(6) Dividend proposed by the Board for shareholders' approval on April 22, 2014.

### Loan Portfolio

The following table analyzes our loans by product type. Except where otherwise specified, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect our loan portfolio, including principal amounts of past due loan and substandard loans. Any collateral provided generally consists of a mortgage on real estate, a pledge of marketable securities, a letter of credit or cash. The existence and amount of collateral generally vary from loan to loan.

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|                                     | As of December 31,    |                   |                   |                   |                   |
|-------------------------------------|-----------------------|-------------------|-------------------|-------------------|-------------------|
|                                     | 2013                  | 2012              | 2011              | 2010              | 2009              |
|                                     | (in millions of Ch\$) |                   |                   |                   |                   |
| <b>Commercial Loans:</b>            |                       |                   |                   |                   |                   |
| Commercial loans                    | 7,797,682             | 7,316,417         | 6,602,372         | 6,107,117         | 5,489,595         |
| Foreign trade loans                 | 1,840,334             | 1,270,423         | 1,042,024         | 783,552           | 636,328           |
| Checking account debtors            | 279,657               | 205,355           | 132,383           | 67,956            | 92,911            |
| Factoring transactions              | 316,114               | 322,242           | 188,630           | 206,140           | 130,272           |
| Leasing transactions                | 1,349,814             | 1,277,555         | 1,237,675         | 1,122,916         | 964,698           |
| Other loans and accounts receivable | 118,651               | 97,029            | 84,501            | 17,948            | 10,958            |
| <b>Subtotal</b>                     | <b>11,702,252</b>     | <b>10,489,021</b> | <b>9,287,585</b>  | <b>8,305,629</b>  | <b>7,324,762</b>  |
| <b>Mortgage loans:</b>              |                       |                   |                   |                   |                   |
| Mortgage mutual loans               | 71,833                | 46,105            | 71,878            | 184,364           | 175,592           |
| Mortgage finance bond backed loans  | 72,297                | 92,204            | 113,858           | 138,094           | 199,139           |
| Other mortgage mutual loans         | 5,481,682             | 5,133,272         | 4,929,927         | 4,328,679         | 3,784,322         |
| <b>Subtotal</b>                     | <b>5,625,812</b>      | <b>5,271,581</b>  | <b>5,115,663</b>  | <b>4,651,137</b>  | <b>4,159,053</b>  |
| <b>Consumer loans:</b>              |                       |                   |                   |                   |                   |
| Installment consumer loans          | 2,168,121             | 1,857,657         | 1,808,594         | 1,604,603         | 1,378,044         |
| Credit card loans                   | 1,235,881             | 1,054,473         | 920,852           | 794,216           | 586,937           |
| Consumer leasing contracts          | 3,451                 | 3,688             | 3,727             | 3,735             | 3,835             |
| Other consumer loans                | 199,795               | 199,659           | 210,673           | 298,236           | 275,233           |
| <b>Subtotal</b>                     | <b>3,607,248</b>      | <b>3,115,477</b>  | <b>2,943,846</b>  | <b>2,700,790</b>  | <b>2,244,049</b>  |
| <b>Subtotal Loans to customers</b>  | <b>20,935,312</b>     | <b>18,876,079</b> | <b>17,347,094</b> | <b>15,657,556</b> | <b>13,727,864</b> |
| <b>Interbank loans</b>              | <b>125,449</b>        | <b>90,573</b>     | <b>87,688</b>     | <b>69,726</b>     | <b>23,412</b>     |
| <b>Total</b>                        | <b>21,060,761</b>     | <b>18,966,652</b> | <b>17,434,782</b> | <b>15,727,282</b> | <b>13,751,276</b> |

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The loan categories are as follows:

**Commercial loans**

*Commercial loans* are long-term and short-term loans, including checking overdraft lines for companies, granted in Chilean pesos, inflation linked, U.S.\$ linked or denominated in U.S.\$. The interest on these loans is fixed or variable and is used primarily to finance working capital or investments. General commercial loans also include factoring operations.

*Foreign trade loans* are fixed rate, short-term loans made in foreign currencies (principally U.S.\$) to finance imports and exports.

*Checking account debtors* mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These loans can be endorsed to a third party.

*Factoring transactions* mainly include short-term loans to companies with a fixed monthly nominal rate backed by a company invoice.

*Leasing transactions* are agreements for the financial leasing of capital equipment and other property.

*Other loans and accounts receivable loans* include other loans and accounts payable.

**Mortgage loans**

*Mortgage mutual loans* mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These are financed by issuing mortgage bonds.

*Mortgage finance bond backed loans* are inflation-indexed, fixed or variable rate, long-term loans with monthly payments of principal and interest secured by a real property mortgage that are financed with mortgage finance bonds. At the time of approval, these types of mortgage loans cannot be more than 75% of the lower of the purchase price or the appraised value of the mortgaged property or such loan will be classified as a commercial loan. Mortgage bonds are our general obligations, and we are liable for all principal and accrued interest on such bonds. In addition, if the issuer of a mortgage finance bond becomes insolvent, the General Banking Law's liquidation procedures provide that these types of mortgage loans with their corresponding mortgage bonds shall be auctioned as a unit and the acquirer must continue paying the mortgage finance bonds under the same conditions as the original issuer.

*Other mortgage mutual loans* mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These are financed by our general borrowings.

### **Consumer loans**

*Installment consumer loans* are loans to individuals, granted in Chilean pesos, generally on a fixed rate nominal basis, to finance the purchase of consumer goods or to pay for services.

*Consumer loans through lines of credit* are checking overdraft lines to individuals, granted in Chilean pesos, generally on a fixed rate nominal basis and linked to an individual's checking account.

*Credit card loans* include credit card balances subject to nominal fixed rate interest charges.

*Consumer leasing contracts* are agreements for the financial leasing of automobiles and other property to individuals.

*Other loans and accounts receivable from customers* include draft lines for individuals.

Table of Contents**Non-client loans**

Interbank loans are fixed rate, short-term loans to financial institutions that operate in Chile.

**Maturity and Interest Rate Sensitivity of Loans**

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2013.

|  | Due in 1 year<br>or less | Due after 1<br>year through<br>5 years | Due after 5<br>years | Total balance<br>as of December<br>31, 2013 |
|--|--------------------------|--|----------------------|---|
|  | (in millions of Ch\$)    |  |                      |   |
| General commercial loans                   | 4,290,789                | 2,792,230                              | 1,527,835            | 8,610,854                                   |
| Foreign trade loans                        | 1,550,121                | 147,847                                | 45,042               | 1,743,010                                   |
| Leasing contracts                          | 318,102                  | 654,147                                | 369,706              | 1,341,955                                   |
| Other outstanding loans                    | 6,433                    | -                                      | -                    | 6,433                                       |
| <b>Subtotal commercial loans</b>           | <b>6,165,445</b>         | <b>3,594,224</b>                       | <b>1,942,583</b>     | <b>11,702,252</b>                           |
| Residential loans backed by mortgage bonds | 22,637                   | 45,598                                 | 23,149               | 91,384                                      |
| Other residential mortgage loans           | 311,030                  | 1,025,141                              | 4,198,257            | 5,534,428                                   |
| <b>Subtotal residential mortgage loans</b> | <b>333,667</b>           | <b>1,070,739</b>                       | <b>4,221,406</b>     | <b>5,625,812</b>                            |
| Consumer loans                             | 1,757,349                | 1,702,907                              | 146,992              | 3,607,248                                   |
| <b>Subtotal</b>                            | <b>8,256,461</b>         | <b>6,367,870</b>                       | <b>6,310,981</b>     | <b>20,935,312</b>                           |
| Interbank loans                            | 125,449                  | -                                      | -                    | 125,449                                     |
| <b>Total loans</b>                         | <b>8,381,910</b>         | <b>6,367,870</b>                       | <b>6,310,981</b>     | <b>21,060,761</b>                           |

The following tables present the interest rate sensitivity of outstanding loans due after one year as of December 31, 2013. See also “Item 5. Operating and Financial Review and Prospects –C. Operating Results—Interest Rates.”

|                      | As of December 31,<br>2013<br>(in millions of Ch\$) |
|----------------------|---|
| <b>Variable Rate</b> |   |
| Ch\$                 | 5,878   |
| UF                   | 1,341,420   |
| Foreign currencies   | -   |
| <b>Subtotal</b>      | <b>1,347,298</b>                                    |

**Fixed Rate**

|                    |                   |
|--------------------|-------------------|
| Ch\$               | 3,819,734         |
| UF                 | 6,823,025         |
| Foreign currencies | 688,794           |
| <b>Subtotal</b>    | <b>11,331,553</b> |
| <b>Total</b>       | <b>12,678,851</b> |

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## Loans by Economic Activity

The following table sets forth, at the dates indicated, an analysis of our client loan portfolio based on the borrower's principal economic activity and geographic distribution. Loans to individuals for business purposes are allocated to their economic activity.

|                            | Domestic loans (*) as of December 31, |                   |                   |                   |                   | Foreign loans (**) as of December 31, |               |               |               |               |
|----------------------------|---------------------------------------|-------------------|-------------------|-------------------|-------------------|---------------------------------------|---------------|---------------|---------------|---------------|
|                            | 2013                                  | 2012              | 2011              | 2010              | 2009              | 2013                                  | 2012          | 2011          | 2010          | 2009          |
|                            | (in millions of Ch\$)                 |                   |                   |                   |                   | (in millions of Ch\$)                 |               |               |               |               |
| <b>Commercial loans</b>    |                                       |                   |                   |                   |                   |                                       |               |               |               |               |
| Manufacturing              | 1,216,914                             | 1,014,777         | 834,011           | 838,324           | 640,395           | –                                     | –             | –             | –             | –             |
| Mining                     | 464,865                               | 292,217           | 266,442           | 106,119           | 67,057            | –                                     | –             | –             | –             | –             |
| Electricity, gas and water | 222,110                               | 337,269           | 221,039           | 149,907           | 144,386           | –                                     | –             | –             | –             | –             |
| Agriculture and livestock  | 806,092                               | 770,558           | 760,527           | 679,159           | 610,909           | –                                     | –             | –             | –             | –             |
| Forestry                   | 183,716                               | 120,002           | 89,353            | 84,375            | 71,085            | –                                     | –             | –             | –             | –             |
| Fishing                    | 265,917                               | 188,803           | 144,162           | 133,930           | 127,025           | –                                     | –             | –             | –             | –             |
| Transport                  | 721,931                               | 511,407           | 473,414           | 449,508           | 362,508           | –                                     | –             | –             | –             | –             |
| Communications             | 249,499                               | 179,544           | 252,528           | 214,881           | 164,077           | –                                     | –             | –             | –             | –             |
| Construction               | 1,337,791                             | 1,130,194         | 980,797           | 839,316           | 817,293           | –                                     | –             | –             | –             | –             |
| Commerce                   | 2,578,979                             | 2,396,428         | 1,916,400         | 1,732,800         | 1,650,903         | 125,383                               | 90,546        | 87,041        | 69,709        | 23,409        |
| Services                   | 447,861                               | 400,716           | 384,061           | 358,314           | 288,256           | –                                     | –             | –             | –             | –             |
| Other                      | 3,206,643                             | 3,147,133         | 2,965,498         | 2,719,013         | 2,380,871         | –                                     | –             | –             | –             | –             |
| <b>Subtotals</b>           | <b>11,702,318</b>                     | <b>10,489,048</b> | <b>9,288,232</b>  | <b>8,305,646</b>  | <b>7,324,765</b>  | <b>125,383</b>                        | <b>90,546</b> | <b>87,041</b> | <b>69,709</b> | <b>23,409</b> |
| <b>Mortgage loans</b>      | <b>5,625,812</b>                      | <b>5,271,581</b>  | <b>5,115,663</b>  | <b>4,651,137</b>  | <b>4,159,053</b>  | –                                     | –             | –             | –             | –             |
| <b>Consumer loans</b>      | <b>3,607,248</b>                      | <b>3,115,477</b>  | <b>2,943,846</b>  | <b>2,700,790</b>  | <b>2,244,049</b>  | –                                     | –             | –             | –             | –             |
| <b>Total</b>               | <b>20,935,378</b>                     | <b>18,876,106</b> | <b>17,347,741</b> | <b>15,657,573</b> | <b>13,727,867</b> | <b>125,383</b>                        | <b>90,546</b> | <b>87,041</b> | <b>69,709</b> | <b>23,409</b> |

(\*) Domestic loans are loans to individuals and companies domiciled in Chile. As of December 31, 2013, these include domestic interbank loans for Ch\$66 million (Ch\$27 million as of December 31, 2012).

(\*\*) Includes foreign interbank loans for Ch\$125,383 million as of December 31, 2013 (Ch\$90,546 million as of December 31, 2012).

|  | Total loans as of December 31, |      |      |      |      | % of total loans as of December 31, |      |      |      |      |
|--|--------------------------------|------|------|------|------|-------------------------------------|------|------|------|------|
|  | 2013                           | 2012 | 2011 | 2010 | 2009 | 2013                                | 2012 | 2011 | 2010 | 2009 |
|  | (in millions of Ch\$)          |      |      |      |      | (in millions of Ch\$)               |      |      |      |      |

**Commercial  
loans**

|                               |                   |                   |                   |                   |                   |                |                |                |                |                |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|----------------|----------------|----------------|----------------|
| Manufacturing                 | 1,216,914         | 1,014,777         | 834,011           | 838,324           | 640,395           | 5.78%          | 5.35%          | 4.78%          | 5.33%          | 4.66%          |
| Mining                        | 464,865           | 292,217           | 266,442           | 106,119           | 67,057            | 2.21%          | 1.54%          | 1.53%          | 0.67%          | 0.49%          |
| Electricity, gas<br>and water | 222,110           | 337,269           | 221,039           | 149,907           | 144,386           | 1.05%          | 1.78%          | 1.27%          | 0.95%          | 1.05%          |
| Agriculture and<br>livestock  | 806,092           | 770,558           | 760,527           | 679,159           | 610,909           | 3.83%          | 4.06%          | 4.36%          | 4.32%          | 4.44%          |
| Forestry                      | 183,716           | 120,002           | 89,353            | 84,375            | 71,085            | 0.87%          | 0.63%          | 0.51%          | 0.54%          | 0.52%          |
| Fishing                       | 265,917           | 188,803           | 144,162           | 133,930           | 127,025           | 1.26%          | 1.00%          | 0.83%          | 0.85%          | 0.92%          |
| Transport                     | 721,931           | 511,407           | 473,414           | 449,508           | 362,508           | 3.43%          | 2.70%          | 2.72%          | 2.86%          | 2.64%          |
| Communications                | 249,499           | 179,544           | 252,528           | 214,881           | 164,077           | 1.18%          | 0.95%          | 1.45%          | 1.37%          | 1.19%          |
| Construction                  | 1,337,791         | 1,130,194         | 980,797           | 839,316           | 817,293           | 6.35%          | 5.96%          | 5.63%          | 5.34%          | 5.94%          |
| Commerce                      | 2,704,362         | 2,486,974         | 2,003,441         | 1,802,509         | 1,674,312         | 12.84%         | 13.11%         | 11.49%         | 11.46%         | 12.18%         |
| Services                      | 447,861           | 400,716           | 384,061           | 358,314           | 288,256           | 2.13%          | 2.11%          | 2.20%          | 2.28%          | 2.10%          |
| Other                         | 3,206,643         | 3,147,133         | 2,965,498         | 2,719,013         | 2,380,871         | 15.23%         | 16.59%         | 17.01%         | 17.29%         | 17.31%         |
| <b>Subtotals</b>              | <b>11,827,701</b> | <b>10,579,594</b> | <b>9,375,273</b>  | <b>8,375,355</b>  | <b>7,348,174</b>  | <b>56.16%</b>  | <b>55.78%</b>  | <b>53.78%</b>  | <b>53.26%</b>  | <b>53.44%</b>  |
| <b>Mortgage loans</b>         | <b>5,625,812</b>  | <b>5,271,581</b>  | <b>5,115,663</b>  | <b>4,651,137</b>  | <b>4,159,053</b>  | <b>26.71%</b>  | <b>27.79%</b>  | <b>29.34%</b>  | <b>29.57%</b>  | <b>30.24%</b>  |
| <b>Consumer loans</b>         | <b>3,607,248</b>  | <b>3,115,477</b>  | <b>2,943,846</b>  | <b>2,700,790</b>  | <b>2,244,049</b>  | <b>17.13%</b>  | <b>16.43%</b>  | <b>16.88%</b>  | <b>17.17%</b>  | <b>16.32%</b>  |
| <b>Total</b>                  | <b>21,060,761</b> | <b>18,966,652</b> | <b>17,434,782</b> | <b>15,727,282</b> | <b>13,751,276</b> | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> |

## Foreign Assets and Loans

Santander-Chile's Asset and Liability Committee, or ALCO, is responsible for determining the maximum foreign country exposure the Bank is permitted to have. The ALCO has determined that the total foreign country exposure cannot be greater than 1-time regulatory capital. To determine this, each country is classified using a ranking system from 1 to 6 based on the definition promulgated by the SBIF, in which the main consideration is the international rating of each country. The ALCO has also set a higher limit if the foreign exposure is to related parties. As of

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December 31, 2013, the Bank's foreign exposure, including the estimate of counterparty risk in our derivatives portfolio, was U.S.\$1,713 million, or 3.3% of our assets. For more information please See Note 40 of our Consolidated Financial Statements.

Below, there are additional details regarding our exposure to Spain and Italy and other countries not classified in category 1. We do not have sovereign exposure to Spain or Italy.

| Country Classification | Derivative Instruments (adjusted to market) USD Mn | Deposits USD Mn | Loans USD Mn | Financial Investments USD Mn | Total Exposure USD Mn |
|------------------------|--|-----------------|--------------|------------------------------|-----------------------|
| Spain 2                | 0.28   | 8.56            | 0.04         | —                            | 8.88                  |
| Italy 2                | 66.40  | 4.04            | 0.84         | —                            | 71.28                 |
| Other 2                | 5.08   | 0.17            | 0.98         | —                            | 6.23                  |
| <b>Total</b>           | <b>71.76</b>                                       | <b>12.77</b>    | <b>1.86</b>  | <b>—</b>                     | <b>86.39</b>          |

(1) Corresponds to country's classification established in Chapter B-6 of the Compendium of Accounting Standards issued by the SBIF.

Our exposure to Spain within the group is as follows:

| Counterpart              | Country Classification | Derivative instruments (market adjusted)* USD Mn | Deposits USD Mn | Loans USD Mn | Financial Investments USD Mn | Total Exposure USD Mn |
|--------------------------|------------------------|--|-----------------|--------------|------------------------------|-----------------------|
| Banco Santander España** | Spain 2                | 0.28   | 8.56            | —            | —                            | 8.84                  |

\* The total amount of this exposure to derivative instruments must be compensated daily with collateral and, therefore, the net credit exposure is USD 0.28

\*\* We have included our exposure to Santander branches in New York and Hong Kong as exposure to Spain.

Furthermore, is additional detail regarding our exposure to the United States, which is the only country with more than 1% of exposure over total assets. Below we detail exposure to assets in the USA as of December 31, 2013, considering fair value of derivative instruments.

| Country | Classification <sup>(1)</sup> | Derivative Instruments (adjusted to market)<br>USD Mn | Deposits<br>USD Mn | Loans<br>USD Mn | Financial Investments<br>USD Mn | Total Exposure<br>USD Mn |
|---------|-------------------------------|---|--------------------|-----------------|---------------------------------|--------------------------|
| USA     | 1                             | 107.8   | 1,158.1            | 0.00            | 0.00                            | 1,269.9                  |

As of December 31, 2013, we had no applicable sovereign exposure, no unfunded exposure, no credit default protection and no current developments.

#### Classification of Loan Portfolio

#### Credit Review Process

The Risk Division, our credit analysis and risk management group, is largely independent of our Commercial Division. Risk evaluation teams interact regularly with our clients. For larger transactions, risk teams in our headquarters work directly with clients when evaluating credit risks and preparing credit applications. Various credit approval committees, all of which include Risk Division and Commercial Division personnel, must verify that the appropriate qualitative and quantitative parameters are met by each applicant. Each committee's powers are defined by our Board of Directors.

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Santander-Chile's governance rules have established the existence of two high-level committees to monitor and control credit risks: the Executive Credit Committee and the Risk Committee. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—A. Credit Risk" for more information.

## Credit Approval

The following table lists our committees from which credit approval is required depending on total risk exposure for loans evaluated on an individual basis:

| Approved By                | Maximum approval<br>(thousands of U.S.\$) |
|----------------------------|---|
| Executive Credit Committee | >40,000                                   |
| Loan Credit Committee      | 40,000                                    |
| Business Segment Committee | 8,000-10,000                              |
| Large companies            | 10,000                                    |
| Real estate sector         | 10,000                                    |
| Medium-sized companies     | 8,000                                     |
| Regional Committee         | 5,000                                     |
| Branch Committee           | 300                                       |
| Companies                  | 300                                       |
| Mortgage                   | 120                                       |
| Persons                    | 30  |

We also have a department designated to monitor the quality of the loan portfolio on a continuous basis. The purpose of this special supervision is to maintain constant scrutiny over the portions of the portfolio that represent the greatest risk and to anticipate any deterioration. Based on this ongoing review of the loan portfolio, we believe that we are able to detect potentially problematic loans and make a decision on a client's status. This includes measures such as reducing or extinguishing a loan, or requiring better collateral from the client. The control systems require that these loans be reviewed at least three times per year for those clients in the lowest category of credit watch.

## Credit Approval: Loans approved on an individual basis

In preparing a credit proposal for a corporate client whose loans are approved on an individual basis, Santander-Chile's personnel verifies such parameters as debt servicing capacity (typically including projected cash flows), the company's financial history and projections for the economic sector in which it operates. The Risk Division is closely involved in this process, and prepares the credit application for the client. All proposals contain an analysis of the client's strengths and weaknesses, a rating and a recommendation. Credit limits are determined not on the basis of outstanding balances

of individual clients, but on the direct and indirect credit risk of entire financial groups. For example, a corporation will be evaluated together with its subsidiaries and affiliates.

Credit Approval: Loans approved on a group basis

The majority of loans to individuals and small and mid-sized companies are approved by the Standardized Risk Area through an automated credit scoring system. This system is decentralized, automated and based on multiple parameters, including demographic and information regarding credit behavior from external sources and the SBIF.

Classification of Loan Portfolio

Loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the acquisition of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (including all loans other than consumer loans and residential mortgage loans). The models and methods used to classify our loan portfolio and establish credit loss allowances must follow the following guiding principles, which have been approved by our Board of Directors.

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Loans analyzed on an individual basis

For loans that are greater than Ch\$150 million (US\$286,000), the Bank uses internal models to assign a risk category level to each borrower and its respective loans. We consider the following risk factors: industry or sector of the borrower, the borrower's competitive position in its markets, owners or managers of the borrower, the borrower's financial situation, the borrower's payment capacity and the borrower's payment behavior to calculate the estimated incurred loan loss. Through these categories, we differentiate the normal loan portfolio from the impaired one.

These are our categories:

1. Debtors may be classified in risk categories A1, A2, A3 or B (if they are current on their payment obligations and show no sign of deterioration in their credit quality). B is different from the A categories by a certain history of late payments. The A categories are distinguished by different PNPs (as defined below).

2. Debtors classified as C1, C2, C3, C4, D1 or D2 include debtors whose loans with us have been charged off or administered by our Recovery Unit, or classified as Precontenciosos (PRECO or deteriorated).

For loans classified as A1, A2, A3 and B, we assign a specific provision level on an individual basis to each borrower and, therefore, the amount of loan loss allowance is determined on a case by case basis.

**Estimated Incurred Loan Loss = Loan Loss Allowance**

The estimated incurred loss is obtained by multiplying all risk factors defined in the following equation:

$$\text{EIL} = \text{EXP} \times \text{PNP} \times \text{SEV}$$

EIL = Estimated Incurred Loan Loss. The estimated incurred loan loss is how much could be lost in the event a debtor does not perform the obligations under the loan.

EXP = Exposure. This corresponds to the value of commercial loans.

PNP = Probability of Non-Performance. This variable, expressed as a percentage, indicates the probability that a debtor will default in a period of 12 months. This percentage is associated with the internal rating that we give to each debtor, which is determined by analyzing such parameters as debt servicing capacity.

SEV = Severity. This is the effective loss rate given default for debtors in the same segment, which is determined statistically based on the historical effective losses for us for each segment.

PNP and SEV are reviewed and updated every three years. Every year, models together with PNP and SEV assumptions, are tested by the Bank's Credit Risk Department, to ensure that they are appropriate at each reporting date so as to make sure any difference between the estimated incurred losses and real losses is reduced.

These tests focus on the validation of the sufficiency of the Bank's allowances, and consist of comparisons between actual write-offs to allowances established by the model, and the coverage of the total allowance to actual write-offs in the most current periods. Individual loan classification and improvements to any customer classification are also presented for approval to our Risk Committee.

Our internal policy requires us to update appraisals of the fair value of collateral every 24 months, which policy does not vary by loan product. The appraisal is required to be performed within a shorter period if market conditions in general or conditions in a specific sector or with respect to certain customers indicate that the fair value of the collateral may have changed and any updated fair value of the collateral is factored into our allowance for loan loss calculations. A change in fair value of the collateral may change the risk category or profile of a customer which could result in lower or higher allowance for loan losses.

In accordance with such policy, every year we update appraisals of fair value of collateral before the end of the 24 month period for certain customers and such updated appraisals are considered in the calculation of the allowance for

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loan losses. The number of updated appraisals performed in 2011 was 59 in 2012 was 72 and in 2013 was 113 and such updated appraisals were performed mainly because of changes in customer conditions (renegotiation deterioration of financial situation increase in credit line).

For loans classified in the C and D categories, loan loss allowances are based mainly on the fair value of the collateral, adjusted for an estimate cost to sell, that each of these loans have. Allowance percentage for each category is then based on the fair value of the collateral, or the expected future cash flow from the loan for each individually evaluated non-performing loans.

The Bank uses the concept of estimation of incurred debt to quantify the allowances levels over the group-evaluated portfolios. Incurred debt is the expected provision expense that will appear one year away from the balance date of the transaction's credit risk, considering the counterpart risk and the guarantees associated with each transaction.

Following the Bank's definition, the Bank uses group evaluation to approach transactions that have similar credit risk features, which indicate the debtor's payment capacity over the entire debt, principal and interests, pursuant to the contract's terms. In addition, this allows us to assess a high number of transactions with low individual amounts, whether they belong to individuals or small sized companies. Therefore, debtors and loans with similar features are grouped together and each group has a risk level assigned to it.

These models are meant to be used mainly to analyze loans granted to individuals (including consumer loans, credit lines, mortgage loans and commercial loans) and commercial loans to SMEs.

Allowances are established using these models, taking into account the historical Impairment and other known circumstances at the time of evaluation. After this, a historical loss rate is assigned to each portfolio profile constituting each segment.

Allowances for group-evaluated loans are established based on the credit risk of the profile to which the loan belongs, within the established segments for the type of loan. The method for assigning a profile is established based on a statistical building method, establishing a relation through logistic regression various variables, such as payment behavior in the Bank, payment behavior outside the Bank, various sociodemographic data, among others, and a response variable that determines a client's risk level, which in this case is 90 days of non-performance (The chosen features are relevant when calculating future cash flows per group of assets). Afterwards, common profiles are established and with differentiated default rates, applying the real historical loss the Bank has had with that portfolio.

The different risk categories are constructed and updated periodically based on the payment behavior of the client's profile to which they belong, as well as his or her sociodemographic characteristics. Therefore, when a customer has past due balance or has missed some payments, the outcome is that the customer will move to a different segment with a higher loss rate, therefore capturing current trends for each risk profile.

Allowance quantification, once the customers have been classified, is the product of three factors: exposure (EXP), Probability of Non-Performance (PNP) and Severity (SEV). The same equation used for individual assessment mentioned above.

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The estimated incurred loss rates for group-evaluated loans correspond to charge-offs net of recoveries. The methodology establishes the period in which the estimated incurred loss for each risk profile emerges. Once the loss has been considered to have been incurred, the estimated incurred loss rates are applied to the corresponding risk profile to obtain the net charge-off level associated with this period. The loss rates applied to each risk profile are based only on the historical net charge-off data for that specific profile within one of the four groups of loans. No other statistical or other information other than net charge-offs is used to determine the loss rates.

To determine the estimated incurred loss for commercial and mortgage loans collectively evaluated for impairment, we mainly analyze the payment behavior of clients, particularly the payment behavior of clients with payments that are more than 90 days overdue, clients with other weaknesses, such as early non-performance (i.e., payments that are past-due, though by less than 90 days), clients with modified loans and clients with renegotiated loans, as well as success in recovery against these clients. We also take into account whether the loan is supported by collateral.

In connection with mortgage loans, historical net charge-offs are considered in the model to calculate loss rates for loans collectively evaluated for impairment. The risk categories are such that when a customer has a past-due balance or has missed some payments, the outcome is that the customer will move to a different risk category with a higher loss rate, therefore capturing current trends of the customer and, when aggregate, current trends in the market.

Our models for loans analyzed on a group basis (consumer loans, residential mortgage loans and small-and-mid- sized commercial loans) are monitored on a monthly basis with respect to predictability and stability, using indicators that seek to capture the underlying need to update the models for current loss trends. Therefore, the periods of historical net charge-offs used in the allowance model may be more than a year old as we only update the historical net charge-offs only when our assessment of predictability and stability indicators determine it is necessary.

Allowances for consumer loans

The estimated incurred loss rates for consumer loans correspond to charge-offs net of recoveries. The methodology establishes the period in which the estimated incurred loss for each risk profile emerges. Once the loss has been considered to have been incurred, the estimated incurred loss rates are applied to the corresponding risk profile to obtain the net charge-off level associated with this period. The loss rates applied to each risk profile are based only on the historical net charge-off data for that specific profile within one of the four groups of consumer loans. No other statistical or other information other than net charge-offs is used to determine the loss rates.

The following table sets forth the allowances required by our models for consumer loans from September 30, 2010 until June 2012:

Bank:

|           |              | Allowance Level(1) |                  |              |
|-----------|--------------|--------------------|------------------|--------------|
|           |              | Not renegotiated   |                  |              |
| Loan type | Risk Profile | New Clients*       | Existing Clients | Renegotiated |
| Consumer  | Profile 1    | 33.78%             | 10.39%           | 41.95%       |
|           | Profile 2    | 10.82%             | 2.01%            | 26.29%       |
|           | Profile 3    | 6.05%              | 0.82%            | 15.63%       |
|           | Profile 4    | 5.70%              | 0.38%            | 7.01%        |
|           | Profile 5    | 4.12%              | 0.22%            | 3.00%        |
|           | Profile 6    | 2.51%              | –                | 1.25%        |
|           | Profile 7    | 1.40%              | –                | 0.50%        |

|           |               | Allowance Level  |                  |              |
|-----------|---------------|------------------|------------------|--------------|
|           |               | Not renegotiated |                  |              |
| Loan type | Days Past Due | New Clients*     | Existing Clients | Renegotiated |
| Consumer  | 90-120        | 44.58%           | 56.39%           | 52.82%       |
|           | 120-150       | 44.58%           | 67.33%           | 62.96%       |
|           | 150-180       | 44.58%           | 75.49%           | 70.08%       |

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## Santander Banefe:

| Loan type | Risk Profile | Allowance Level(1) |                  |              |
|-----------|--------------|--------------------|------------------|--------------|
|           |              | New Clients*       | Existing Clients | Renegotiated |
|           |              | Not renegotiated   |                  |              |
| Consumer  | Profile 1    | 57.60%             | 33.24%           | 51.13%       |
|           | Profile 2    | 22.97%             | 14.23%           | 32.79%       |
|           | Profile 3    | 19.40%             | 7.16%            | 28.85%       |
|           | Profile 4    | 14.62%             | 4.10%            | 19.23%       |
|           | Profile 5    | 10.77%             | 2.52%            | 13.31%       |
|           | Profile 6    | 5.88%              | 1.34%            | 8.57%        |
|           | Profile 7    | 3.09%              | 0.94%            | 4.37%        |
|           | Profile 8    | –                  | –                | 2.69%        |

| Loan type | Days Past Due | Allowance Level  |                  |              |
|-----------|---------------|------------------|------------------|--------------|
|           |               | New Clients*     | Existing Clients | Renegotiated |
|           |               | Not renegotiated |                  |              |
| Consumer  | 90-120        | 82.95%           | 56.36%           | 53.55%       |
|           | 120-150       | 82.95%           | 68.00%           | 64.05%       |
|           | 150-180       | 82.95%           | 78.54%           | 74.72%       |

(1)

Percentage of total outstanding.

A client is considered to be “new” if it has less than 6 months of payment history with the Bank. Therefore, its \*behavior is very similar and it is rare for a client to receive a loan and not pay from the onset of the relationship; usually, the client starts to default when he or she is already classified as an “existing client.”

In 2012, we continued our policy of upgrading our models to determine allowances for consumer loans, especially regarding consumer loans with some type of renegotiation. There are now three renegotiated categories in our consumer loan portfolio:

Renegotiated Consumer: This category relates to loans which were less than 90 days past due at the time of 1. renegotiation. The allowance for loan loss percentages (or loss rates) are assigned based on six different risk profiles which are determined based on demographic and payment behavior variables.

2. Renegotiated Consumer with three months of non-payment: This category relates to loans which were more than 90 days past due at the time of renegotiation. The loss rates are assigned based on four different risk profiles which are

determined based on the number of days overdue at the time of renegotiation:

Profile 1: 180 or more days past due

Profile 2: between 150 and 180 days past due

Profile 3: between 120 and 150 days past due

Profile 4: between 90 and 120 days past due

After the customer has made three consecutive monthly payments, he/she will be reassigned to one of the seven risk profiles for “Renegotiated Consumer” (number 1 above). If the customer is not able to make the required monthly payment under the renegotiated terms and days past due increase, the customer will move to a more risky profile within the same group “Renegotiated Consumer with three months of non-payment”. For example, a customer in Profile 1 (180 or more days past due) that increases days past due will remain in the same category and profile and, therefore, will continue to have a 100% loss rate. A customer in Profile 4 (between 90 and 120 days past due) who reaches more than 120 days past due will move to Profile 3, increasing their loss rate from 38.5% to 47.0%.

Non-performing consumer – renegotiated: This category relates only to loans which were in category 1, renegotiated 3. with less than 90 days past due at the time of renegotiation, and have reached 90 days past due subsequent to renegotiation. For example, a customer initially categorized as “Renegotiated

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Consumer” (less than 90 days past due at the time of renegotiation), under risk profile 1 (29.7% loss rate) who reaches more than 90 days past due since renegotiation will migrate to the “Non-performing Consumer – Renegotiated” category 90 -120 days past due with a 41.6% loss rate. The customer will move to higher risk profiles as number of days past due increases until the loan reaches 180 days past due, when it is charged-off. On the other hand, after the customer has made three consecutive monthly payments, he/she will be reassigned to one of the six risk profiles for “Renegotiated Consumer” (number 1 above).

The following table sets forth the allowances required by our models for consumer loans since June 2012:

Bank:

| Loan type           | Risk Profile | Allowance Level(1) (Loss rate) |                  |
|---------------------|--------------|--------------------------------|------------------|
|                     |              | Not renegotiated               |                  |
|                     |              | New Clients                    | Existing Clients |
| Performing Consumer | Profile 1    | 24.5%                          | 20.9%            |
|                     | Profile 2    | 14.0%                          | 10.1%            |
|                     | Profile 3    | 7.3%                           | 5.0%             |
|                     | Profile 4    | 3.4%                           | 2.1%             |
|                     | Profile 5    | 2.1%                           | 1.4%             |
|                     | Profile 6    | 1.3%                           | 0.9%             |
|                     | Profile 7    | 0.8%                           | 0.5%             |
|                     | Profile 8    | 0.4%                           | 0.3%             |

| Loan type  | Risk Profile | Allowance Level(1) (Loss rate) |
|--|--------------|--------------------------------|
|  |              | Renegotiated                   |
| Renegotiated Consumer which were less than 90 days past due at the time of renegotiation (2) | Profile 1    | 29.7%                          |
|  | Profile 2    | 21.5%                          |
|  | Profile 3    | 10.7%                          |
|  | Profile 4    | 6.5%                           |
|  | Profile 5    | 4.2%                           |
|  | Profile 6    | 3.2%                           |

| Loan type | Risk Profile | Allowance Level(1) (Loss rate) |
|-----------|--------------|--------------------------------|
|           |              | Renegotiated                   |
|           | Profile 1    | 100.0%                         |

Renegotiated Consumer which were more than 90 days past due at the time of renegotiation (2)

Profile 2 56.0%  
 Profile 3 47.0%  
 Profile 4 38.5%

| Loan type               | Days Past Due | Allowance Level(1) (Loss rate) |             |                               |
|-------------------------|---------------|--------------------------------|-------------|-------------------------------|
|                         |               | Not renegotiated               | New Clients | Existing Clients Renegotiated |
| Non-performing Consumer | 90-120        | 38.5%                          | 38.5%       | 41.6%                         |
|                         | 120-150       | 47.0%                          | 47.0%       | 48.8%                         |
|                         | 150-180       | 55.0%                          | 55.0%       | 55.9%                         |
|                         | >180          |                                | Charged-off |                               |

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Santander Banefe:

| Loan type           | Risk Profile | Allowance Level(1) (Loss rate) |                  |
|---------------------|--------------|--------------------------------|------------------|
|                     |              | New Clients                    | Existing Clients |
| Performing Consumer | Profile 1    | 26.7%                          | 22.3%            |
|                     | Profile 2    | 14.2%                          | 12.3%            |
|                     | Profile 3    | 9.0%                           | 4.4%             |
|                     | Profile 4    | 5.8%                           | 2.2%             |
|                     | Profile 5    | 3.1%                           | 0.7%             |
|                     | Profile 6    | 1.3%                           | 0.2%             |
|                     | Profile 7    | –                              | 0.1%             |

| Loan type  | Risk Profile | Allowance Level(1) (Loss rate) |                  |
|--|--------------|--------------------------------|------------------|
|  |              | New Clients                    | Existing Clients |
| Renegotiated Consumer which were less than 90 days past due at the time of renegotiation (2) | Profile 1    | 36.6%                          |                  |
|  | Profile 2    | 29.6%                          |                  |
|  | Profile 3    | 21.0%                          |                  |
|  | Profile 4    | 12.2%                          |                  |
|  | Profile 5    | 7.1%                           |                  |
|  | Profile 6    | 5.2%                           |                  |

| Loan type   | Risk Profile | Allowance Level(1) (Loss rate) |                  |
|---|--------------|--------------------------------|------------------|
|   |              | New Clients                    | Existing Clients |
| Renegotiated Consumer which were more than 90 days past due at the time of renegotiation(2) | Profile 1    | 100.0%                         |                  |
|   | Profile 2    | 64.7%                          |                  |
|   | Profile 3    | 48.9%                          |                  |
|   | Profile 4    | 32.1%                          |                  |

| Loan type               | Past-due Days | Allowance Level(1) |                  |                  |
|-------------------------|---------------|--------------------|------------------|------------------|
|                         |               | New Clients        | Existing Clients | Renegotiated (2) |
| Non-performing Consumer | 90-120        | 32.1%              | 32.1%            | 48.9%            |
|                         | 120-150       | 37.4%              | 37.4%            | 55.8%            |
|                         | 150-180       | 42.7%              | 42.7%            | 64.7%            |
|                         | >180          |                    | Charged-off      |                  |

1. Percentage of loans outstanding

2. This category relates only to loans which were renegotiated and were less than 90 days past due at the time of renegotiation, migrating from such category as they reached 90 days past due since renegotiation.

Allowances for residential mortgage loans

Prior to June 2011, residential mortgage loans were assigned an allowance level based on credit risk profiles which were determined utilizing a statistical model that considered a borrower's credit history, including any defaults on obligations to other creditors, as well as the past-due periods on the loans borrowed from us. Once the rating of the client was determined, the allowance for a mortgage loan was calculated using a risk category, which was directly related to days past-due. The following table sets forth the ratios of the required allowance amount to the aggregate amount of the principal and accrued but unpaid interest on the loan used under the Bank's prior model.

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## Previous model

Residential mortgage loans

Past-due days

|                    |  | 1-30 | 31-60 | 61-120 | 121-180 | 181-360 | 361- 720 | >720  |
|--------------------|--|------|-------|--------|---------|---------|----------|-------|
| Mortgage Profile 1 |  | 0.3% | 0.5%  | 1.2%   | 2.4%    | 6.8%    | 14.1%    | 28.3% |
| Mortgage Profile 2 |  | 1.5% | 1.6%  | 2.5%   | 4.4%    | 6.8%    | 14.1%    | 28.3% |

As of June 2011, the new methodology takes into consideration different factors in order to group customers with less than 90 days past due into seven different risk profiles. Factors considered, in the first place, are whether the customer is a new customer or with prior history with the Bank or if it is a Banefe customer. For each of these three main categories additional factors are considered in order to develop risk profiles within each risk category, including payment behavior, non-performance less than 90 days, collateral levels, renegotiation history with the Bank, and historical amounts of net charge-offs, among others. The explanation for the initial segregation into three categories, existing, new or Banefe customer, is as follows: Banefe customers have a different risk profile as they relate to low income individuals; an existing customer (Banefe or Bank) is a customer for which there is a broader level of information and history of payment behavior with the Bank, while for a new customer the Bank has no history of payment behavior and only information from the banking system and credit bureaus is available. The risk categories are such that when a customer's payment behavior deteriorates, the outcome is that the customer will move to a different risk category with a higher loss rate, therefore capturing the current status of the customer.

Mortgage loans with more than 90 days past due balances are assigned a loss rate of 11.01%. When the customer becomes current in its payments, such customer will migrate to one of the profiles in the table above. We determined that 90 days is the appropriate loss emergence period for these loans based on historical analysis of customer's behavior, which has shown that after a customer has reached the 90-day threshold he/she will likely default on his/her obligation, and that, over succeeding periods, the loss incurred does not increase given the high fair value of collateral percentage to loan amount required under our credit policies for this type of loan. Also, we note that the Chilean economy's stability over the last few years has not resulted in other than insignificant fluctuations in collateral fair values on residential mortgage loan properties.

The following table sets forth the required loan loss allowance for residential mortgage loans since June 2011 and in 2012.

| Loan type            | Risk Profile | Allowance Level(1) (Loss rate) |       |        |
|----------------------|--------------|--------------------------------|-------|--------|
|                      |              | New client*                    | Old   | Banefe |
| Residential mortgage | Profile 1    | 5.47%                          | 4.72% | 5.68%  |
|                      | Profile 2    | 1.66%                          | 1.41% | 2.51%  |
|                      | Profile 3    | 0.45%                          | 0.59% | 0.71%  |
|                      | Profile 4    | 0.15%                          | 0.26% | 0.24%  |
|                      | Profile 5    | 0.10%                          | 0.12% | 0.08%  |
|                      | Profile 6    | 0.03%                          | 0.03% | 0.06%  |

Profile 7

0.02%

A client is considered to be “new” if it has less than 6 months of payment history with the Bank. Therefore, its \*behavior is very similar and it is rare for a client to receive a loan and not pay from the onset of the relationship; usually, the client starts to default when he or she is already classified as an “existing client.”

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In 2013, the model for the renegotiated mortgage loan portfolio was updated. This was driven by the fact that after the 2010 earthquake the Bank offered temporary relief to some mortgage clients. A portion of this portfolio continued to perform out of range with our model. For this reason, the Risk Committee decided that the model needed to be updated in order to capture this event. The following table sets forth the required loan loss allowance for residential mortgage loans in 2013.

| Loan type            | Risk Profile | Allowance Level(1) (Loss rate) |       |        |
|----------------------|--------------|--------------------------------|-------|--------|
|                      |              | New client*                    | Old   | Banefe |
| Residential mortgage | Profile 1    | 5.96%                          | 5.14% | 6.19%  |
|                      | Profile 2    | 1.81%                          | 1.54% | 2.74%  |
|                      | Profile 3    | 0.49%                          | 0.64% | 0.77%  |
|                      | Profile 4    | 0.17%                          | 0.28% | 0.26%  |
|                      | Profile 5    | 0.11%                          | 0.13% | 0.08%  |
|                      | Profile 6    | 0.03%                          | 0.03% | 0.07%  |
|                      | Profile 7    |                                | 0.02% |        |

## Small- and mid-sized commercial loans

To determine the estimated incurred loss for small- and mid-sized commercial loans collectively evaluated for impairment, we mainly analyze the payment behavior of clients, particularly the payment behavior of clients with payments that are 90 days or more past-due, clients with other weaknesses, such as early non-performance (*i.e.*, payments that are past-due, though by less than 90 days), clients with modified loans and clients with renegotiated loans, as well as success in recovery against these clients. We also take into account whether the loans are supported by collateral. The risk categories are such that when a customer has a past-due balance or has missed some payments, the outcome is that the customer will move to a different risk category with a higher loss rate, therefore capturing current trends of the customer and, in the aggregate, current trends in the market.

In order to calculate the estimated incurred loan loss for all commercial loans collectively evaluated for impairment, the Bank sub-divided the portfolio in the following way:

## Allowance Level

## Small- and mid-sized commercial loans collectively evaluated for impairment

## Loan type

|  |   |   |
|--|---|---|
| Non-renegotiated, w/o mortgage collateral, new client, % | Non-renegotiated, w/o mortgage collateral, existing client, % | Non-renegotiated, with mortgage collateral, % |
|--|---|---|

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|           |        |           |        |           |        |
|-----------|--------|-----------|--------|-----------|--------|
| Profile 1 | 37.20% | Profile 1 | 37.20% | Profile 1 | 10.60% |
| Profile 2 | 31.93% | Profile 2 | 18.11% | Profile 2 | 4.42%  |
| Profile 3 | 13.25% | Profile 3 | 4.45%  | Profile 3 | 0.68%  |
| Profile 4 | 5.09%  | Profile 4 | 2.06%  | Profile 4 | 0.17%  |
| Profile 5 | 1.50%  | Profile 5 | 0.52%  | Profile 5 | 0.11%  |
| Profile 6 | 0.55%  |           |        | Profile 6 | 0.02%  |
| Profile 7 | 0.05%  |           |        |           |        |

Renegotiated, %

|           |        |
|-----------|--------|
| Profile 1 | 29.20% |
| Profile 2 | 19.42% |
| Profile 3 | 10.28% |
| Profile 4 | 3.75%  |
| Profile 5 | 1.13%  |
| Profile 6 | 0.13%  |

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## Analysis of Santander-Chile's Loan Classification

The following tables provide statistical data regarding the classification of our loans analyzed on an individual basis as of December 31, 2013, 2012 and 2011.

| Category<br>business | As of December 31,<br>2013 |                 |                       |                | 2012                  |                 |                       |                | 2011                  |                 |                       |                |
|----------------------|----------------------------|-----------------|-----------------------|----------------|-----------------------|-----------------|-----------------------|----------------|-----------------------|-----------------|-----------------------|----------------|
|                      | Individualized<br>Ch\$mnn  | Individual<br>% | Percentage<br>Ch\$mnn | Allowance<br>% | Individual<br>Ch\$mnn | Individual<br>% | Percentage<br>Ch\$mnn | Allowance<br>% | Individual<br>Ch\$mnn | Individual<br>% | Percentage<br>Ch\$mnn | Allowance<br>% |
| <b>A1</b>            | 2,395,371                  | 11.4            | 1,589                 | 0.3            | 2,114,853             | 11.2            | 1,306                 | 0.2            | 1,510,801             | 8.7             |                       |                |
| <b>A2</b>            | 4,846,240                  | 23.0            | 20,416                | 3.3            | 4,119,414             | 21.7            | 14,853                | 2.7            | 3,927,846             | 22.5            |                       |                |
| <b>A3</b>            | 1,281,756                  | 6.1             | 27,982                | 4.6            | 1,037,593             | 5.5             | 26,279                | 4.8            | 818,039               | 4.7             |                       |                |
| <b>B</b>             | 374,051                    | 1.8             | 30,536                | 5.0            | 287,897               | 1.5             | 23,095                | 4.2            | 269,260               | 1.5             |                       |                |
| <b>C1</b>            | 56,040                     | 0.3             | 1,121                 | 0.2            | 45,104                | 0.2             | 902                   | 0.2            | 28,888                | 0.2             |                       |                |
| <b>C2</b>            | 46,996                     | 0.2             | 4,700                 | 0.8            | 30,796                | 0.2             | 3,080                 | 0.6            | 26,896                | 0.2             |                       |                |
| <b>C3</b>            | 20,780                     | 0.1             | 5,195                 | 0.8            | 34,685                | 0.2             | 8,672                 | 1.6            | 47,494                | 0.3             |                       |                |
| <b>C4</b>            | 43,109                     | 0.2             | 17,243                | 2.8            | 28,246                | 0.1             | 11,298                | 2.1            | 40,879                | 0.2             |                       |                |
| <b>D1</b>            | 61,246                     | 0.3             | 39,811                | 6.5            | 36,545                | 0.2             | 23,754                | 4.3            | 36,163                | 0.2             |                       |                |
| <b>D2</b>            | 64,755                     | 0.3             | 58,279                | 9.5            | 46,246                | 0.2             | 41,622                | 7.6            | 40,600                | 0.2             |                       |                |
| <b>Total</b>         | <b>9,190,344</b>           | <b>43.7</b>     | <b>206,872</b>        | <b>33.8</b>    | <b>7,781,379</b>      | <b>41.0</b>     | <b>154,861</b>        | <b>28.3</b>    | <b>6,746,866</b>      | <b>38.7</b>     |                       |                |

## Classification of Loan Portfolio Based on the Borrower's Payment Performance

Non-performing loans include the aggregate principal and accrued but unpaid interest of any loan with one installment that is at least 90 days overdue, and also loans that may not be overdue 90 days but future expected cash flows are not expected to be received, and do not accrue interest. Please see Note 10g of our Audited Consolidated Financial Statements.

Impaired loans as of December 31, 2009 and 2010 include: (A) for loans whose allowance is determined on an individual basis, (i) all loans to a debtor that are rated C1 through D2 and (ii) total loans to single debtors with a loan that is non-performing; and (B) for loans whose loan loss allowance is determined on a group basis, (i) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans and (ii) if the loan that is non-performing or renegotiated is a residential mortgage loan, all loans to that debtor. As of December 31, 2011, 2012 and 2013, impaired loans include: (A) for loans whose allowance is determined on an individual basis, (i) all deteriorated debtors and (ii) total loans to single debtors with a loan that is non-performing; and (B) for loans whose loan loss allowance is determined on a group basis, (i) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans, and (ii) if the loan that is non-performing or renegotiated is a residential mortgage loan all loans to that debtor. See "Note 10—Loans and Accounts Receivables from Customers" of the Audited Consolidated Financial Statements. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing

loans, but do not accrue interest.

### Charge-offs

As a general rule, charge-offs should be done when all collection efforts have been exhausted. These charge-offs consist of derecognition from the Consolidated Statements of Financial Position of the corresponding loans operations in its entirety, and, therefore, include portions not past-due of a loan in the case of installments loans or leasing operations (no partial charge-offs exists).

Subsequent payments obtained from charged-off loans will be recognized in the Consolidated Statement of Income as a recovery of loans previously charged-off.

Loan and accounts receivable charge-offs are recorded for overdue, past due, and current installments based on the time periods expired since reaching overdue status, as described below:

| <b>Type of loan</b>                       | <b>Term</b> |
|---|-------------|
| Consumer loans with or without collateral | 6 months    |
| Other transactions without collateral     | 24 months   |
| Commercial loans with collateral          | 36 months   |
| Mortgage loans                            | 48 months   |
| Consumer leasing                          | 6 months    |
| Other non-mortgage leasing transactions   | 12 months   |
| Mortgage leasing (household and business) | 36 months   |

Any payment agreement of an already charged-off loan will not give rise to income—as long as the operation is still in an impaired status—and the effective payments received are accounted for as a recovery from loans previously charged-off.

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In general, legal collection proceedings are commenced with respect to consumer loans once they are past-due for at least 90 days and, with respect to mortgage loans, once they are past-due for at least 120 days. Legal collection proceedings are always commenced within one year of such loans becoming past-due, unless we determine that the size of the past-due amount does not warrant such proceedings. In addition, the majority of our commercial loans are short-term, with single payments at maturity. Past-due loans are required to be covered by individual loan loss reserves equivalent to 100.0% of any unsecured portion thereof.

The following table sets forth all of our past-due loans, non-performing loans, and impaired loans as of December 31, 2013, 2012, 2011, 2010 and 2009.

|   | 2013                                      | 2012       | 2011       | 2010       | 2009       |
|---|---|------------|------------|------------|------------|
|   | (in millions of Ch\$, except percentages) |            |            |            |            |
| Non-performing loans (1)                                    | 613,301                                   | 597,767    | 511,357    | 416,739    | 409,067    |
| Impaired loans (2)  | 1,477,701                                 | 1,338,137  | 1,323,355  | 1,480,476  | 1,485,737  |
| Allowance for loan losses (3)                               | 614,933                                   | 550,048    | 488,468    | 425,447    | 349,527    |
| Total loans (4)   | 21,060,761                                | 18,966,652 | 17,434,782 | 15,727,282 | 13,751,276 |
| Allowance for loan losses / loans                           | 2.92%                                     | 2.90%      | 2.80%      | 2.71%      | 2.54%      |
| Non-performing loans as a percentage of total loans         | 2.91%                                     | 3.15%      | 2.93%      | 2.65%      | 2.97%      |
| Loan loss allowance as a percentage of non-performing loans | 100.27%                                   | 92.02%     | 95.52%     | 102.09%    | 85.44%     |

(1) Non-performing loans include the aggregate principal and accrued but unpaid interest of any loan with one installment that is at least 90 days past-due, and do not accrue interest.

Impaired loans in 2009 and 2010, impaired loans include: (A) for loans whose allowance is determined on an individual basis, (i) all loans to a debtor that are rated C1 through D2 and (ii) total loans to single debtors with a loan that is non-performing, and (B) for loans whose loan loss allowance is determined on a group basis, (i) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans and (ii) if the loan that is non-performing or renegotiated is a residential mortgage loan all loans to that debtor are considered impaired. For 2011 - 2013, impaired loans include: (A) for loans whose allowance is determined on an individual basis, (i) all deteriorated debtors and (ii) total loans to single debtors with a loan that is non-performing, and (B) for loans whose loan loss allowance is determined on a group basis, (i) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans and (ii) 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—Loans and Accounts Receivables from Customers” of the Audited Consolidated Financial Statements. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing loans, but do not accrue interest.

(3) Includes allowance for interbank loans.

(4) Includes interbank loans.

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We suspend the accrual of interest and readjustments on all past-due loans. Interest revenue and expense are recorded on an accrual basis using the effective interest method. However, when a loan is past-due by 90 days or more, when an obligation originated from a refinancing or renegotiation or when the Bank believes that the debtor poses a high risk of default, the interest pertaining to these is not recorded directly in the Consolidated Statement of Income unless it has been actually received. See “Note 1—Summary of Significant Accounting Policies—(h) Valuation of financial assets and liabilities and recognition of fair value changes” and “Note 26—Interest Income and Expense” of the Audited Consolidated Financial Statements. These interest and adjustments balances are generally referred to as “suspended” and are recorded in suspense accounts which are not part of the Consolidated Statements of Financial Position. Instead, they are reported as part of the complementary information thereto. See “Note 26—Interest Income and Expense” of the Audited Consolidated Financial Statements. This interest is recognized as income, when collected, and as a reversal of the related impairment losses.

The Bank ceases accruing interest on the basis of contractual terms on the principal amount of any asset that is classified as an impaired asset. Thereafter, the Bank recognizes as interest income the accretion of the net present value of the written down amount of the loan due to the passage of time based on the original effective interest rate of the loan. On the other hand, any collected interest for any assets classified as impaired are accounted for on a cash basis.

At the period end, the detail of income from suspended interest is as follows:

|                    | Year ended December 31, |               |               |               |               |
|--------------------|-------------------------|---------------|---------------|---------------|---------------|
|                    | 2013                    | 2012          | 2011          | 2010          | 2009          |
| Suspended interest | Ch\$ million            |               |               |               |               |
| Commercial loans   | 21,645                  | 20,595        | 17,554        | 26,020        | 25,157        |
| Mortgage loans     | 8,484                   | 8,844         | 9,343         | 7,457         | 8,296         |
| Consumer loans     | 6,753                   | 8,742         | 9,246         | 16,780        | 32,117        |
| <b>Totals</b>      | <b>36,882</b>           | <b>38,181</b> | <b>36,143</b> | <b>50,257</b> | <b>65,570</b> |

#### Analysis of Impaired and Non-Performing Loans

The following table analyzes our impaired loans. Impaired loans include: (i) all loans to a single client that are evaluated on a group basis, including performing loans, that have a loan classified as non-performing, (ii) all renegotiated consumer loans and (iii) all commercial loans at risk of default. See “Note 10—Loans and Accounts Receivables from Customers—(a) Loans and accounts receivable from customers” in the Audited Consolidated Financial Statements.

|      |      |      |      |      |
|------|------|------|------|------|
| 2013 | 2012 | 2011 | 2010 | 2009 |
|------|------|------|------|------|

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|   | (Ch\$ million) |            |            |            |            |
|---|----------------|------------|------------|------------|------------|
| Total loans   | 21,060,761     | 18,966,652 | 17,434,782 | 15,727,282 | 13,751,276 |
| Allowance for loan losses                             | 614,933        | 550,048    | 488,468    | 425,447    | 349,527    |
| Impaired loans(1)                                     | 1,477,701      | 1,338,137  | 1,323,355  | 1,480,476  | 1,485,737  |
| Impaired loans as a percentage of total loans         | 7.02%          | 7.06%      | 7.59%      | 9.41%      | 10.80%     |
| Amounts non-performing                                | 613,301        | 597,767    | 511,357    | 416,739    | 409,067    |
| To the extent secured(2)                              | 295,503        | 306,782    | 264,355    | 214,786    | 206,271    |
| To the extent unsecured                               | 317,798        | 290,985    | 247,002    | 201,953    | 202,796    |
| Amounts non-performing as a percentage of total loans | 2.91%          | 3.15%      | 2.93%      | 2.65%      | 2.97%      |
| To the extent secured(2)                              | 1.40%          | 1.62%      | 1.52%      | 1.37%      | 1.50%      |
| To the extent unsecured                               | 1.51%          | 1.53%      | 1.42%      | 1.28%      | 1.47%      |
| Loans loss allowances as a percentage of:             |                |            |            |            |            |
| Total loans   | 2.92%          | 2.90%      | 2.80%      | 2.71%      | 2.54%      |
| Total amounts non-performing                          | 100.27%        | 92.02%     | 95.52%     | 102.09%    | 85.44%     |
| Total amounts non-performing-unsecured                | 193.50%        | 189.03%    | 197.76%    | 210.67%    | 172.35%    |

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Impaired loans in 2009 and 2010, impaired loans include: (A) for loans whose allowance is determined on an individual basis, (i) all loans to a debtor that are rated C1 through D2 and (ii) total loans to single debtors with a loan that is non-performing, and (B) for loans whose loan loss allowance is determined on a group basis, (i) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans and (ii) if the loan that is non-performing or renegotiated is a residential mortgage loan all loans to that debtor are considered impaired. For 2011- 2013, impaired loans include: (A) for loans whose (1) allowance is determined on an individual basis, (i) all deteriorated debtors and (ii) total loans to single debtors with a loan that is non-performing, and (B) for loans whose loan loss allowance is determined on a group basis, (i) total loans to a debtor, when a loan to that debtor is non-performing or has been renegotiated, excluding performing residential mortgage loans and (ii) 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—Loans and Accounts Receivables from Customers” in the Audited Consolidated Financial Statements. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing loans, but do not accrue interest.

(2) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

A break-down of the loans included in the previous table which have been classified as impaired, including renegotiated loans, is as follows:

| Impaired loans   | Commercial     | Residential mortgage (in millions of Ch\$) | Consumer       | Total            |
|--|----------------|--|----------------|------------------|
| As of December 31, 2013  |                |  |                |                  |
| Non-performing loans   | 364,890        | 155,688                                    | 92,723         | 613,301          |
| Commercial loans at risk of default (1)                          | 317,534        | -  | -              | 317,534          |
| Other impaired loans consisting mainly of renegotiated loans (2) | 122,464        | 167,713                                    | 256,689        | 546,866          |
| <b>Total</b>   | <b>804,888</b> | <b>323,401</b>                             | <b>349,412</b> | <b>1,477,701</b> |
| Impaired loans   | Commercial     | Residential mortgage                       | Consumer       | Total            |
| As of December 31, 2012  |                |  |                |                  |
| Non-performing loans   | 320,461        | 159,802                                    | 117,504        | 597,767          |
| Commercial loans at risk of default (1)                          | 298,868        | -  | -              | 298,868          |
| Other impaired loans consisting mainly of renegotiated loans (2) | 96,793         | 69,228                                     | 275,481        | 441,502          |
| <b>Total</b>   | <b>716,122</b> | <b>229,030</b>                             | <b>392,985</b> | <b>1,338,137</b> |
| Impaired loans   | Commercial     | Residential mortgage                       | Consumer       | Total            |
| As of December 31, 2011  |                |  |                |                  |
| Non-performing loans   | 251,881        | 152,911                                    | 106,565        | 511,357          |
| Commercial loans at risk of default (1)                          | 285,930        | -  | -              | 285,930          |
| Other impaired loans consisting mainly of renegotiated loans (2) | 164,158        | 46,785                                     | 315,125        | 526,068          |

| <b>Total</b>   | <b>701,969</b> | <b>199,696</b> | <b>421,690</b> | <b>1,323,355</b> |
|--|----------------|----------------|----------------|------------------|
|  |                | Residential    |                |                  |
| Impaired loans   | Commercial     | mortgage       | Consumer       | Total            |
| As of December 31, 2010  |                |                |                |                  |
| Non-performing loans   | 213,872        | 121,911        | 80,956         | 416,739          |
| Commercial loans at risk of default (1)                          | 444,129        | –              | –              | 444,129          |
| Other impaired loans consisting mainly of renegotiated loans (2) | 230,810        | 20,735         | 368,063        | 618,608          |
| <b>Total</b>   | <b>888,811</b> | <b>142,646</b> | <b>449,019</b> | <b>1,480,476</b> |

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| Impaired loans   | Commercial     | Residential mortgage | Consumer       | Total            |
|--|----------------|----------------------|----------------|------------------|
| As of December 31, 2009  |                |                      |                |                  |
| Non-performing loans   | 195,163        | 130,119              | 83,785         | 409,067          |
| Commercial loans at risk of default (1)                          | 405,513        | –                    | –              | 405,513          |
| Other impaired loans consisting mainly of renegotiated loans (2) | 273,662        | 2,029                | 395,466        | 671,157          |
| <b>Total</b>   | <b>874,338</b> | <b>132,148</b>       | <b>479,251</b> | <b>1,485,737</b> |

(1) Total loans to a debtor, whose allowance level is determined on an individual basis with a risk of defaulting.

(2) Renegotiated loans for loans whose loan loss allowance is analyzed on a group basis.

## Renegotiated Loans

In certain instances, we renegotiate loans that have one or more principal or interest payments past-due. The type of concession we most often afford when renegotiating a loan is a reduction in interest payment or, on rare occasions, forgiveness of principal. We estimate that less than 0.5% of renegotiated loans relate to the forgiveness of principal, and the remaining 99.5% relates to reduction of interest payments. Any amount of principal forgiven is charged off directly to income as of the date the loan is renegotiated, if not already covered by an allowance for loan loss. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing, but do not accrue interest, and they are considered to be impaired for the life of the loan, both for disclosure purposes and in our determination of our allowances for loan losses, and never moved out of renegotiated status. The effects of the amount of interest to be accrued were not material to “Loans and receivables from customers, net” on our Consolidated Statement of Financial Position.

The following table shows the success rate, for the periods indicated, for renegotiated consumer and residential mortgage loans. The success rate for consumer loans is defined for each reported period as: (i) the total amount of loans renegotiated in that period minus the amount of such renegotiated loans that are classified as non-performing loans as of December 31, 2012 or 2013, as applicable, minus the amount of such renegotiated loans that have been charged off as of December 31, 2012 or 2013, as applicable, divided by (ii) the total amount of such renegotiated loans. The success rate for residential mortgage loans is defined for each reported period as: (i) the total amount of loans renegotiated in that period minus the amount of such renegotiated loans that are classified as non-performing loans as of December 31, 2012 or 2013, as applicable, divided by (ii) the total amount of such renegotiated loans. A charge-off of a residential mortgage loan is not generally included in measuring the success rate of mortgage renegotiations since the period to charge-off a mortgage loan is 48 months after an installment is past-due.

Period of renegotiation

|         | Success rate<br>Consumer Loans | Success rate<br>Residential mortgage loans |
|---------|--------------------------------|--|
| 1Q 2012 | 42.6%                          | 88.6%                                      |
| 2Q 2012 | 48.4%                          | 87.7%                                      |
| 3Q 2012 | 45.7%                          | 92.1%                                      |
| 4Q 2012 | 54.7%                          | 91.5%                                      |
| 1Q 2013 | 65.3%                          | 94.3%                                      |
| 2Q 2013 | 81.5%                          | 94.8%                                      |
| 3Q 2013 | 98.6%                          | 98.4%                                      |
| 4Q 2013 | 100.0%                         | 100.0%                                     |

From time to time, we modify loans that are not classified as non-performing if a client is confronting a financial difficulty, such as unemployment or another temporary situation. These loans are not classified as renegotiated for disclosure purposes, but are considered as renegotiated for our provisioning models. The following table provides information regarding loans collectively evaluated for impairment that are classified as “modified:”

| Modified loans(1) (Ch\$m)                              | 2013           | 2012           | 2011           |
|--|----------------|----------------|----------------|
| Commercial loans collectively evaluated for impairment | 169,285        | 114,949        | 81,810         |
| Residential mortgage loans                             | 287,730        | 263,454        | 257,854        |
| Consumer loans   | 251,795        | 324,666        | 380,036        |
| <b>Total modified loans</b>                            | <b>708,810</b> | <b>703,069</b> | <b>719,700</b> |

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Modified loans include loans collectively evaluated for impairment that were not classified as non-performing in (1) which certain concessions were made to the client. The main type of concession given by the Bank is a reduction of interest, with forgiveness of principal occurring on rare occasions.

The modified loans included in the table above represent the full balance of all modified loans regardless of the date of modification. When a loan is marked as modified, we do not remove it from this status until paid in full. Our provisioning models currently consider a modified loan to be renegotiated for the life of the loan.

Modified loans are included in the same pool of loans together with renegotiated loans for the life of the loans.

## Analysis of Loan Loss Allowances

The following table provides the details of the roll-forwards in 2013, 2012, 2011, 2010 and 2009 of our allowance for loan losses, including removal of allowances due to charge-offs, allowances established, allowances released, gross provision expense and opening and closing balance:

| Activity during 2013                    | Commercial<br>loans   |                | Mortgage<br>loans | Consumer<br>loans | Interbank<br>loan | Total          |
|---|-----------------------|----------------|-------------------|-------------------|-------------------|----------------|
|   | Individual<br>Group   | Group          | Group             | Group             |                   |                |
|   | (in millions of Ch\$) |                |                   |                   |                   |                |
| <b>Balance as of December 31, 2012</b>  | <b>154,702</b>        | <b>95,938</b>  | <b>35,990</b>     | <b>263,259</b>    | <b>159</b>        | <b>550,048</b> |
| Allowances established (1)              | 92,008                | 36,724         | 21,314            | 155,921           | 455               | 306,422        |
| Allowances released (2)                 | (22,014)              | (11,151)       | (9,216)           | (35,482)          | (119)             | (77,982)       |
| Released allowances by charge-off (3)   | (18,319)              | (21,341)       | (4,782)           | (119,113)         | -                 | (163,555)      |
| <b>Balances as of December 31, 2013</b> | <b>206,377</b>        | <b>100,170</b> | <b>43,306</b>     | <b>264,585</b>    | <b>495</b>        | <b>614,933</b> |
| Activity during 2012                    | Commercial<br>loans   |                | Mortgage<br>loans | Consumer<br>loans | Interbank<br>loan | Total          |
|   | Individual<br>Group   | Group          | Group             | Group             |                   |                |
|   | MCh\$                 |                |                   |                   |                   | MCh\$          |
| <b>Balances as of December 31, 2011</b> | <b>112,687</b>        | <b>97,115</b>  | <b>35,633</b>     | <b>243,022</b>    | <b>11</b>         | <b>488,468</b> |
| Allowances established (1)              | 83,742                | 31,772         | 10,741            | 239,607           | 548               | 366,410        |
| Allowances released (2)                 | (20,716)              | (16,624)       | (7,449)           | (38,471)          | (400)             | (83,660)       |
| Charge-off released allowances (3)      | (21,011)              | (16,325)       | (2,935)           | (180,899)         | -                 | (221,170)      |
| <b>Balances as of December 31, 2012</b> | <b>154,702</b>        | <b>95,938</b>  | <b>35,990</b>     | <b>263,259</b>    | <b>159</b>        | <b>550,048</b> |



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| Activity during 2011                    | Commercial loans |               | Mortgage loans | Consumer loans | Interbank loan | Total          |
|---|------------------|---------------|----------------|----------------|----------------|----------------|
|   | Individual       | Group         | Group          | Group          |                |                |
|   | MCh\$            | MCh\$         | MCh\$          | MCh\$          |                | MCh\$          |
| <b>Balances as of December 31, 2010</b> | <b>96,560</b>    | <b>85,942</b> | <b>17,332</b>  | <b>225,559</b> | <b>54</b>      | <b>425,447</b> |
| Allowances established (1)              | 72,927           | 72,601        | 27,406         | 184,488        | 464            | 357,886        |
| Allowances released (2)                 | (41,741)         | (26,582)      | (7,645)        | (25,185)       | (507)          | (101,660)      |
| Charge-off released allowances (3)      | (15,059)         | (34,846)      | (1,460)        | (141,840)      | -              | (193,205)      |
| <b>Balances as of December 31, 2011</b> | <b>112,687</b>   | <b>97,115</b> | <b>35,633</b>  | <b>243,022</b> | <b>11</b>      | <b>488,468</b> |
| Activity during 2010                    | Commercial loans |               | Mortgage loans | Consumer loans | Interbank loan | Total          |
|   | Individual       | Group         | Group          | Group          |                |                |
|   | MCh\$            | MCh\$         | MCh\$          | MCh\$          |                | MCh\$          |
| <b>Balances as of December 31, 2009</b> | <b>78,297</b>    | <b>88,142</b> | <b>16,534</b>  | <b>166,512</b> | <b>42</b>      | <b>349,527</b> |
| Allowances established (1)              | 37,561           | 44,627        | 7,305          | 131,973        | 131            | 221,597        |
| Allowances released (2)                 | (10,828)         | (8,683)       | (952)          | (7,135)        | (119)          | (27,717)       |
| Charge-off released allowances (3)      | (8,470)          | (38,144)      | (5,555)        | (65,791)       | -              | (117,960)      |
| <b>Balances as of December 31, 2010</b> | <b>96,560</b>    | <b>85,942</b> | <b>17,332</b>  | <b>225,559</b> | <b>54</b>      | <b>425,447</b> |

(1) Represents gross allowances made in respect of increased risk of loss during the period and loan growth.

(2) Represents the gross amount of loan loss allowances released during the year as a consequence of reduction in the level of risk existing in the loan portfolio, including as a result of improvement in the credit risk classification of borrowers and loans paid.

(3) Represents the gross amount of loan loss allowances removed due to charge-off.

The following table shows recoveries by type of loan:

| Recovery of loans previously charged-off | Year ended December 31, |               |               |               |               |
|--|-------------------------|---------------|---------------|---------------|---------------|
|  | 2013                    | 2012          | 2011          | 2010          | 2009          |
|  | (in millions of Ch\$)   |               |               |               |               |
| Consumer loans                           | 36,004                  | 22,015        | 12,474        | 22,096        | 28,268        |
| Residential mortgage loans               | 4,735                   | 2,305         | 16,135        | 1,389         | 2,560         |
| Commercial loans                         | 14,545                  | 8,695         | 7,216         | 6,994         | 8,446         |
| <b>Total recoveries</b>                  | <b>55,284</b>           | <b>33,015</b> | <b>35,825</b> | <b>30,479</b> | <b>39,274</b> |

Allocation of the Loan Loss Allowances

The following tables set forth, as of December 31 of each of the five years listed below, the proportions of our required minimum loan loss allowances that were attributable to our commercial, consumer and residential mortgage loans at each such date.

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|                                     | As of December 31, 2013 |   |   |  | As of December 31, 2012 |   |   |  | As of           |
|-------------------------------------|-------------------------|---|---|--|-------------------------|---|---|--|-----------------|
|                                     | Total Allowance         | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Allowance amount as a percentage of total allocated allowances | Total Allowance         | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Allowance amount as a percentage of total allocated allowances | Total Allowance |
|                                     | Ch\$ million            |   |   |  | Ch\$ million            |   |   |  | Ch\$ million    |
| <b>Commercial loans</b>             |                         |   |   |  |                         |   |   |  |                 |
| Commercial loans                    | 208,619                 | 2.7%  | 1.0%  | 33.9%  | 199,841                 | 2.7%  | 1.1%  | 36.3%  | 161,2           |
| Foreign trade loans                 | 53,005                  | 2.9%  | 0.3%  | 8.6%   | 18,535                  | 1.5%  | 0.1%  | 3.4%   | 19,76           |
| Checking accounts debtors           | 8,376                   | 3.0%  | 0.0%  | 1.3%   | 3,033                   | 1.5%  | 0.0%  | 0.6%   | 3,384           |
| Factoring transactions              | 5,054                   | 1.6%  | 0.0%  | 0.8%   | 3,683                   | 1.1%  | 0.0%  | 0.7%   | 1,861           |
| Leasing transactions                | 19,177                  | 1.4%  | 0.1%  | 3.1%   | 23,426                  | 1.8%  | 0.1%  | 4.3%   | 19,26           |
| Other loans and accounts receivable | 12,316                  | 10.4%   | 0.1%  | 2.0%   | 2,122                   | 2.2%  | 0.0%  | 0.4%   | 4,238           |
| <b>Subtotals</b>                    | <b>306,547</b>          | <b>2.6%</b>   | <b>1.5%</b>                                     | <b>49.7%</b>   | <b>250,640</b>          | <b>2.4%</b>   | <b>1.3%</b>                                     | <b>45.7%</b>   | <b>209,8</b>    |
| <b>Residential mortgage loans</b>   |                         |   |   |  |                         |   |   |  |                 |
| Loans with mortgage finance bonds   | 470                     | 0.7%  | 0.0%  | 0.1%   | 493                     | 0.5%  | 0.0%  | 0.1%   | 707             |
| Mortgage mutual loans               | 380                     | 0.5%  | 0.0%  | 0.1%   | 936                     | 2.0%  | 0.0%  | 0.2%   | 1,241           |
| Other mortgage mutual loans         | 42,456                  | 0.8%  | 0.2%  | 6.9%   | 34,561                  | 0.7%  | 0.2%  | 6.3%   | 33,68           |
| <b>Subtotals</b>                    | <b>43,306</b>           | <b>0.8%</b>   | <b>0.2%</b>                                     | <b>7.1%</b>  | <b>35,990</b>           | <b>0.7%</b>   | <b>0.2%</b>                                     | <b>6.6%</b>  | <b>35,63</b>    |
| <b>Consumer loans</b>               |                         |   |   |  |                         |   |   |  |                 |
| Installment consumer loans          | 221,723                 | 10.2%   | 1.1%  | 36.1%  | 218,474                 | 11.8%   | 1.2%  | 39.7%  | 193,8           |
| Credit card balances                | 37,300                  | 3.0%  | 0.2%  | 6.1%   | 38,719                  | 3.7%  | 0.2%  | 7.0%   | 43,92           |
| Consumer leasing                    | 68                      | 2.0%  | 0.0%  | 0.0%   | 160                     | 4.3%  | 0.0%  | 0.0%   | 109             |

|                                |                |             |             |               |                |             |             |               |              |
|--------------------------------|----------------|-------------|-------------|---------------|----------------|-------------|-------------|---------------|--------------|
| contracts                      |                |             |             |               |                |             |             |               |              |
| Other                          |                |             |             |               |                |             |             |               |              |
| consumer                       | 5,494          | 2.7%        | 0.0%        | 0.9%          | 5,906          | 3.0%        | 0.0%        | 1.0%          | 5,117        |
| loans                          |                |             |             |               |                |             |             |               |              |
| <b>Subtotals</b>               | <b>264,585</b> | <b>7.3%</b> | <b>1.3%</b> | <b>43.1%</b>  | <b>263,259</b> | <b>8.5%</b> | <b>1.4%</b> | <b>47.7%</b>  | <b>243,0</b> |
| <b>Totals loans to clients</b> | <b>614,438</b> | <b>2.9%</b> | <b>3.0%</b> | <b>99.9%</b>  | <b>549,889</b> | <b>2.9%</b> | <b>2.9%</b> | <b>100.0%</b> | <b>488,4</b> |
| Interbank                      |                |             |             |               |                |             |             |               |              |
| loans                          | 495            | 0.4%        | 0.0%        | 0.1%          | 159            | 0.2%        | 0.0%        | 0.0%          | 11           |
| <b>Totals</b>                  | <b>614,933</b> | <b>2.9%</b> | <b>3.0%</b> | <b>100.0%</b> | <b>550,048</b> | <b>2.9%</b> | <b>2.9%</b> | <b>100.0%</b> | <b>488,4</b> |

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|                                     | As of December 31, 2010      |   |   |  | As of December 31, 2009      |   |   |  |
|-------------------------------------|------------------------------|---|---|--|------------------------------|---|---|--|
|                                     | Total Allowance <sup>a</sup> | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Allowance amount as a percentage of total allocated allowances | Total Allowance <sup>a</sup> | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Allowance amount as a percentage of total allocated allowances |
|                                     | Ch\$ million                 |   |   |  | Ch\$ million                 |   |   |  |
| <b>Commercial loans</b>             |                              |   |   |  |                              |   |   |  |
| Commercial loans                    | 132,775                      | 2.2%  | 0.8%  | 31.2%  | 124,275                      | 2.3%  | 0.9%  | 35.6%  |
| Foreign trade loans                 | 18,888                       | 2.4%  | 0.1%  | 4.4%   | 23,027                       | 3.6%  | 0.2%  | 6.6%   |
| Draft loans                         | 4,350                        | 6.4%  | 0.0%  | 1.0%   | 3,570                        | 3.8%  | 0.0%  | 1.0%   |
| Factoring transactions              | 2,083                        | 1.0%  | 0.0%  | 0.5%   | 2,386                        | 1.8%  | 0.0%  | 0.7%   |
| Leasing transactions                | 14,742                       | 1.3%  | 0.1%  | 3.5%   | 7,839                        | 0.8%  | 0.1%  | 2.2%   |
| Other loans and accounts receivable | 9,664                        | 53.8%   | 0.1%  | 2.3%   | 5,342                        | 48.7%   | 0.0%  | 1.5%   |
| <b>Subtotals</b>                    | <b>182,502</b>               | <b>2.2%</b>   | <b>1.2%</b>                                     | <b>42.9%</b>   | <b>166,439</b>               | <b>2.3%</b>   | <b>1.2%</b>                                     | <b>47.6%</b>   |
| <b>Residential mortgage loans</b>   |                              |   |   |  |                              |   |   |  |
| Loans with letters of credit        | 446                          | 0.3%  | 0.0%  | 0.1%   | 576                          | 0.3%  | 0.0%  | 0.2%   |
| Mortgage mutual loans               | 11,319                       | 6.1%  | 0.1%  | 2.7%   | 9,040                        | 4.5%  | 0.1%  | 2.6%   |
| Other mortgage mutual loans         | 5,567                        | 0.1%  | 0.0%  | 1.3%   | 6,918                        | 0.2%  | 0.1%  | 2.0%   |
| <b>Subtotals</b>                    | <b>17,332</b>                | <b>0.4%</b>   | <b>0.1%</b>                                     | <b>4.1%</b>  | <b>16,534</b>                | <b>0.4%</b>   | <b>0.1%</b>                                     | <b>4.8%</b>  |
| <b>Consumer loans</b>               |                              |   |   |  |                              |   |   |  |
| Installment consumer loans          | 176,219                      | 11.0%   | 1.1%  | 41.4%  | 130,532                      | 9.5%  | 0.9%  | 37.3%  |
| Credit card balances                | 36,156                       | 4.6%  | 0.2%  | 8.5%   | 24,433                       | 4.2%  | 0.2%  | 7.0%   |
| Consumer leasing contracts          | 121                          | 3.2%  | 0.0%  | 0.0%   | 9                            | 0.2%  | 0.0%  | 0.0%   |
| Other consumer                      | 13,063                       | 4.4%  | 0.1%  | 3.1%   | 11,538                       | 4.2%  | 0.1%  | 3.3%   |

|                                |                |             |             |               |                |             |             |               |
|--------------------------------|----------------|-------------|-------------|---------------|----------------|-------------|-------------|---------------|
| loans                          |                |             |             |               |                |             |             |               |
| <b>Subtotals</b>               | <b>225,559</b> | <b>8.4%</b> | <b>1.4%</b> | <b>53.0%</b>  | <b>166,512</b> | <b>7.4%</b> | <b>1.2%</b> | <b>47.6%</b>  |
| <b>Totals loans to clients</b> | <b>425,393</b> | <b>2.7%</b> | <b>2.7%</b> | <b>100.0%</b> | <b>349,485</b> | <b>2.5%</b> | <b>2.5%</b> | <b>100.0%</b> |
| Interbank                      | 54             | 0.1%        | 0.0%        | 0.0%          | 42             | 0.2%        | 0.0%        | 0.0%          |
| <b>Totals</b>                  | <b>425,447</b> | <b>2.7%</b> | <b>2.7%</b> | <b>100.0%</b> | <b>349,527</b> | <b>2.5%</b> | <b>2.5%</b> | <b>100.0%</b> |

Based on information available regarding our borrowers, we believe that our loan loss allowances are sufficient to cover known potential losses and losses inherent in a loan portfolio of the size and nature of our loan portfolio.

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## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## A. Directors and Senior Management

## Directors

We are managed by our Board of Directors, which, in accordance with our by-laws, consists of 11 directors and two alternates who are elected at our ordinary shareholders' meetings. Except as noted below, the current members of the Board of Directors were elected by the shareholders in the ordinary shareholders' meeting held on April 22, 2014. Members of the Board of Directors are elected for three-year terms. Except as noted below, the term of each of the current board members expires in April of 2017. Cumulative voting is permitted for the election of directors. The Board of Directors may appoint replacements to fill any vacancies that occur during periods between elections. If any member of the Board of Directors resigns before his or her term has ended, and no other alternate director is available to take the position at the next annual ordinary shareholders' meeting a new replacing member will be elected. Our executive officers are appointed by the Board of Directors and hold office at its discretion. Scheduled meetings of the Board of Directors are held monthly. Extraordinary meetings can be held when called in one of three ways: by the Chairman of the Board of Directors, by three directors with the consent of the Chairman of the Board of Directors or by the majority of directors. None of the members of our Board of Directors has a service contract which entitles any Director to any benefits upon termination of employment with Santander-Chile.

Our current directors are as follows:

| <b>Directors</b>            | <b>Position</b>                  | <b>Committees</b>   | <b>Term Expires</b> |
|-----------------------------|----------------------------------|---|---------------------|
|                             |                                  | Asset and Liability Committee   |                     |
| Vittorio Corbo Lioi         | Chairman and Director            | Market Committee  | April 2017          |
| Oscar von Chrismar Carvajal | First Vice Chairman and Director | Risk Committee<br>Asset and Liability Committee<br>Clients and Service Quality Committee<br>Executive Credit Committee<br>Human Resources Committee<br>Market Committee | April 2017          |

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|                              |                                   |   |            |
|------------------------------|-----------------------------------|---|------------|
|                              |                                   | Marketing, Communications and Institutional Image Committee |            |
|                              |                                   | Risk Committee  |            |
|                              |                                   | Strategy Committee  |            |
|                              |                                   | Clients and Service Quality Committee                       |            |
|                              |                                   | Executive Credit Committee                                  |            |
| Roberto Méndez Torres        | Second Vice Chairman and Director | Marketing, Communications and Institutional Image Committee | April 2017 |
|                              |                                   | Risk Committee  |            |
|                              |                                   | Strategy Committee  |            |
|                              |                                   | University Committee  |            |
|                              |                                   | Analysis and Resolution Committee                           |            |
|                              |                                   | Audit Committee (Secretary)                                 |            |
| Juan Pedro Santa Maria Perez | Director                          | Executive Credit Committee                                  | April 2017 |
|                              |                                   | Risk Committee  |            |
| Víctor Arbulú Crousillat     | Director                          | Transparency Committee                                      | April 2017 |
|                              |                                   | Audit Committee   |            |
|                              |                                   | Asset and Liability Committee                               |            |
| Marco Colodro Hadjes         | Director                          | Executive Credit Committee                                  | April 2017 |
|                              |                                   | Market Committee  |            |
|                              |                                   | Risk Committee  |            |

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| <b>Directors</b>         | <b>Position</b>    | <b>Committees</b>   | <b>Term Expires</b> |
|--------------------------|--------------------|---|---------------------|
|                          |                    | Asset and Liability Committee                               |                     |
|                          |                    | Executive Credit Committee                                  |                     |
|                          |                    | Human Resources Committee                                   |                     |
| Mauricio Larraín Garcés  | Director           | Marketing, Communications and Institutional Image Committee | April 2017          |
|                          |                    | Strategy Committee  |                     |
| Carlos Olivos Marchant   | Director           | University Committee  | April 2017          |
|                          |                    | Audit Committee   |                     |
| Lucía Santa Cruz Sutil   | Director           | Marketing, Communications and Institutional Image Committee | April 2017          |
|                          |                    | University Committee  |                     |
| Lisandro Serrano Spoerer | Director           | Analysis and Resolution Committee                           | April 2017          |
|                          |                    | Audit Committee   |                     |
| Roberto Zahler Mayanz    | Director           | Asset and Liability Committee                               | April 2017          |
|                          |                    | Market Committee  |                     |
|                          |                    | Asset and Liability Committee                               |                     |
| Raimundo Monge Zegers    | Alternate Director | Risk Committee  | April 2017          |
|                          |                    | Strategy Committee  |                     |
| Orlando Poblete Iturrate | Alternate Director | Transparency Committee                                      | April 2017          |

*Vittorio Corbo Lioi* is our Chairman as of April 2014. He is one of Chile's leading economists. In 2003, Mr. Corbo was named President of Chile's Central Bank. Following the end of his tenure there, Mr. Corbo has been named to various boards and is currently a Senior Investigator at the Centro de Estudio Públicos (CEP), a local think tank. Mr. Corbo is a Director of Santander Spain and Banco Santander Mexico. Between 1991 and 1995 Mr. Corbo was an economic advisor to the Bank, and a member of the Board of Santander-Chile between 1995 and 2003. Mr. Corbo is a member of the Asset and Liability Committee, the Market Committee and the Risk Committee. Mr. Corbo has a Business Administration Degree from the Universidad de Chile and a Ph.D. in Economics from MIT.

*Oscar von Chrismar Carvajal* became Executive Vice-Chairman of the Board on January 1, 2010 after having served as the chief executive officer of Santander-Chile since August 2003. Mr. Von Chrismar is a member of the Asset and Liability Committee, Clients and Service Quality Committee, Executive Credit Committee, Human Resources Committee, Market Committee, Marketing Committee, Risk Committee, and the Strategy Committee. Prior to assuming the chief executive officer post, he was the Manager of Global Banking. Prior to the merger, he was the former chief executive officer of Old Santander-Chile since September 1997, after being General Manager of Banco Santander-Peru since September 1995. Mr. von Chrismar is also a board member of Banco Santander Argentina and Banco Santander Peru. He is also the Alternate Director of Universia Chile S.A. Prior to that, Mr. von Chrismar was the manager of the Finance Division of Santander-Chile, a position that he had held since joining Santander-Chile in 1990. Mr. von Chrismar holds an Engineering degree from the Universidad de Santiago de Chile.

*Roberto Méndez Torres* is our Second Vice Chairman. He is a former member of the Board of Old Santander-Chile, to which he was appointed in 1996. He is a member of the Clients and Service Quality Committee, the Executive Credit Committee, the Marketing Committee, the Risk Committee, the Strategy Committee and the University Committee. He is a professor of Economics at Universidad Católica de Chile. He has been Advisor to Grupo Santander-Chile since 1989. Mr. Méndez is President and Director of Adimark Chile Gfk and on the Board of the Chilean and German Chamber of Commerce. He is also a Director of Enex S.A. and Vice-Chairman of Universia S.A. Mr. Méndez is also a member of the Council of Paz Ciudadana and was a former President of ICARE. He graduated with a degree in Business Administration from Universidad Católica de Chile, and holds an MBA and a Ph.D. from the Graduate School of Business at Stanford University.

*Juan Pedro Santa María Pérez* became a Director on July 24, 2012 after having served as Corporate Legal Director for Grupo Santander Chile and Legal Counsel for Santander-Chile. He is also a Director at Santander Asset Management S.A. Mr. Santa María joined Santander-Chile in 2002, after the merger with Banco Santiago. Previous to that he was Legal Counsel for Banco Santiago and Banco O'Higgins. He has also been President of the Legal

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Committee of the Asociación de Bancos e Instituciones Financieras de Chile for over 20 years and President Pro-Tempore of the Financial Law Committee of the Federación Latinoamericana de Bancos (FELABAN). Mr. Santa María holds a degree in Law from the Pontificia Universidad Católica de Chile.

*Víctor Arbulú Crousillat* became a Director on May 6, 1999. He is a member of the Audit Committee and has been designated as a Financial Expert. He was a Managing Director of JPMorgan, member of its European management committee and Chief Executive Officer for Spain and Portugal from 1988 until 1998. He has worked for JPMorgan for over 25 years in various positions in Europe, North America and Latin America. Mr. Arbulú also worked for the Inter-American Development Bank. Mr. Arbulú holds a degree in Engineering and a Masters in Business Administration.

*Marco Colodro Hadjes* became a Director on April 19, 2005. Mr. Colodro is a member of the Asset and Liability Committee, Executive Credit Committee, Market Committee, and the Risk Committee. Mr. Colodro was President of the Board of Telefónica Chile and a Director of Codelco. He is a former chairman of TVN (national television network) and former vice chairman of Banco del Estado (state bank). He was also owner of Agencia de Valores Alfa S.A. Prior to that, he was Foreign Trade Director at the Central Bank of Chile. Mr. Colodro holds a degree in Economics from the Universidad de Chile, and has done post-graduate studies at the École Pratique des Hautes Etudes of the University of Paris.

*Mauricio Larraín Garcés* became a Board member in April 2014. Previously he was our Chairman. He is a member of the Asset and Liability Committee, the Executive Credit Committee, the Human Resources Committee, the Marketing Committee, the Strategy Committee, and the University Committee. He is also President of Santander Chile Holding S.A. and Universia Chile S.A. He is also a Director of the Asociación de Bancos e Instituciones Financieras de Chile and Inversiones Volcán Choshuenco S.A. He is also a member of the Council of Paz Ciudadana and was a former President of ICARE. He is General Director of ESE Business School from Universidad de Los Andes. Mr. Larraín began working at Santander-Chile in 1989. Previously, he was Intendente (Director) of the SBIF, Manager of External Debt at Banco Central de Chile and a Senior Finance Specialist at the World Bank in Washington. He holds degrees in Law from Universidad Católica de Chile and from Harvard University.

*Carlos Olivos Marchant* is Director since 2007 and has been a Board member since the merger with Banco Santiago was consummated in 2002. He is Chairman of the Audit Committee. He was a member of the Board of Banco Santiago since 1987 until the date of the merger, and was Chairman of that board between May 1999 until the merger. He is a partner in the law firm Guerrero, Olivos, Novoa y Errazuriz. Mr. Olivos holds a law degree from the Universidad de Chile and a Masters of Jurisprudence from New York University School of Law.

*Lucía Santa Cruz Sutil* became a Director on August 19, 2003. Ms. Santa Cruz was a member of our Audit Committee until May 2010. She is a member of the Marketing Committee and the University Committee. Ms. Santa Cruz holds a degree in History and a Masters Degree in Philosophy from Oxford University. She is the Dean of the College of

Liberal Arts of the Universidad Adolfo Ibañez. Ms. Santa Cruz is also a Director of Universia Chile S.A. She is also on the Board of Compañía de Seguros Generales y de Vida La Chilena Consolidada, on the Advisory Board of Nestle Chile and the Fundación Educacional Santa Teresa de Avila. She is also a member of the Self-Regulation Committee for Insurance Companies in Chile.

*Lisandro Serrano Spoerer* was elected to the Board in January 2011. He is a member of the Analysis and Resolution Committee and the Audit Committee. He is currently Dean of the Universidad Gabriel Mistral and Professor of Law and Tax at the Law School. He is also a member of the Regulation Committee of the Santiago Stock Exchange and the Self-Regulation Committee of the Chilean Electronic Stock Exchange. Previously, he worked at PricewaterhouseCoopers from 1977 to 2003 where he was a partner in the tax division and later a Principal partner. He was also member of the board of the Hong Kong & Shanghai Bank branch in Chile. Mr. Serrano holds a degree in law and an MBA from the Pontificia Universidad Católica de Chile.

*Roberto Zahler Mayanz* became a Director on August 31, 1999. He is a member of the Asset and Liability Committee and the Market Committee. Currently, he is President of Zahler & Co, a consulting firm. He is also a member of the CLAAF or the Latin American Committee for Financial Affairs. He was formerly President of the Board of Siemens Chile and Director of Air Liquide-Chile. He was also a visiting professor at the IMF's Research Department. Between 1991 and 1996, he was President of the Central Bank of Chile and Vice-President from 1989 to 1991. He also serves as a consultant for the World Bank, the IDB, the IMF and the International Bank of Settlements. Mr. Zahler has also provided technical assistance to various Central Banks and Finance Ministries in

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most countries of Latin America, Indonesia and Kosovo. Mr. Zahler holds a degree in Business Administration from the Universidad de Chile and a Masters in Economics from the University of Chicago.

*Raimundo Monge Zegers* became an Alternate Director on April 29, 2003. He is currently a member of the Asset and Liability Committee, the Risk Committee, the Strategy Committee and the Transparency Committee. He is Corporate Director of Strategic and Financial Planning for Grupo Santander-Chile and is CEO of Santander-Chile Holding S.A. He is also President of Santander S.A. Sociedad Securitizadora and Santander Factoring S.A. He is a Director of Aurum S.A. and Bansa Santander S.A. Mr. Monge has a degree in business from the Universidad Católica de Chile and an MBA from the University of California, Los Angeles.

*Orlando Poblete Iturrate* became an Alternate Director on April 22, 2014. Since 1991 Mr. Poblete has been a professor at the Universidad Los Andes. Between 1997 and 2004, he was Dean of the Law School and since 2014 he has been Chancellor of the university. He is also a partner at the law firm Orlando Poblete & Company. He is an arbitrator of the Centro de Arbitraje y Mediación de la Cámara de Comercio de Santiago. He has also been a Professor of Law at the University of Chile. Mr. Poblete is a lawyer from the University of Chile and has masters from the same university.

## Senior Management

Our senior managers are as follows:

| <b>Senior Manager</b> | <b>Position</b>                          | <b>Date Appointed</b> |
|-----------------------|--|-----------------------|
| Claudio Melandri      | Chief Executive Officer                  | January 1, 2010       |
| Miguel Mata           | Chief Financial Officer                  | November 1, 2011      |
| Gabriel Montoya       | Financial Controller                     | April 1, 2009         |
| Ricardo Martinez      | Corporate Director of Internal Audit     | September 1, 2013     |
| Fred Meller           | Global Banking and Markets               | January 1, 2011       |
| Julian Acuña          | Manager Commercial Banking               | July 1, 2013          |
| Franco Rizza          | Manager Credit Risk                      | February 1, 2014      |
| Jose Manuel Manzano   | Manager Human Resources & Administration | September 1, 2013     |
| Felipe Contreras      | Chief Accounting Officer                 | October 1, 2008       |
| Pablo Correa          | Manager Corporate Communications         | March 1, 2012         |
| Carlos Volante        | Manager Clients and Service Quality      | January 1, 2014       |
| Cristian Florence     | General Counsel                          | September 3, 2012     |

*Claudio Melandri* became the Chief Executive Officer of Santander-Chile in January 2010 after being our Retail Banking Manager since February 21, 2008. He started his career at Santander-Chile in 1990 becoming a regional

branch manager and manager of Santander-Chile's branch network. He was also a Vice-President at Banco Santander Venezuela from 2005 to 2007. In 2007, he was appointed Corporate Director of Human Resources of Banco Santander-Chile. He is also a Director of Santander Chile Holding S.A. and Universia Chile S.A.. Mr. Melandri has a Business Degree from the Universidad Tecnológica Metropolitana in Chile.

*Miguel Mata* became the Chief Financial Officer for Santander-Chile on November 2011. Prior to that he served in several staff positions related to Business Strategy. Mr. Mata joined Santander-Chile in 2002 when Santander-Chile merged with Banco Santiago. Previously he was Financial Controller for Banco Santiago. He has been working in the banking industry since 1990, when he joined Banco O'Higgins, one of the predecessors of Banco Santiago. He is also a Director of Santander S.A. Corredores de Bolsa. Mr. Mata holds a degree in Engineering from Universidad Católica de Chile.

*Gabriel Montoya* was appointed Financial Controller of Santander-Chile in April 2009 and has been working for Santander Spain and its affiliates since 1997. Between 2005 and 2009, Mr. Montoya was Director of the MIS America Project and was responsible for implementing management information systems in Chile, Mexico, Puerto Rico, Argentina and Brazil. Previous to that Mr. Montoya was Financial Controller of Santander Puerto Rico, Head of Financial Control for the Americas Division of Santander and various other management positions in Santander Colombia. Mr. Montoya has a Business Administration Degree from Universidad del Rosario and an Executive Administration Diploma from the Universidad de los Andes, both in Colombia.

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*Ricardo Martinez* is the Corporate Director of Internal Auditing, a position he has held since September 1, 2013. He has worked for Grupo Santander since 1998 in different position in Internal Auditing, including the Internal Director of Accounting, Audit Manager of Insurance and Asset Management and head auditor of Financial Risks. Mr. Martinez has a degree in Economic Sciences and Business from the Universidad Complutense of Madrid and a Masters in Business from the CIFF of the Universidad de Alcalá de Henares.

*Fred Meller* became Manager of Global Banking & Market in January 2011. Prior to that he was Manager of Market Making for Europe and UK for Santander Spain. Previously, he served as Treasurer for Santander-Chile since 2008. He was also General Manager of Santander Agente de Valores and Director of Deposito Central de Valores Chile. Mr. Meller is also President of Santander S.A. Corredores de Bolsa. Mr. Meller holds a degree in Business Administration from Universidad Central de Chile.

*Julian Acuña Moreno* became Manager of the Commercial Banking Division in July 2013. He joined Banco Santander in 1986, playing various roles of responsibility, including agent, Regional Manager, Product Manager and Retail Manager Corporate & Institutional Banking. He also held the position of vice president of Banco Santander's business in Colombia. He is also a director of Santander Asset Management Santander Consumer. Mr. Julian Acuña is an accountant auditor from the Universidad Diego Portales.

*José Manuel Manzano* became Manager of Personnel, Organization and Cost of Banco Santander Chile Division in September 2013. Prior to that he was Corporate Director of Risk since July 2007, and Corporate Director of Human Resources for Santander-Chile since October 31, 2002. Previously, he served as Manager of Human Resources for Old Santander-Chile since 1999. He was also General Manager of Santander Fund Management and Managing Director of Bancassurance. He is also a Director of Santander Chile Holding S.A., Santander Asset Management S.A. and Santander S.A. Sociedad Securitizadora. Mr. Manzano holds an MBA and a degree in Business from Universidad Católica de Chile.

*Felipe Contreras* was named Chief Accounting Officer of Santander-Chile in October 2008. He has worked for 14 years in our Accounting Department, most recently as Manager of the Consolidation and Reporting Departments, overseeing our Chilean, U.S. and Spanish GAAP reporting requirements. He was in charge of our recent transition to International Financial Reporting Standards. Mr. Contreras is a Public Accountant from the University of Santiago and is currently a candidate to a Masters in Advanced Finance from the Universidad Adolfo Ibáñez.

*Pablo Correa* became Manager of Corporate Communications and Public Policy in March 2012. Prior to that he was Capital Markets Coordinator in the Ministry of Finance. Prior to that he was Chief Economist of Santander-Chile from 2006 until 2010 and an advisor to the Minister of Finance and the IBD from 2005 to 2006. Mr. Correa has an economics Degree from Universidad Católica de Chile and a Masters degree from the Harvard Kennedy School of Government.

*Carlos Volante* became manager Customers and Quality of Banco Santander in January 2014. Joined the Santander Group in 1990, holding various responsibilities within the organization, including manager of the Branch Network, general manager of the Administrator of Mutual Funds , Mortgage manager, Product Manager and Monitoring Commercial Banking. He was also Executive Vice President of Commercial Banking at Banco de Venezuela Grupo Santander. Between 2012 and 2013 he was general manager of the Company Corona Commercial Credit Group. Carlos Volante is an accountant auditor from the University of Talca and attended the DPA and an MBA from the Universidad Adolfo Ibáñez and participates in the PADE program at the Universidad de los Andes.

*Franco Rizza* Is the Risk Division Manager since February 2014. Previously, he was director of the Department of Santander Global Recoveries, with scope for all countries where the Group has commercial banking activities outside Spain. Between 2010 and 2013 he was in charge of the operation of Banco Santander Risk in Uruguay. He joined the Group in 1989 in Argentina, where he held various positions of responsibility, including: Territorial Manager, Product Manager and Director of Standardized Risk. He has degrees in Business and Risk Management in Argentina and Spain.

*Cristian Florence* is our General Counsel, a position he has held since September 2012. Prior to that he served as Chief Lawyer at Santander-Chile. Mr. Florence joined Santander-Chile in 2002 when Santander-Chile merged with Banco Santiago. He started working in the banking industry in 1991, when he joined Centrobanco, a predecessor of Banco O'Higgins and Banco Santiago serving at several positions in the law departments. Mr.

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Florence is also a Director of Administrador Financiero de Transantiago S.A.. He has a degree in Law from the Universidad Gabriela Mistral and a Master of Laws (LLM) from the same university.

### B. Compensation

For the year ended December 31, 2013, the aggregate amount of compensation paid by us to all of our directors was Ch\$1,083 million, in monthly stipends. For the year ended December 31, 2013, the aggregate amount of compensation paid by us to all of our executive officers and our management members was Ch\$30,569 million (U.S.\$58.3 million). At our annual shareholder meeting to be held on April 22, 2014, shareholders will be asked to approve a monthly stipend per director of UF 230 (U.S.\$10,227), UF 460 (U.S.\$20,454) for the Chairman of the Board and UF 345 (U.S.\$15,341) for the Vice-Chairman of the Board. This amount will be increased by UF 30 per month (U.S.\$1,334) if a Board member is named to one or more committees of the Board. The additional amount will be UF 60 (U.S.\$2,668) for the President of a committee and UF 45 (U.S.\$2,001) for the Vice-President of a committee. Shareholders will also be asked to approve the Audit Committee 2013 remuneration for its members. The remuneration is a 33% additional compensation over the monthly stipend received by a regular board member, or UF 77 (U.S.\$3,423), totaling a monthly stipend of UF 307 (U.S.\$13,651). This remuneration is in line with the new Chilean corporate governance law. In addition, we pay certain directors professional service fees for the consulting services that they render to us in their fields of expertise. For the year ended December 31, 2013, payments to our directors for consulting fees totaled Ch\$622 million (U.S.\$1.2 million).

Santander-Chile and its affiliates have designed variable-compensation plans for their employees, based on performance targets and objectives, the achievement of which are evaluated and paid on a quarterly and/or annual basis. There are also multi-year variable-compensation plans designed to retain and motivate executives, whose compensation depends on the achievement of overall group-wide and individual targets over the course of a time period exceeding one year.

### **Long-term incentive policy**

The Board of Directors of the equity holders of Banco Santander S.A. (with its Central Office located in Spain, hereinafter the "Parent Company"), approved a long-term incentive plan which was ratified locally. This plan focuses on the Santander Group's executive directors and certain executive employees in Spain and other Santander Group companies.

### **Stock performance plan**

The plan includes a multi-year incentive plan compensated in shares by the Parent Company. The beneficiaries are Executive Directors, other Senior management members and other employees determined by the Directors Committee from the Parent Company or its deputy, the Executive Committee. These shares will be distributed if the following

criteria are met:

- i. The share price reaches the top 10 as compared to 30 other global banks.
- ii. Earnings per share reach the top 10 as compared to 30 other global banks.
- iii. The Bank has achieved its commercial and financial budget objectives in the last two years.

iv. The executive has achieved his/her personal targets during the last two years and has continued to work at the Bank until the end of the program.

This plan involves the implementation of successive cycles of shares delivered to the beneficiaries. Each cycle lasts three years so, each year a new cycle will begin and, since 2009 onwards, another cycle will end. The aim is to establish a proper sequence between the end of the incentive program linked to the previous plan (I06) and the following cycles of this plan. Therefore, the first two cycles started in July, 2007. The first one lasted two years (PI09) and the second one adhered to the three year standard duration (PI10)

The commencement of the third-cycle (PI11) and fourth-cycle (PI12) incentive plans were approved by the Parent Company in June 2008 and 2010, respectively. These new plans consist of three-year cycles and are linked to the fulfillment of the predetermined objectives. In June, 2010, the fifth cycle (PI13) was approved. In June, 2011 the sixth and last plan of shares linked to the fulfillment of objectives (PI14) was approved. The first cycle (PI09) was cancelled on July 31, 2009, the second one (PI10) was cancelled on July 31, 2010, the third one (PI11) was cancelled on July 31, 2011, and the forth one (P12) was cancelled on July 31, 2012.

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For each cycle, the maximum number of shares that may correspond to each beneficiary is established based on who had been active in the Group over the period covered by the plan. The objective -which fulfillment will determine the number of shares to be delivered- is defined by comparing the evolution of the Group with a group of financial entities of reference. It will be linked solely to the Total Shareholder Return (TSR). Regarding the plans approved prior to June 2008, the objectives that had determined the number of shares to deliver were defined by comparing the evolution of the Group with a group of financial entities of reference, linked to two parameters: the Total Shareholder Return (TSR) and the Growth of Earnings per Share (EPS).

The final number of shares to be granted in each cycle is determined by the degree of fulfillment of the objectives on the third anniversary of each cycle (with the exception of the first cycle, for which the second anniversary is used), and the shares are delivered within seven months from the date the cycle ends.

Regarding PI13, by the completion of the relevant cycle, the TSR was calculated relative to Santander and every entity of the reference group. The list of reference entities was ordered from largest to smallest, thus determining the percentage of shares to be delivered, on the basis of the following scale and according to the relative position of Santander within the group of financial entities for reference:

| <b>Santander's position in the<br/>TSR Ranking</b> | <b>Maximum<br/>percentage<br/>of shares earned</b> |
|--|--|
| 1st to 5th   | 100.00%  |
| 6th  | 82.50%   |
| 7th  | 65.00%   |
| 8th  | 47.50%   |
| 9th  | 30.00%   |
| 10th and more                                      | 0.00%  |

As for PI14, the application of a certain criterion related to TSR will determine the percentage of shares to be delivered, on the basis of the following scale and according to the relative position of Banco Santander S.A. (Spain) within the group of financial entities of reference:

| <b>Position of Santander on the<br/>TSR Ranking</b> | <b>Percentage<br/>of shares earned<br/>above the average</b> |
|---|--|
| 1st to 5th  | 100.00%  |
| 6th   | 86.05%   |
| 7th   | 72.00%   |

|              |        |
|--------------|--------|
| 8th          | 58.00% |
| 9th          | 44.00% |
| 10th         | 30.00% |
| 11th to 17th | 0.00%  |

If any of the entities of the reference group was to be acquired by a different company, it would be eliminated from the reference group. In such case, the percentage will be determined based on Santander's placement in relation to the remaining entities, based on quartiles. If Santander falls within the first quartile (including the top 25<sup>th</sup> percentile) of the reference group, Santander will earn the highest share percentage, as noted above. No share will be earned if Santander falls below the average (50<sup>th</sup> percentile) of the reference group. If Santander equals the median (50<sup>th</sup> percentile), it will earn 30% of the maximum amount. Lastly, for positions in-between the average (50<sup>th</sup> percentile exclusive) and the first quartile (25<sup>th</sup> percentile exclusive), it will be calculated by means of linear interpolation.

As of December 31, 2013, the objectives were not met, so Plan I13 was terminated, however as of December 31, 2012, the objectives were met completely for Plan I12. Plan I14 is still active, so the Bank has recorded an amount of Ch\$684 million (Ch\$1,747 million as of December 31, 2012), which is included within the income of the specific period on which beneficiaries provided their services to Banco Santander Chile. This program had no effects on non-controlling interest. The fair value was calculated as described:

The fair value of each of those plans conceived by the Group is calculated on the grant date. Volatility is measured using an implied volatility model.

The calculation of the fair value of the stock plan linked to objectives is as follows:

- It has been considered that the beneficiaries will not leave over the period of each plan.

The fair value of the relative position of the TSR was determined by the Banco Santander S.A.(Spain) on the grant date using the Monte Carlo valuation model with 10,000 simulations to determine the TSR for each of the reference -financial institutions (benchmark), considering the aforementioned variables. The results (each of which represents the distribution of a number of shares) are classified in descending order through the calculation of the weighted average, and this amount is discounted at the risk-free interest rate.

|                                   | <b>PI12</b> | <b>PI13</b> | <b>PI14</b> |
|-----------------------------------|-------------|-------------|-------------|
| Expected volatility (*)           | 42.36%      | 49.65%      | 51.35%      |
| Historical annual dividend return | 4.88%       | 6.34%       | 6.06%       |
| Risk-free interest rate           | 2.04%       | 3.33%       | 4.07%       |

(\*) Determined based on the historical volatility of the corresponding period (three years).

The application of the simulations under the Monte Carlo model results in a percentage value representing the probability of vesting of 55.42% for the I12 plan, 62.62% for the I13 plan and 55.39% for the I14 plan. Fair value

measurement takes into account market conditions (TSR and EPS) and we recognize compensation expense for employees who satisfy vesting conditions (such as service conditions).

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This appraisal as the price per share (determined as an average of the 15 working days after April 1<sup>st</sup> of the year when each plan was implemented) determines the cost per share this benefit shall have for Chile.

Below is a table which provides a detail of the foregoing:

|  | Number of shares | Exercise price | Group of employees             | Number of individuals | Maturity commencement of the exercise period | Date term of exercise period |
|--|------------------|----------------|--------------------------------|-----------------------|--|------------------------------|
|  |                  | €              |                                |                       |  |                              |
| Options granted (Plan I12)                 | 327,882          | -              | Manager                        | 157                   | 07-01-2009                                   | 06-30-2011                   |
| Options granted (Plan I12)                 | 36,848           | -              | Other non-managerial positions | 76                    | 07-01-2009                                   | 06-30-2011                   |
| <b>Plans in force on December 31, 2009</b> | <b>364,730</b>   |                |                                |                       |  |                              |
| <b>2010 Flow</b>                           |                  |                |                                |                       |  |                              |
| Options granted (Plan I12)                 | 564,339          | -              | Manager                        | 170                   | 07-01-2009                                   | 06-30-2011                   |
| Options granted (Plan I12)                 | 43,787           | -              | Other non-managerial positions | 63                    | 07-01-2009                                   | 06-30-2011                   |
| Options granted (Plan I13)                 | 310,902          | -              | Manager                        | 166                   | 07-01-2010                                   | 06-30-2012                   |
| Options granted (Plan I13)                 | 65,148           | -              | Other non-managerial positions | 68                    | 07-01-2010                                   | 06-30-2012                   |
| <b>Plans in force on December 31, 2010</b> | <b>1,348,906</b> |                |                                |                       |  |                              |
| <b>2011 Flow</b>                           |                  |                |                                |                       |  |                              |
| Options granted (Plan I12)                 | 591,686          | -              | Manager                        | 157                   | 07-01-2009                                   | 06-30-2011                   |
| Options granted (Plan I12)                 | 79,631           | -              | Other non-managerial positions | 77                    | 07-01-2009                                   | 06-30-2011                   |
| Options granted (Plan I13)                 | 650,474          | -              | Manager                        | 166                   | 07-01-2011                                   | 06-30-2013                   |
| Options granted (Plan I13)                 | 136,303          | -              | Other non-managerial positions | 68                    | 07-01-2011                                   | 06-30-2013                   |
| Options granted (Plan I14)                 | 268,318          | -              | Manager                        | 147                   | 07-01-2012                                   | 06-30-2014                   |
| Options granted (Plan I14)                 | 27,185           | -              | Other non-managerial positions | 82                    | 07-01-2012                                   | 06-30-2014                   |
| <b>Plans in force on December 31, 2011</b> | <b>3,102,503</b> |                |                                |                       |  |                              |
| <b>2012 Flow</b>                           |                  |                |                                |                       |  |                              |
| Options granted Plan I12                   | 601,101          | -              | Manager                        | 157                   | 07-01-2009                                   | 06-30-2011                   |
| Options granted Plan I12                   | 63,254           | -              | Other non-managerial positions | 77                    | 07-01-2009                                   | 06-30-2011                   |
| Options granted Plan I13                   | 501,456          | -              | Manager                        | 166                   | 07-01-2010                                   | 06-30-2012                   |
| Options granted Plan I13                   | 129,076          | -              | Other non-managerial positions | 114                   | 07-01-2010                                   | 06-30-2012                   |
| Options granted Plan I14                   | 508,144          | -              | Manager                        | 147                   | 07-01-2011                                   | 06-30-2013                   |
| Options granted Plan I14                   | 46,810           | -              | Other non-managerial positions | 82                    | 07-01-2011                                   | 06-30-2013                   |
| Options exercised Plan I12                 | (2,085,008)      | -              | Manager                        | 157                   | 07-01-2009                                   | 06-30-2011                   |
| Options exercised Plan I12                 | (223,520)        | -              | Other non-managerial positions | 77                    | 07-01-2009                                   | 06-30-2011                   |
| <b>Plans in force on December 31, 2012</b> | <b>2,643,816</b> |                |                                |                       |  |                              |
| <b>2013 Flow</b>                           |                  |                |                                |                       |  |                              |
| Plan I13 terminated (*)                    | (1,462,832)      | -              | Manager                        | 166                   | -  | -                            |
| Plan I13 terminated (*)                    | (330,527)        | -              | Other non-managerial positions | 114                   | -  | -                            |
| <b>Plans in force on December 31, 2013</b> | <b>850,457</b>   |                |                                |                       |  |                              |
| Plan I14                                   | 850,457          |                |                                |                       |  |                              |

(\* Plan I13 does not comply with the assignment requirements

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Pension Plans:

The Bank has an additional benefit available to its principal executives, consisting of a pension plan. The purpose of the pension plan is to endow the executives with funds for a better supplementary pension upon their retirement.

For this purpose, the Bank will match the voluntary contributions made by the beneficiaries for their future pensions with an equivalent contribution. The executives will be entitled to receive this benefit only when they fulfill the following conditions:

- a. The plan is aimed at the Group's management
- b. The general requirement to apply for this benefit is that the employee must be carrying out his/her duties when turning 60 years old.
- c. The Santander Group will take on insurance (pension fund) for the employee's behalf where it will pay (defined contribution) periodically.
- d. The Santander Group will be responsible for granting the benefits directly.

If the working relationship between the manager and the respective company ends, before s/he fulfills the abovementioned requirements, s/he will have no rights under this benefit plan. In the event of the executive's death or total or partial disability, s/he will be entitled to receive this benefit.

The Bank will make contributions to this benefit plan on the basis of mixed collective insurance policies whose beneficiary is the Bank. The life insurance company with whom such policies are executed is not an entity linked or related to the Bank or any other Santander Group company.

Rights owned by the Bank due to the plan at the end of 2013 totaled Ch\$ 5,171 million (Ch\$ 5,584 million in 2012). The amount of the defined benefit plans has been quantified by the Bank, based on the following criteria:

Table of Contents*Calculation method:*

Use of the credit unit projected method which considers each working year as generating an additional amount of rights over benefits and values each unit separately. It is calculated based primarily on fund contributions, as well as other factors such as the legal annual pension limit, seniority, age and yearly income for each unit valued individually.

*Actuarial assumptions:*

Actuarial assumptions with respect to demographic and financial variables are non-biased and mutually compatible with each other. The most significant actuarial hypotheses considered in the calculations were:

|                               | Plans                   | Plans                   |
|-------------------------------|-------------------------|-------------------------|
|                               | post-employment<br>2013 | post-employment<br>2012 |
| Mortality chart               | RV-2009                 | RV-2009                 |
| Termination of contract rates | 5.0%                    | 5.0%                    |
| Impairment chart              | PDT 1985                | PDT 1985                |

Assets related to the pension fund contributed by the Bank into the Seguros Euroamérica insurance company with respect to defined benefit plans are presented as net of associated commitments.

Activity for post-employment benefits is as follows:

|  | As of                       |         |
|--|-----------------------------|---------|
|  | December 31,<br><b>2013</b> | 2012    |
|  | <b>MCh\$</b>                | MCh\$   |
| Plan assets                                  | 5,171                       | 5,584   |
| <b>Commitments for defined-benefit plans</b> |                             |         |
| For active personnel                         | (3,888)                     | (3,595) |
| Incurred by inactive personnel               | -                           | -       |
| Minus:                                       |                             |         |
| Unrealized actuarial (gain) losses           | -                           | -       |

**Balances at year end** **1,283 1,989**

Year's cash flow for post-employment benefits is as follows:

|  | <b>For the years ended</b> |              |              |
|--|----------------------------|--------------|--------------|
|  | <b>December 31,</b>        |              |              |
|  | <b>2013</b>                | <b>2012</b>  | <b>2011</b>  |
|  | <b>MCh\$</b>               | <b>MCh\$</b> | <b>MCh\$</b> |
| <b>a) Fair value of plan assets</b>          |                            |              |              |
| Opening balance                              | 5,584                      | 5,508        | 5,170        |
| Expected yield of insurance contracts        | 247                        | 326          | 403          |
| Employer contributions                       | (660)                      | (250)        | (65)         |
| Actuarial (gain) losses (*)                  | -                          | -            | -            |
| Premiums paid                                | -                          | -            | -            |
| Benefits paid                                | -                          | -            | -            |
| <b>Fair value of plan assets at year end</b> | <b>5,171</b>               | <b>5,584</b> | <b>5,508</b> |
| <b>b) Present value of obligations</b>       |                            |              |              |
| Present value of obligations opening balance | (3,594)                    | (3,143)      | (953)        |
| Net incorporation of Group companies         | -                          | -            | -            |
| Service cost                                 | (311)                      | (452)        | (1,207)      |
| Interest cost                                | -                          | -            | -            |
| Curtailment/settlement effect                | -                          | -            | -            |

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|   |                |                |                |
|---|----------------|----------------|----------------|
| Benefits paid                                   | -              | -              | -              |
| Past service cost                               | -              | -              | -              |
| Actuarial (gain) losses                         | 17             | -              | -              |
| Other   | -              | -              | -              |
| <b>Present value of obligations at year end</b> | <b>(3,888)</b> | <b>(3,595)</b> | <b>(2,160)</b> |
| <b>Net balance at year end</b>                  | <b>1,283</b>   | <b>1,989</b>   | <b>3,348</b>   |

Plan expected profit:

|  | <b>As of December 31,</b> |                   |                   |
|--|---------------------------|-------------------|-------------------|
|  | <b>2013</b>               | <b>2012</b>       | <b>2011</b>       |
| Type of expected yield from the plan's assets        | UF + 2.50% annual         | UF + 2.50% annual | UF + 2.50% annual |
| Type of yield expected from the reimbursement rights | UF + 2.50% annual         | UF + 2.50% annual | UF + 2.50% annual |

Plan associated expenses:

|  | <b>For the years ended</b> |              |              |
|--|----------------------------|--------------|--------------|
|  | <b>December 31,</b>        |              |              |
|  | <b>2013</b>                | <b>2012</b>  | <b>2011</b>  |
|  | <b>MCh\$</b>               | <b>MCh\$</b> | <b>MCh\$</b> |
| Current period service expenses  | 311                        | 452          | 1,207        |
| Interest cost  | -                          | -            | -            |
| Expected yield from plan's assets  | (247)                      | (326)        | (403)        |
| Expected yield of insurance contracts linked to the Plan:                              |                            |              |              |
| Extraordinary allocations  | -                          | -            | -            |
| Actuarial (gain)/ losses recorded in the period included in other comprehensive income | (17)                       | -            | -            |
| Past service cost  | -                          | -            | -            |
| Other  | -                          | -            | -            |
| <b>Total</b>   | <b>47</b>                  | <b>126</b>   | <b>804</b>   |

**C. Board Practices**

The Bank is in the process of changing the members of the Committees based on the results of the recent Board election, but as of April 30, 2014 these Committees remained unchanged.

## Audit Committee

| Board member             | Position in Committee                    |
|--------------------------|--|
| Carlos Olivos            | Chairman                                 |
| Víctor Arbulú Crousillat | First Vice Chairman and Financial Expert |
| Lisandro Serrano         | Second Vice Chairman                     |

The Audit Committee (*Comité de Directores y Auditoría*) is comprised of three members of the Board of Directors. The Committee Secretary is the alternate director Juan Pedro Santa María. The General Counsel is the Committee Secretary. The Chief Executive Officer, General Auditor and other persons from the Bank can be invited to the meetings if necessary and are present on specific matters. This Committee's primary responsibility is to support the Board of Directors in the continuous improvement of our system of internal controls, which includes reviewing the work of both the external auditors and the Internal Audit Department. The committee is also responsible for analyzing observations made by regulatory entities of the Chilean financial system about us and for recommending measures to be taken by our management in response. This committee also performs functions of a remuneration committee as established in Chilean Law, and reviews annually the salary and bonus programs for the

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executive officers of the Bank. The external auditors are recommended by this committee to our Board of Directors and appointed by our shareholders at the annual shareholders' meeting.

This committee is also responsible for:

- Presenting to the Board of Directors a list of candidates for the selection of an external auditor.
- Presenting to the Board of Directors a list of candidates for the selection of rating agencies.
- Overseeing and analyzing the results of the external audit and the internal reviews.
- Coordinating the activities of internal auditing with the external auditors' review.
- Overseeing and coordinating the Bank's operational risk policies
- Analyzing the interim and year-end financial statements and reporting the results to the Board of Directors.
  - Analyzing the external auditors' reports and their content, procedures and scope.
  - Analyzing the rating agencies' reports and their content, procedures and scope.
- Obtaining information regarding the effectiveness and reliability of the internal control systems and procedures.
  - Analyzing the information systems performance, and its sufficiency, reliability and use in connection with decision-making processes.
  - Obtaining information regarding compliance with the company's policies regarding the due observance of laws, regulations and internal rules to which the company is subject.
    - Investigating suspicious and fraudulent activities (including conflicts).
  - Analyzing the reports of the inspection visits, instructions and presentations of the SBIF.

Obtaining information, analyzing and verifying the company's compliance with the annual audit program prepared by the internal audit department.

· Informing the Board of Directors of accounting changes and their effects.

· Examining on an annual basis the compensation plans of high level executives and managers.

#### Asset and Liability Committee (ALCO)

The ALCO includes the Chairman of the Board and five additional members of the Board, the Chief Executive Officer, the Corporate Financial Controller, the Manager of the Financial Management Division, the Manager of Market Risk, the Manager of the Treasury Division, and other senior members of management. The ALCO meets monthly. All limits reviewed by the ALCO are measured and prepared by the Market Risk Department. The non-Board members of the ALCO meet weekly to review liquidity, funding, capital and market risk related matters.

| Board member       | Position in Committee |
|--------------------|-----------------------|
| Mauricio Larraín   | Chairman              |
| Oscar von Chrismar | Vice-Chairman         |
| Vittorio Corbo     | Second Vice-Chairman  |
| Marco Colodro      | Member                |
| Roberto Zahler     | Member                |
| Raimundo Monge     | Member                |

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The main functions of the ALCO are:

- Making the most important decisions regarding interest rate risk, funding, capital and liquidity levels.
- Review of the Bank's main gaps (foreign currency and inflation gap).
- Review of the evolution of the most relevant local and international markets and monetary policies.

Market Committee

The Market Committee includes the Vice-Chairman of the Board, three additional members of the Board, the Chief Executive Officer, the Manager of Global Banking and Markets, the Manager of the Treasury Division, the Manager of the Financial Management Division, the Manager of Market Risk, the Financial Controller and other senior members of management.

| Board member       | Position in Committee |
|--------------------|-----------------------|
| Oscar von Chrismar | Chairman              |
| Roberto Zahler     | Vice-Chairman         |
| Vittorio Corbo     | Second Vice-Chairman  |
| Mauricio Larraín   | Member                |
| Marco Colodro      | Member                |

The Market Committee is responsible for:

- Establishing a strategy for the Bank's trading portfolio.

Establishing the Bank's policies, procedures and limits with respect to its trading portfolio. The Bank's Market Risk Department measures all risks and limits and reports these to the Market Committee.

- Reviewing the evolution of the most relevant local and international markets and monetary policies.

Executive Credit Committee

The Executive Credit Committee is comprised of the following Board members:

| Board member       | Position in Committee |
|--------------------|-----------------------|
| Mauricio Larraín   | Chairman              |
| Oscar von Chrismar | Vice-Chairman         |
| Marco Colodro      | Second Vice-Chairman  |
| Roberto Méndez     | Member                |

In addition, this committee also includes: the Corporate Director of Risk, the CEO, the Corporate Legal Counsel, the Manager of Global Banking, the Corporate Director of Human Resources and Administration (this is a newly-created position) and two senior members of the Credit Risk department, who present the loans being reviewed. The Executive Credit Committee meets weekly and performs the following main functions:

- Reviews the main client exposures by: economic sector, geography, type of risk and segment.
- Supervises and review the main credit risk indicators (NPLs, coverage, impaired loans, etc.).

Takes notes, analyzes and follows up on the observations and recommendations of the regulatory bodies and the external and internal auditors on credit-risk-related issues.

Reviews the loan positions reviewed by the Senior Credit Committee above U.S.\$10 million and approves those loan positions greater than U.S.\$40 million.

The Credit Risk Department must present to the Board on a monthly basis. In this presentation all loans above U.S.\$5 million that were granted in the previous month must be reviewed. In addition, any other theme or subject of importance regarding credit risk is also presented (for example a proposal to change a provisioning model must be

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presented and approved by the Board). Finally, at least once a year, the Credit Risk Department presents a report to assure the Board that our loan loss allowances are adequate for all known and estimated incurred losses.

## Risk Committee

| Board member           | Position in Committee |
|------------------------|-----------------------|
| Oscar von Chrismar     | Chairman              |
| Marco Colodro          | Member                |
| Vittorio Corbo         | Member                |
| Roberto Méndez         | Member                |
| Juan Pedro Santa María | Member                |

The *Risk Committee* is responsible for revising and following all risks that may affect us, including reputational risk, allowing for an integral risk management. This committee serves as the governing body through which the Board supervises the CRO. It also evaluates the reasonability of the systems for measurement and control of risks. This Committee includes the Vice Chairman of the Board and five Board members. Furthermore, the Board Risk Committee was created, and is comprised of the Vice-Chairman of the Bank and four independent board members.

## Marketing, Communications and Institutional Image Committee

| Board member       | Position in Committee |
|--------------------|-----------------------|
| Mauricio Larraín   | Chairman              |
| Roberto Méndez     | Vice-Chairman         |
| Lucía Santa Cruz   | Second Vice-Chairman  |
| Oscar Von-Chrismar | Member                |

The Marketing, Communications and Institutional Image Committee is comprised of the Chairman of the Board and three additional Board members, the CEO, the Manager of Retail Banking, the Manager of Human Resources, the Manager of Corporate Communications, the Manager of Marketing and other senior managers. This committee reviews and confirms all matters related to products, corporate image and communications.

## University Committee

| Board member | Position in Committee |
|--------------|-----------------------|
|--------------|-----------------------|

Mauricio Larraín Chairman  
Roberto Méndez Vice-Chairman  
Lucía Santa Cruz Second Vice-Chairman

The University Committee is comprised of the Chairman of the Board and two additional Board members. The committee reviews our support for higher education and integrates this with the growth of the Institutional business segment and retail banking for college graduates.

#### Strategy Committee

| Board member       | Position in Committee |
|--------------------|-----------------------|
| Mauricio Larraín   | Chairman              |
| Oscar von Chrismar | Vice Chairman         |
| Roberto Méndez     | Member                |
| Raimundo Monge     | Member                |

The Strategy Committee is in charge of our strategic planning process and follow-up, as well as the identification of broad business opportunities and threats. The Strategy Committee is comprised of the Chairman of the Board and four additional Board members.

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Clients and Service Quality Committee

| Board member       | Position in Committee |
|--------------------|-----------------------|
| Oscar von Chrismar | Chairman              |
| Roberto Méndez     | Vice Chairman         |

The Clients and Service Quality Committee is in charge of overseeing all major issues related to quality and client service.

Transparency Committee

| Board member           | Position in Committee |
|------------------------|-----------------------|
| Juan Pedro Santa María | Chairman              |
| Raimundo Monge         | Vice Chairman         |

The Transparency Committee is comprised of two Board members. The Transparency Committee dictates guidelines on communications and available information to clients on relation to new and existing products and offers, in order to comply with internal and regulatory standards relative to information transparency to clients.

Human Resources Committee

| Board member       | Position in Committee |
|--------------------|-----------------------|
| Mauricio Larraín   | Chairman              |
| Oscar Von-Chrismar | Member                |

The Human Resources Committee is comprised of two Board members, the CEO, the Manager of Human Resources and Administration, the Manager of Human Resources and other senior managers. The Human Resources Committee dictates guidelines on management and general human resources policies, including incentive, selection, promotion and training policies.

D. Employees

As of December 31, 2013, on a consolidated basis, we had 11,516 employees, 8,845 of whom were bank employees, 298 of whom were employees of our subsidiaries and 2,373 were employees of entities controlled by the Bank through other considerations. We have traditionally enjoyed good relations with our employees and their unions. Of the total headcount of us and our subsidiaries, 8,746 or 75.9% were unionized. In May 2014, a new collective bargaining agreement was signed, which went into effect on January 1, 2014 and which expires on December 31, 2018, though it may be renegotiated ahead of schedule with the consent of management and the union. We generally apply the terms of our collective bargaining agreement to unionized and non-unionized employees. The following chart summarizes the number of employees employed by the bank.

| Employees      | As of December 31, 2013 |
|----------------|-------------------------|
| Executives     | 684                     |
| Professionals  | 5,296                   |
| Administrative | 5,536                   |
| Total          | 11,516                  |

#### E. Share Ownership

No director or executive officer owns more than 1% of the shares of Santander-Chile. As of December 31, 2013, the following directors and executives held shares in Santander-Chile:

| Directors               | Shares    |
|-------------------------|-----------|
| Mauricio Larraín Garcés | 568       |
| Carlos Olivos Marchant  | 2,982,630 |

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Santander-Chile currently does not have any arrangements for involving employees in its capital and there is no systematic arrangement for grant of options or shares or securities of Santander-Chile to them.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

## A. Major Shareholders

Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A., which are controlled subsidiaries. Santander Spain has control over 67.18% of our shares and actual participation, excluding non-controlling shareholders that participate in Santander Chile Holding, S.A. of 67.01%.

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

Santander Spain is in a position to cause the election of a majority of the members of Santander-Chile's Board of Directors, to determine its dividend and other policies and to determine substantially all matters to be decided by a vote of shareholders. Santander Spain holds ordinary shares to which no special voting rights are attached. Each share represents one vote and there are no shareholders with different voting rights.

The number of outstanding shares of Santander-Chile (of which there is only one class, being ordinary shares) at December 31, 2013, was 188,446,126,794 shares, without par value. Santander-Chile's shares are listed for trading on the Chilean Stock Exchanges and on the NYSE in connection with the registration of ADRs. The market capitalization of Santander-Chile at December 31, 2013 on the Chilean stock exchange was Ch\$ 5,740,069 million and U.S.\$ 11,104 million on the NYSE. At December 31, 2013, Santander-Chile had 12,176 holders of its ordinary shares registered in Chile, including JP Morgan as Depositary (the "Depositary") of Santander-Chile's ADS Program. Other than the information disclosed in this section, there are no arrangements to the knowledge of Santander-Chile that can result in a change of control of Santander-Chile. As of December 31, 2013, there were a total of 25 ADR holders on record. Since some of these ADRs are held by nominees, the number of record holders may not be representative of the number of beneficial holders

## B. Related Party Transactions

The Chilean Companies Law requires that our transactions with related parties be on a market basis, that is, on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violations.

In addition, under the Chilean Companies Law, a company may not enter into a transaction with related parties unless (i) such transaction has received the prior approval of the company's Board of Directors and (ii) the terms of such transaction are consistent with the terms of transactions of a similar type prevailing in the market. If it is not possible to make this determination, the board may appoint two independent evaluators. The evaluators' final conclusions must be made available to shareholders and directors for a period of 20 business days, during which shareholders representing 5% or more of the issued voting shares may request the board to call a shareholders' meeting to resolve the matter, with the agreement of two thirds of the issued voting shares required for approval. For purposes of this regulation, the law considers the amount of a proposed transaction to be material if (1) it exceeds 1% of the company's net worth (provided that it also exceeds 20,000UF) or (2) it exceeds 20,000 UF.

All resolutions approving such transactions must be reported to the company's shareholders at the next annual shareholders' meeting. Violations of this provision may result in administrative or civil liability to the corporation, the shareholders and/or third parties who suffer losses as a result of such violation.

#### Loans granted to related parties

In addition to subsidiaries and associated entities, the Bank's "related parties" include the "key personnel" of the Bank's executive staff (members of the Bank's Board of Directors and the Senior Managers of Santander-Chile and its subsidiaries, together with their close relatives), as well as the entities over which the key personnel could exert significant influence or control.

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The Bank also considers the companies that are part of the Santander Group worldwide as related parties, given that all of them have a common parent, *i.e.*, Santander Spain.

The table below shows loans and accounts receivable and contingent loans with related parties. For more information, see “Note 37—Transactions with Related Parties” in our Audited Consolidated Financial Statements appearing elsewhere in this Annual Report:

|   | As of December 31,<br>2013              |                                    |                             |                  | 2012                                    |                                    |                             |                  | 2011                                    |                                    |                             |                  |
|---|---|------------------------------------|-----------------------------|------------------|---|------------------------------------|-----------------------------|------------------|---|------------------------------------|-----------------------------|------------------|
|   | Companies<br>of the<br>Group<br>Ch\$mnn | Associated<br>companies<br>Ch\$mnn | Key<br>personnel<br>Ch\$mnn | Other<br>Ch\$mnn | Companies<br>of the<br>Group<br>Ch\$mnn | Associated<br>companies<br>Ch\$mnn | Key<br>personnel<br>Ch\$mnn | Other<br>Ch\$mnn | Companies<br>of the<br>Group<br>Ch\$mnn | Associated<br>companies<br>Ch\$mnn | Key<br>personnel<br>Ch\$mnn | Other<br>Ch\$mnn |
| <b>Loans and<br/>accounts<br/>receivables</b> |   |                                    |                             |                  |   |                                    |                             |                  |   |                                    |                             |                  |
| Commercial<br>loans                           | 47,305                                  | 618                                | 4,022                       | 51,141           | 46,790                                  | 668                                | 2,910                       | 57,723           | 39,708                                  | 663                                | 2,234                       |                  |
| Mortgage<br>loans                             | -                                       | -                                  | 15561                       | -                | -                                       | -                                  | 15089                       | -                | -                                       | -                                  | 15657                       |                  |
| Consumer<br>loans                             | -                                       | -                                  | 2061                        | -                | -                                       | -                                  | 1513                        | -                | -                                       | -                                  | 1808                        |                  |
| <b>Loans and<br/>accounts<br/>receivables</b> | <b>47,305</b>                           | <b>618</b>                         | <b>21,644</b>               | <b>51,141</b>    | <b>46,790</b>                           | <b>668</b>                         | <b>19,512</b>               | <b>57,723</b>    | <b>39,708</b>                           | <b>663</b>                         | <b>19,699</b>               |                  |
| Provision<br>for loan<br>losses               | (238)                                   | (3)                                | (44)                        | (6)              | (329)                                   | (3)                                | (39)                        | (9)              | (54)                                    | (1)                                | (39)                        |                  |
| <b>Net loans</b>                              | <b>47,067</b>                           | <b>615</b>                         | <b>21,600</b>               | <b>51,135</b>    | <b>46,461</b>                           | <b>665</b>                         | <b>19,473</b>               | <b>57,714</b>    | <b>39,654</b>                           | <b>662</b>                         | <b>19,660</b>               |                  |
| Guarantees                                    | 124,420                                 | -                                  | 19,237                      | 2,326            | 9                                       | -                                  | 17,909                      | 1,349            | 25,311                                  | -                                  | 18,244                      |                  |
| <b>Contingent<br/>loans</b>                   |   |                                    |                             |                  |   |                                    |                             |                  |   |                                    |                             |                  |
| Personal<br>guarantees                        | -                                       | -                                  | -                           | -                | -                                       | -                                  | -                           | -                | -                                       | -                                  | -                           | -                |
| Letters of<br>credit                          | 30,714                                  | -                                  | -                           | -                | 25,697                                  | -                                  | -                           | -                | 187                                     | -                                  | -                           | -                |
| Guarantees                                    | 172,274                                 | -                                  | -                           | 9,989            | 34,897                                  | -                                  | -                           | 1,443            | 12,778                                  | -                                  | -                           | -                |
| <b>Contingent<br/>loans</b>                   | <b>202,988</b>                          | <b>-</b>                           | <b>-</b>                    | <b>9,989</b>     | <b>60,594</b>                           | <b>-</b>                           | <b>-</b>                    | <b>1,443</b>     | <b>12,965</b>                           | <b>-</b>                           | <b>-</b>                    | <b>-</b>         |
| Provisions<br>for<br>contingent<br>loans      | (22)                                    | -                                  | -                           | (4)              | (15)                                    | -                                  | -                           | (2)              | (63)                                    | -                                  | -                           | -                |

|                   |                |   |   |              |               |   |   |              |               |   |   |
|-------------------|----------------|---|---|--------------|---------------|---|---|--------------|---------------|---|---|
| <b>Net</b>        |                |   |   |              |               |   |   |              |               |   |   |
| <b>contingent</b> | <b>202,966</b> | - | - | <b>9,985</b> | <b>60,579</b> | - | - | <b>1,441</b> | <b>12,902</b> | - | - |
| <b>loans</b>      |                |   |   |              |               |   |   |              |               |   |   |

Loans (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons, and (c) did not involve more than the normal collection risk.

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

a bank may not extend to any person or legal entity (or group of related entities), directly or indirectly, unsecured loans in an amount that exceeds 5.0% of the bank's regulatory capital, or secured loans in an amount that exceeds 25.0% of its regulatory capital. In the case of foreign export trade finance, this 5.0% ceiling is raised to: 10.0% for unsecured financing, 30.0% for secured financing. This ceiling is raised to 15.0% for loans granted to finance public works under the concessions system contemplated in the Decree with Force of Law 164 of 1991, of the Ministry of Public Works, provided that either the loan is secured on the concession, or the loan is granted as part of a loan syndication;

a bank may not grant loans bearing more favorable terms than those generally offered by banks in the same community to any entity (or group of related entities) that is directly or indirectly related to its owners or management;

a bank may not extend loans to another bank in an aggregate amount exceeding 30.0% of its regulatory capital;

a bank may not directly or indirectly grant a loan, the purpose of which is to allow the borrower to acquire shares in the lending 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, or to certain related parties; and

a bank may not grant loans to individuals or legal entities involved in the ownership or management of the bank, whether directly or indirectly (including holders of 1.0% or more of its shares), on more favorable terms than those generally offered to non-related parties. Loans may not be extended to senior executives and to companies in which such individuals have a participation of 5.0% or more of the equity or net earnings in such companies. The aggregate amount of loans to related parties may not exceed a bank's regulatory capital.

We are not aware of any loans to any related parties exceeding the above lending limits.

The largest related party loan, which matures on March 23, 2015 and has an annual rate of U.S.\$ + 1.24%, by the Bank to Telefónica Chile S.A. and had an amount outstanding of Ch\$30,624 million (U.S.\$58 million).

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The table below shows assets and liabilities with related parties:

|   | As of December 31,<br>2013             |                                   |                            |                 | 2012                                   |                                   |                            |                 | 2011                                   |                                   |                            |                 |
|---|--|-----------------------------------|----------------------------|-----------------|--|-----------------------------------|----------------------------|-----------------|--|-----------------------------------|----------------------------|-----------------|
|   | Companies<br>of the<br>Group<br>Ch\$mn | Associated<br>companies<br>Ch\$mn | Key<br>personnel<br>Ch\$mn | Other<br>Ch\$mn | Companies<br>of the<br>Group<br>Ch\$mn | Associated<br>companies<br>Ch\$mn | Key<br>personnel<br>Ch\$mn | Other<br>Ch\$mn | Companies<br>of the<br>Group<br>Ch\$mn | Associated<br>companies<br>Ch\$mn | Key<br>personnel<br>Ch\$mn | Other<br>Ch\$mn |
| <b>Assets</b>                                     |  |                                   |                            |                 |  |                                   |                            |                 |  |                                   |                            |                 |
| Cash and<br>deposits in<br>banks                  | 5,306                                  | -                                 | -                          | -               | 5,357                                  | -                                 | -                          | -               | 178,567                                | -                                 | -                          | -               |
| Trading<br>investments                            | -                                      | -                                 | -                          | -               | -                                      | -                                 | -                          | -               | -                                      | -                                 | -                          | -               |
| Investments<br>under resale<br>agreements         | -                                      | -                                 | -                          | -               | -                                      | -                                 | -                          | -               | -                                      | -                                 | -                          | -               |
| Financial<br>derivative<br>contracts              | 557,026                                | -                                 | -                          | -               | 526,734                                | -                                 | -                          | -               | 506,880                                | -                                 | -                          | -               |
| Available<br>for sale<br>investments              | -                                      | -                                 | -                          | -               | -                                      | -                                 | -                          | -               | -                                      | -                                 | -                          | -               |
| Other assets                                      | 2,460                                  | -                                 | -                          | -               | 4,339                                  | -                                 | -                          | -               | 4,617                                  | -                                 | -                          | -               |
| <b>Liabilities</b>                                |  |                                   |                            |                 |  |                                   |                            |                 |  |                                   |                            |                 |
| Deposits<br>and other<br>demand<br>liabilities    | 58,030                                 | 10,406                            | 2,783                      | 23,300          | 65,386                                 | 2,563                             | 2,286                      | 17,211          | 5,057                                  | 4,009                             | 1,425                      | -               |
| Investments<br>under<br>repurchase<br>agreements  | 59,703                                 | -                                 | -                          | -               | 92,862                                 | -                                 | -                          | -               | 137,191                                | -                                 | -                          | -               |
| Time<br>deposits and<br>other time<br>liabilities | 54,212                                 | 299                               | 3,774                      | 156,977         | 97,449                                 | 373                               | 2,842                      | 39,193          | 248,206                                | 368                               | 3,627                      | -               |
| Financial<br>derivative<br>contracts              | 537,162                                | -                                 | -                          | -               | 387,903                                | -                                 | -                          | -               | 396,538                                | -                                 | -                          | -               |
| Issued debt<br>instruments                        | 96,872                                 | -                                 | -                          | -               | 67,368                                 | -                                 | -                          | -               | 1,683                                  | -                                 | -                          | -               |
| Other<br>financial<br>liabilities                 | 3,912                                  | -                                 | -                          | -               | 103,207                                | -                                 | -                          | -               | 58,848                                 | -                                 | -                          | -               |

|                   |     |   |   |   |       |   |   |   |       |   |   |
|-------------------|-----|---|---|---|-------|---|---|---|-------|---|---|
| Other liabilities | 462 | - | - | - | 1,241 | - | - | - | 1,339 | - | - |
|-------------------|-----|---|---|---|-------|---|---|---|-------|---|---|

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## Other transactions with related parties

During the years ended December 31, 2013, 2012 and 2011, the Bank had the following significant income (expenses) from services provided to (by) related parties:

|  | 2013<br>Companies<br>of the<br>Group<br>MCh\$ | Associated<br>companies<br>MCh\$ | Key<br>personnel<br>MCh\$ | Other<br>MCh\$ | 2012<br>Companies<br>of the<br>Group<br>MCh\$ | Associated<br>companies<br>MCh\$ | Key<br>personnel<br>MCh\$ | Other<br>MCh\$ | 2011<br>Companies<br>of the<br>Group<br>MCh\$ | Associated<br>companies<br>MCh\$ | Key<br>personnel<br>MCh\$ |
|--|---|----------------------------------|---------------------------|----------------|---|----------------------------------|---------------------------|----------------|---|----------------------------------|---------------------------|
| <b>Income<br/>(expense)<br/>recorded</b>                     |   |                                  |                           |                |   |                                  |                           |                |   |                                  |                           |
| Income and expenses from interests and readjustments         | (8,812)                                       | 50                               | 1,065                     | (1,082)        | (11,660)                                      | 54                               | 948                       | (2,819)        | (17,892)                                      | 54                               | 1,289                     |
| Income and expenses from fees and services                   | -   | 75                               | 120                       | 3,615          | (1,191)                                       | 59                               | 114                       | 214            | 387   | 38                               | 110                       |
| Net income from financial and foreign exchange operations(*) | (8,690)                                       | -                                | (4)                       | (1,534)        | 241,424                                       | -                                | (1)                       | 107            | 38,744  | -                                | 5                         |
| Other operating revenues and expenses                        | 955   | -                                | -                         | -              | 643   | -                                | -                         | -              | 519   | -                                | -                         |
| Income for Investments in other companies (**)               | 78,122  | -                                | -                         | -              | -   | -                                | -                         | -              | -   | -                                | -                         |
| Key personnel compensation and expenses                      | -   | -                                | (31,652)                  | -              | -   | -                                | (30,999)                  | -              | -   | -                                | (32,700)                  |
| Administrative and other expenses                            | (28,371)                                      | (30,758)                         | -                         | -              | (23,121)                                      | (20,461)                         | -                         | -              | (13,303)                                      | (25,509)                         | -                         |

|               |               |                 |                 |            |                |                 |                 |                |              |                 |              |
|---------------|---------------|-----------------|-----------------|------------|----------------|-----------------|-----------------|----------------|--------------|-----------------|--------------|
| <b>Totals</b> | <b>33,204</b> | <b>(30,633)</b> | <b>(30,471)</b> | <b>999</b> | <b>206,095</b> | <b>(20,348)</b> | <b>(29,938)</b> | <b>(2,498)</b> | <b>8,455</b> | <b>(25,417)</b> | <b>(31,3</b> |
|---------------|---------------|-----------------|-----------------|------------|----------------|-----------------|-----------------|----------------|--------------|-----------------|--------------|

(\*) Primarily relates to derivative contracts used to financially cover exchange risk of assets and liabilities that cover positions of the Bank and its subsidiaries.

(\*\*) Corresponds to the profit from the sale of the Santander Asset Management S.A. Administradora General de Fondos subsidiary.

Only transactions with related parties equal to or greater than UF 5,000 are included individually in the table above. Transactions with related parties between UF 1,000 and up to UF 5,000 are included in other transactions with related parties. All transactions were conducted at arm's length.

C. Interests of Experts and Counsel

Not applicable.

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ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Information

See “Item 18. Financial Statements.”

Legal Proceedings

We are subject to certain claims and are party to certain legal and arbitration proceedings in the normal course of our business, including claims for alleged operational errors. We do not believe that the liabilities related to such claims and proceedings are likely to have, in the aggregate, a material adverse effect on our consolidated financial condition or results of operations. For the years ended December 31, 2013, the Disclosure Committee of Santander-Chile has defined a significant legal proceeding as that implying an estimated incurred loss greater than an established cut-off amount. This cut-off amount is calculated as 16% of the following amount: 5% of average net income for the past two years, reduced by 30% for prudence. As of December 31, 2013, this cut-off totaled Ch\$2,725 million (U.S.\$5.2 million). As of December 31, 2013, there were no legal proceedings exceeding that amount. There are no material proceedings in which any of our directors, any members of our senior management, or any of our affiliates is either a party adverse to us or our subsidiaries or has a material interest adverse to us or our subsidiaries.

Upon the recommendation of our legal advisors, we estimate that our aggregate liability if all legal proceedings were determined adversely to us could result in significant losses not estimated by us. As of December 31, 2013, we have set aside Ch\$428 million (U.S.\$0.8 million) as provisions for these legal actions. These provisions are presented in “Contingency Provisions” in the Consolidated Statements of Financial Position. In addition, there are other lawsuits for UF26,512 (Ch\$618 million or US\$1.2 million), which primarily relate to the litigation between Santander Corredores de Seguros Limitada and its clients for leasing assets.

Dividends and dividend policy

See “Item 3. Key Information—A. Selected Financial Data—Dividends.”

## B. Significant Changes

None.

## ITEM 9. THE OFFER AND LISTING

## A. Historical Trading Information

The table below shows, for the periods indicated, the annual, quarterly and monthly high and low closing prices (in nominal Chilean pesos) of the shares of our common stock on the Santiago Stock Exchange and the annual, quarterly and monthly high and low closing prices (in U.S. dollars) as reported by the NYSE.

|                             | Santiago Stock Exchange |       | NYSE             |       |
|-----------------------------|-------------------------|-------|------------------|-------|
|                             | High                    | Low   | High             | Low   |
|                             | Common Stock            |       | ADS(2)           |       |
|                             | (Ch\$ per share(1))     |       | (U.S.\$ per ADS) |       |
| <b>Annual Price History</b> |                         |       |                  |       |
| 2009                        | 31.00                   | 18.23 | 54.60            | 28.16 |
| 2010                        | 47.37                   | 30.74 | 64.78            | 31.22 |
| 2011                        | 43.65                   | 31.94 | 99.44            | 59.40 |
| 2012                        | 41.01                   | 31.40 | 33.96            | 26.10 |
| 2013                        | 36.23                   | 27.62 | 30.59            | 21.38 |

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|                                 | Santiago Stock Exchange<br>NYSE<br>Common Stock ADS(2) |       |                             |       |
|---------------------------------|--|-------|-----------------------------|-------|
|                                 | High<br>(Ch\$ per<br>share(1))                         | Low   | High<br>(U.S.\$ per<br>ADS) | Low   |
| <b>Quarterly Price History</b>  |  |       |                             |       |
| <b>2011</b>                     |  |       |                             |       |
| 1st Quarter                     | 43.65  | 35.63 | 70.63                       | 60.59 |
| 2nd Quarter                     | 42.23  | 39.80 | 71.88                       | 59.40 |
| 3rd Quarter                     | 42.93  | 34.53 | 99.44                       | 66.73 |
| 4th Quarter                     | 38.80  | 31.94 | 97.02                       | 91.28 |
| <b>2012</b>                     |  |       |                             |       |
| 1st Quarter                     | 41.00  | 31.40 | 33.96                       | 26.10 |
| 2nd Quarter                     | 40.73  | 34.74 | 33.75                       | 27.60 |
| 3rd Quarter                     | 37.97  | 32.47 | 30.83                       | 27.23 |
| 4th Quarter                     | 34.86  | 31.40 | 29.44                       | 26.10 |
| <b>2013</b>                     |  |       |                             |       |
| 1st Quarter                     | 36.23  | 33.41 | 30.59                       | 28.34 |
| 2nd Quarter                     | 33.49  | 28.20 | 28.31                       | 21.93 |
| 3rd Quarter                     | 33.49  | 27.62 | 26.79                       | 21.56 |
| 4th Quarter                     | 33.15  | 28.21 | 26.20                       | 21.38 |
| <b>Monthly Price History</b>    |  |       |                             |       |
| Oct-13                          | 33.15  | 30.84 | 26.20                       | 24.45 |
| Nov-13                          | 31.16  | 28.86 | 24.37                       | 22.24 |
| Dec-13                          | 30.46  | 28.21 | 23.57                       | 21.38 |
| Jan-14                          | 30.66  | 26.81 | 23.13                       | 19.35 |
| Feb-14                          | 30.49  | 27.19 | 22.26                       | 19.34 |
| Mar-14                          | 32.10  | 29.96 | 23.44                       | 20.93 |
| Apr-14 (through April 29, 2014) | 34.17  | 31.59 | 24.52                       | 23.02 |

## B. Plan of Distribution

Not applicable

## C. Nature of Trading Market

## Nature of Trading Market

Shares of our common stock are traded on the Chilean Stock Exchanges. Each ADS represents 400 shares of common stock. ADRs have been issued pursuant to the Deposit Agreement, dated as of August 4, 2008, among

Santander-Chile, the Depositary and all holders from time to time of ADRs. On October 22, 2012, this agreement was amended and the number of shares per ADS was changed from 1,039 to 400 shares. As of December 31, 2013, 75,218,321 ADSs were outstanding (equivalent to 30,087,328,471 shares of common stock or 15.97% of the total number of issued shares of common stock).

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

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ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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 SBIF on October 27, 1977. The Bank's by-laws were approved by Resolution No. 103 of the SBIF on September 22, 1977. In January 1997, Santiago merged with Banco O'Higgins' with Santiago as the surviving entity. In 1999, Santiago became a controlled subsidiary of Santander Spain.

On May 24, 2007, we changed our by-laws as our official name to Banco Santander-Chile (formerly: Banco Santander Chile) and that the Bank may also use the following names: Banco Santander Santiago, Santander Santiago, Banco Santander, or Santander (formerly only: Banco Santander Santiago and Santander Santiago).

Shareholder rights in a Chilean bank that is also an open stock (public) corporation are governed by (1) the corporation's *estatutos*, which effectively serve the purpose of both the articles or certificate of incorporation and the by-laws of a company incorporated in the United States, (2) the General Banking Law and (3) to the extent not inconsistent with the General Banking Law, by the provisions of Chilean Companies Law applicable to open stock corporations, except for certain provisions that are expressly excluded. Article 137 of the Chilean Companies Law provides that all provisions of the Chilean Companies Law take precedence over any contrary provision in a corporation's *estatutos*. Both the Chilean Companies Law and our *estatutos* provide that legal actions by shareholders against us (or our officers or directors) to enforce their rights as shareholders or by one shareholder against another in their capacity as such are to be brought in Chile in arbitration proceedings, notwithstanding the plaintiff's right to submit the action to the ordinary courts of Chile.

The Chilean securities markets are principally regulated by the Superintendency of Securities and Insurance under the Chilean Securities Market Law and the Chilean Companies Law. In the case of banks, compliance with these laws is supervised by the SBIF. These two laws provide for disclosure requirements, restrictions on insider trading and price manipulation and protection of non-controlling investors. The Chilean Securities Market Law sets forth requirements relating to public offerings, stock exchanges and brokers, and outlines disclosure requirements for companies that issue publicly offered securities. The Chilean Companies Law sets forth the rules and requirements for establishing

open stock corporations while eliminating government supervision of closed (closely-held) corporations. Open stock (public) corporations are those with 500 or more shareholders, or companies in which 100 or more shareholders own at least 10.0% of the subscribed capital (excluding those whose individual holdings exceed 10.0%), and all other companies that are registered in the Securities Registry of the Superintendency of Securities and Insurance.

Santander-Chile is a bank providing a broad range of commercial and retail banking services, as well as a variety of financial services. Our objects and purposes can be found in Article 4 of our estatutos.

#### Board of Directors

The Board of Directors has 11 regular members and 2 alternate members, elected by shareholder vote at General Shareholders' Meetings. The directors may be either shareholders or non-shareholders of the Company. There is no age limit for directors.

A director remains in office for three years and may be reelected indefinitely. If for any reason, the General Shareholders' Meeting where the newly appointments of directors are to be made is not held, the duties of those serving as such shall be extended until their replacements are designated, in which case, the Board of Director shall convene a Meeting at the earliest possible time in order to effect the appointments.

The directors are entitled to compensation for the performance of their duties. The amount of their compensation is determined annually by the General Shareholders' Meeting. In addition, payments in the form of wages, fees, travel accounts, expense accounts, dues as representatives of the Board of Directors and other cash

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payments, payments in kind or royalties of any sort whatsoever, may be paid to certain directors for the performance of specific duties or tasks in addition to their functions as directors imposed upon them specifically by the General Shareholders' Meeting. Any special compensation is authorized or approved at the General Shareholders' Meeting, and for that purpose, a detailed and separate entry shall be made in the Annual Report, which shall expressly indicate the complete name of each of the directors receiving special compensation.

Without prejudice to any other incapacity or incompatibility established by law, the following may not be directors: (a) those persons who have been sentenced or are being tried, either as principals or accessories, for crimes punishable with a penalty of temporary or permanent suspension from or incapacity to hold public office; (b) those persons who have been declared bankrupt and have not been rehabilitated; (c) members of the House of Representatives and the Senate; (d) directors or employees of any other financial institution; employees appointed by the President of the Republic and employees or officers of (i) the State, (ii) any public service, public institution, semi-public institution, autonomous entity or state-controlled company (any such entity a "Public Entity") or (iii) any enterprise, corporation or public or private entity in which the State or a Public Entity has a majority interest, has made capital contributions, or is represented or participating, provided that persons holding positions in teaching activities in any of the above entities may be directors; and (f) the Bank's employees, which shall not prevent a director from holding on a temporary basis and for a term not to exceed ninety days the position of General Manager. Chief Executive Officers may not be elected as directors.

For purposes of the appointment of directors, each shareholder shall have the right to one vote per share for purposes of appointing a single person, or to distribute his votes in between candidates as he may deem convenient, and the persons obtaining the largest number of votes in the same and single process shall be awarded positions, until all positions have been filled. The election of the regular and alternate board members shall be carried out separately. For purposes of the casting of the vote, the Chairman and the Secretary, together with any other persons that may have been previously designated by the Meeting to sign the minutes thereof, shall issue a certificate giving evidence of the oral votes of shareholders attending, following the order of the list of attendance being taken.

Each shareholder shall be entitled, however, to cast his vote by means of a ballot signed by him, stating whether he signs for his own account or as a representative. This entitlement notwithstanding, in order to expedite the voting process, the Chairman of the Bank or the Superintendency, as the case may be, is entitled to order that the vote be taken alternatively or by oral vote or by means of ballots. At the time of polling, the Chairman may instruct that the votes be read aloud, in order for those in attendance to count for themselves the number of votes issued and verify the outcome of the voting process.

The Secretary tabulates the votes and the Chairman announces those who have obtained the largest majorities until all the director positions have been filled. The Secretary places the documents evidencing the outcome of the count, duly signed by the persons charged with the duty of verifying the number of votes issued, together with the ballots delivered by the shareholders who did not vote orally, in an envelope which shall be closed and sealed with the corporate seal and shall remain deposited with the Bank for a least two years.

Every appointment of directors, or any changes in the appointment of directors, shall be transcribed into a public deed before a notary public, published in a newspaper of Santiago and notified to the SBIF and Financial Institutions, by means of the filing of a copy of the respective public deed. Likewise, the appointments of General Manager, Manager and Deputy Managers shall be communicated and transcribed into a public deed.

If a director ceases to be able to perform his or her duties, whether by reason of conflict of interest, limitation, legal incapacity or bankruptcy, impossibility, resignation or any other legal cause, the vacancy shall be filled as follows: (a) the positions of regular directors shall be filled by an alternate director; and (b) the positions of alternate directors vacated upon the application of (a) above, and the positions of regular directors if a regular director's position cannot be filled pursuant to clause (a) because both alternate members have already become regular members, shall be filled by the Board of Directors on its first meeting after the vacancy occurs. Board members appointed pursuant to clause (b) will remain in the position until the next General Shareholders' Meeting, where the appointment may be ratified, in which case, the replacement director will remain in his or her position until the expiration of the term of the director he or she replaced.

The alternate directors may temporarily replace regular directors in case of their absence or temporary inability to attend a board meeting, or in a definitive manner in case of vacancy. The alternate board members are always

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entitled to attend and speak at board meetings. They will be entitled to vote at such meetings only when a regular member is absent and such alternate member acts as the absent member's replacement.

During the first meeting following the General Shareholders' Meeting, the Board of Directors shall elect in separate votes from among its members, a Chairman, a First Vice Chairman and a Second Vice Chairman. In the event of a tie, the appointment shall be decided by lottery.

The Board of Directors meet, in ordinary sessions at least once a month, held on pre-set dates and times determined by the Board. Extraordinary meetings are held whenever called by the Chairman, whether at his own will or upon the request of three or more directors, so long as the Chairman determines in advance that the meeting is justified, except if the request is made by the absolute majority of the directors in office, in which case the meeting shall be held without such prior determination. The extraordinary meetings may only address those matters specifically included in the agenda for the extraordinary meeting, except that, if the meeting is attended by all the directors in office, they may agree otherwise by a unanimous vote. Extraordinary meetings shall be called by means of a written instrument signed by the Chairman or the Secretary or his alternate and delivered to each of the directors at least three days prior to the date set for the meeting.

The quorum for the Board of Directors' Meeting is six of its members. Resolutions shall be adopted by the affirmative vote of the absolute majority of the attending directors. In the event of a tie, the person acting as the Chairman of the meeting shall cast a deciding vote.

Directors having a vested interest in a negotiation, act, contract or transaction that is not related to the bank business, either as principal or as representative of another person, shall communicate such fact to the other directors. If the respective resolutions are approved by the Board, it shall be in accordance to the prevailing fair market conditions and director's interest must be disclosed at the next General Shareholders' Meeting.

The discussions and resolutions of the Board of Directors shall be recorded in a special book of minutes maintained by the Secretary. The relevant minutes shall be signed by the directors attending the meeting and by the Secretary, or his alternate. If a director determines that the minutes for a meeting are inaccurate or incomplete, he is entitled to record an objection before actually signing the minutes. The resolutions adopted may be carried out prior to the approval of the minutes at a subsequent meeting. In the event of death, refusal or incapacity for any reason of any of the directors attending to sign the minutes, such circumstance shall be recorded at the end of the minutes stating the reason for the impediment.

The directors are personally liable for all of the acts they effect in the performance of their duties. Any director who wishes to disclaim responsibility for any act or resolution of the Board of Directors must to record his opposition in

the minutes, and the Chairman must report the opposition at the following General Shareholders' Meeting.

The Board of Directors will represent the Bank in and out of court and, for the performance of the Bank's business, a circumstance that will not be necessary to prove before third parties, it will be empowered with all the authorities and powers of administration that the law or the by-laws do not set as exclusive to the General Shareholders' Meeting, without being necessary to grant any special power of attorney, even for those acts that the law requires to do so. This provision is notwithstanding the judicial representation of the Bank that is part of the General Manager's authorities. The Board of Directors may delegate part of its authority to the General Manager, to the Managers, Deputy Managers or Attorneys of the Bank, a Director, a Commission of Directors, and for specifically determined purposes, in other persons.

### Meetings and Voting Rights

An ordinary annual meeting of shareholders is held within the first four months of each year. The ordinary annual meeting of shareholders is the corporate body that approves the annual financial statements, approves all dividends in accordance with the dividend policy determined by our Board of Directors, elects the Board of Directors and approves any other matter that does not require an extraordinary shareholders' meeting. The last ordinary annual meeting of our shareholders was held on April 22, 2014. Extraordinary meetings may be called by our Board of Directors when deemed appropriate, and ordinary or extraordinary meetings must be called by our Board of Directors when requested by shareholders representing at least 10.0% of the issued voting shares or by the SBIF. Notice to convene the ordinary annual meeting or an extraordinary meeting is given by means of three notices which must be published in a newspaper of our corporate domicile (currently Santiago) or in the Official Gazette in

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a prescribed manner, and the first notice must be published not less than 15 days nor more than 20 days in advance of the scheduled meeting. Notice must also be mailed 15 days in advance to each shareholder and given to the SBIF and the Chilean Stock Exchanges. Currently, we publish our official notices in the El Mercurio newspaper of Santiago.

The quorum for a shareholders' meeting is established by the presence, in person or by proxy, of shareholders representing at least an absolute majority of the issued shares. If a quorum is not present at the first meeting, the meeting can be reconvened (in accordance with the procedures described in the previous paragraph) and, upon the meeting being reconvened, shareholders present at the reconvened meeting are deemed to constitute a quorum regardless of the percentage of the shares represented. The shareholders' meetings pass resolutions by the affirmative vote of an absolute majority of those voting shares present or represented at the meeting. The vote required at any shareholders' meeting to approve any of the following actions, however, is a two-thirds majority of the issued shares:

a change in corporate form, spin-off or merger;

an amendment of the term of existence, if any, and the early dissolution of the bank;

a change in corporate domicile;

a decrease of corporate capital previously approved by the SBIF, provided it is not reduced below the legal minimum capital;

a decrease in the number of directors previously approved by the SBIF;

the approval of contributions and appraisal of properties other than cash, in those cases where it is permitted by the General Banking Act;

the amendment of authority of the general shareholders' meeting or the restriction of the authority of the Board of Directors;

the transfer of 50.0% or more of the corporate assets, regardless of whether it includes liabilities, or the implementation or amendment of any business plan that contemplates the transfer of 50.0% or more of the corporate assets;

a change in the manner of distribution of profits established in the by-laws;

any non-cash distribution in respect of the shares;

the repurchase of shares of stock in the Bank; or

the approval of material related-party transactions when requested by shareholders representing at least 5.0% of the issued and outstanding shares with right to vote if they determine that the terms and conditions of those transactions are not favorable to the interests of the bank or if two independent assessments of those transactions requested by the Board materially differ from each other.

Shareholders may accumulate their votes for the election of directors and cast all of their votes in favor of one person.

In general, Chilean law does not require a Chilean open stock corporation to provide the level and type of information that U.S. securities laws require a reporting company to provide to its shareholders in connection with a solicitation of proxies. However, shareholders are entitled to examine the books of the bank within the 15-day period before the ordinary annual meeting. Under Chilean law, a notice of a shareholders' meeting listing matters to be addressed at the meeting must be mailed not fewer than 15 days prior to the date of such meeting, and, in cases of an ordinary annual meeting, shareholders holding a prescribed minimum investment must be sent an Annual Report of the bank's activities which includes audited financial statements. Shareholders who do not fall into this category but who request it must also be sent a copy of the bank's Annual Report. In addition to these requirements, we regularly provide, and management currently intends to continue to provide, together with the notice of shareholders' meeting, a proposal for the final annual dividend.

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The Chilean Corporations Law provides that whenever shareholders representing 10.0% or more of the issued voting shares so request, a Chilean company's Annual Report must include, in addition to the materials provided by the Board of Directors to shareholders, such shareholders' comments and proposals in relation to the company's affairs. Similarly, the Chilean Corporations Law provides that whenever the Board of Directors of an open stock corporation convenes an ordinary shareholders' meeting and solicits proxies for that meeting, or distributes information supporting its decisions, or other similar material, it is obligated to include as an annex to its Annual Report any pertinent comments and proposals that may have been made by shareholders owning 10.0% or more of the company's voting shares who have requested that such comments and proposals be so included.

Only shareholders registered as such with us on the fifth business day prior to the date of a meeting are entitled to attend and vote their shares. A shareholder may appoint another individual (who need not be a shareholder) as his proxy to attend and vote on his behalf. Every shareholder entitled to attend and vote at a shareholders' meeting has one vote for every share subscribed. Each share represents one vote and there are no special classes of shares with different rights. Our by-laws do not include any condition that is more significant than required by law to change the right of shareholders.

## Capitalization

Under Chilean law, the shareholders of a company, acting at an extraordinary shareholders' meeting, have the power to authorize an increase in such company's capital. When an investor subscribes for issued shares, the shares are registered in such investor's name, even if not paid for, and the investor is treated as a shareholder for all purposes except with regard to receipt of dividends and the return of capital, provided that the shareholders may, by amending the by-laws, also grant the right to receive dividends or distributions of capital. The investor becomes eligible to receive dividends and returns of capital once it has paid for the shares (if it has paid for only a portion of such shares, it is entitled to reserve a corresponding pro-rata portion of the dividends declared and/or returns of capital with respect to such shares unless the company's by-laws provide otherwise). If an investor does not pay for shares for which it has subscribed on or prior to the date agreed upon for payment, the company is entitled under Chilean law to auction the shares on the stock exchange and collect the difference, if any, between the subscription price and the auction proceeds. However, until such shares are sold at auction, the subscriber continues to exercise all the rights of a shareholder (except the right to receive dividends and return of capital).

Article 22 of the Chilean Corporations Law states that the purchaser of shares of a company implicitly accepts its by-laws and any agreements adopted at shareholders' meetings.

## Approval of Financial Statements

Our Board of Directors is required to submit our audited financial statements to the shareholders annually for their approval. The approval or rejection of such financial statements is entirely within our shareholders' discretion. If our shareholders reject our financial statements, our Board of Directors must submit new financial statements not later than 60 days from the date of such rejection. If our shareholders reject our new financial statements, our entire Board of Directors is deemed removed from office and a new Board of Directors is elected at the same meeting. Directors who individually approved such rejected financial statements are disqualified for re-election for the ensuing period.

#### Registrations and Transfers

We act as our own registrar and transfer agent, as is customary among Chilean companies. In the case of jointly owned shares, an attorney-in-fact must be appointed to represent the joint owners in dealings with us.

#### Dividend, Liquidation and Appraisal Rights

Under the Chilean Corporations Law, Chilean companies are generally required to distribute at least 30.0% of their earnings as dividends.

In the event of any loss of capital, no dividends can be distributed so long as such loss is not recovered. Also, no dividends of a bank above the legal minimum can be distributed if doing so would result in the bank exceeding its ratio of risk-weighted assets to regulatory capital or total assets.

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Dividends that are declared but not paid by the date set for payment at the time of declaration are adjusted from the date set for payment to the date such dividends are actually paid, and they accrue interest.

We may declare a dividend in cash or in shares. When a share dividend is declared above the legal minimum (which minimum must be paid in cash), our shareholders must be given the option to elect to receive cash. Our ADS holders may, in the absence of an effective registration statement under the Securities Act or an available exemption from the registration requirement thereunder, effectively be required to receive a dividend in cash. See “Item 10.

B.—Memorandum and Articles of Association—Preemptive Rights and Increases of Share Capital.” A dividend entitlement lapses after 5 years and the funds go to the Chilean Treasury.

In the event of our liquidation, the holders of fully paid shares would participate equally and pro rata, in proportion to the number of paid-in shares held by them, in the assets available after payment of all creditors. The holders of fully paid shares would not be required to contribute additional capital to the Bank in the event of our liquidation.

In accordance with the General Banking Law, our shareholders do not have appraisal rights.

Ownership Restrictions

Under Article 12 of the Chilean Securities Market Law and the regulations of the SBIF, shareholders of open stock corporations are required to report the following to the Superintendency of Securities and Insurance and the Chilean Stock Exchanges:

any direct or indirect acquisition or sale of shares that results in the holder’s acquiring or disposing, directly or indirectly, 10.0% or more of an open stock corporation’s share capital; and

any direct or indirect acquisition or sale of shares or options to buy or sell shares, in any amount, if made by a holder of 10.0% or more of an open stock corporation’s capital or if made by a director, liquidator, main officer, general manager or manager of such corporation.

In addition, majority shareholders must include in their report whether their purpose is to acquire control of the company or if they are making a financial investment. A beneficial owner of ADSs representing 10.0% or more of our share capital will be subject to these reporting requirements under Chilean law.

Under Article 54 of the Chilean Securities Market Law and the regulations of the Superintendency of Securities and Insurance, persons or entities intending to acquire control, directly or indirectly, of an open stock corporation, regardless of the acquisition vehicle or procedure, and including acquisitions made through direct subscriptions or private transactions, are also required to inform the public of such acquisition at least 10 business days before the date on which the transaction is to be completed, but in any case, as soon as negotiations regarding the change of control begin (*i.e.*, when information and documents concerning the target are delivered to the potential acquiror) through a filing with the Superintendency of Securities and Insurance, the stock exchanges and the companies controlled by and that control the target and through a notice published in two Chilean newspapers, which notice must disclose, among other information, the person or entity purchasing or selling and the price and conditions of any negotiations.

Prior to such publication, a written communication to such effect must be sent to the target corporation, to the controlling corporation, to the corporations controlled by the target corporation, to the Superintendency of Securities and Insurance, and to the Chilean stock exchanges on which the securities are listed.

In addition to the foregoing, Article 54A of the Chilean Securities Market Law requires that within two business days of the completion of the transactions pursuant to which a person has acquired control of a publicly traded company, a notice shall be published in the same newspapers in which the notice referred to above was published and notices shall be sent to the same persons mentioned in the preceding paragraphs.

The provisions of the aforementioned articles do not apply whenever the acquisition is being made through a tender or exchange offer.

Title XXV of the Chilean Securities Market Law on tender offers and the regulations of the Superintendency of Securities and Insurance provide that the following transactions must be carried out through a tender offer:

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an offer which allows a person to take control of a publicly traded company, unless (i) the shares are being sold by a controlling shareholder of such company at a price in cash which is not substantially higher than the market price and the shares of such company are actively traded on a stock exchange and (ii) those shares are acquired (a) through a capital increase, (b) as a consequence of a merger, (c) by inheritance or (d) through a forced sale; and

an offer for a controlling percentage of the shares of a listed company if such person intends to take control of the parent company (whether listed or not) of such listed company, to the extent that the listed company represents 75.0% or more of the consolidated net worth of the parent company.

In addition, Article 69*bis* of the Companies Law requires that whenever a controlling shareholder acquires two thirds of the voting shares of a listed company, such controlling shareholder must offer to purchase the remaining shares from the non-controlling shareholders in a tender offer.

Article 200 of the Chilean Securities Market Law prohibits any shareholder that has taken control of a publicly traded company to acquire, for a period of 12 months from the date of the transaction in which it gained control of the publicly traded company, a number of shares equal to or greater than 3.0% of the outstanding issued shares of the target without making a tender offer at a price per share not lower than the price paid at the time of taking control. Should the acquisition from the other shareholders of the company be made on a stock exchange and on a pro rata basis, the controlling shareholder may purchase a higher percentage of shares, if so permitted by the regulations of the stock exchange.

Title XV of the Chilean Securities Market Law sets forth the basis to determine what constitutes a controlling power, a direct holding and a related party. The Chilean Securities Market Law defines control as the power of a person or group of persons acting (either directly or through other entities or persons) pursuant to a joint action agreement, to direct the majority of the votes at the shareholders' meetings of the corporation, to elect the majority of members of its Board of Directors, or to influence the management of the corporation significantly. Significant influence is deemed to exist in respect of the person or group of persons with an agreement to act jointly that holds, directly or indirectly, at least 25.0% of the voting share capital, unless:

another person or group of persons acting pursuant to joint action agreement, directly or indirectly, controls a stake equal to or greater than the percentage controlled by such person or group of persons;

the person or group does not control, directly or indirectly, more than 40.0% of the voting share capital and the percentage controlled is lower than the sum of the shares held by other shareholders holding more than 5.0% of the share capital (either directly or pursuant to a joint action agreement); or

in cases where the Superintendency of Securities and Insurance has ruled otherwise, based on the distribution or atomization of the overall shareholding.

According to the Chilean Securities Market Law, a joint action agreement is an agreement among two or more parties which, directly or indirectly, own shares in a corporation at the same time and whereby they agree to participate with the same interest in the management of the corporation or in taking control of the same. The law presumes that such an agreement exists between:

· a principal and its agents;

· spouses and relatives within certain degrees of kinship;

· entities within the same business group; and

· an entity and its controller or any of the members of the controller.

Likewise, the Superintendency of Securities and Insurance may determine that a joint action agreement exists between two or more entities considering, among other things, the number of companies in which they participate and the frequency with which they vote identically in the election of directors, appointment of managers and other resolutions passed at extraordinary shareholders' meetings.

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According to Article 96 of the Chilean Securities Market Law, a business group is a group of entities with such ties in their ownership, management or credit liabilities that it may be assumed that the economic and financial action of such members is directed by, or subordinated to, the joint interests of the group, or that there are common credit risks in the credits granted to, or in the acquisition of securities issued by, them. According to the Chilean Securities Market Law, the following entities are part of the same business group:

- a company and its controller;

- all the companies with a common controller together with that controller;

- all the entities that the Superintendency of Securities and Insurance declares to be part of the business group due to one or more of the following reasons:

- a substantial part of the assets of the company is involved in the business group, whether as investments in securities, equity rights, loans or guaranties;

- the company has a significant level of indebtedness and the business group has a material participation as a lender or guarantor;

- any member of a group of controlling entities of a company mentioned in the first two bullets above and there are grounds to include it in the business group; or

- the company is controlled by a member of a group of controlling entities and there are grounds to include it in the business group.

Article 36 of the General Banking Law states that as a matter of public policy, no person or company may acquire, directly or indirectly, more than 10.0% of the shares of a bank without the prior authorization of the SBIF, which may not be unreasonably withheld. The prohibition would also apply to beneficial owners of ADSs. In the absence of such authorization, any person or group of persons acting in concert would not be permitted to exercise voting rights with respect to the shares or ADSs acquired. In determining whether or not to issue such an authorization, the SBIF considers a number of factors enumerated in the General Banking Law, including the financial stability of the purchasing party.

According to Article 35*bis* of the General Banking Law, the prior authorization of the SBIF 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.

This prior authorization is only required when the acquiring bank or the resulting group of banks would own a significant market share in loans, defined by the SBIF 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 SBIF; 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:

- the bank or banks maintaining regulatory capital higher than 8.0% and up to 14.0% of risk-weighted assets;

the technical reserve established in Article 65 of the General Banking Law being applicable when deposits exceed one and a half times the resulting bank's paid-in capital and reserves; or

- 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 SBIF 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 SBIF, which may not be less

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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.

According to the General Banking Law, a bank may not grant loans to related parties on terms more favorable than those generally offered to non-related parties. Article 84 No. 2 of the General Banking Law and the regulations issued by the SBIF creates the presumption that natural persons who are holders of shares and who beneficially own more than 1.0% of the shares are related to the bank and imposes certain restrictions on the amounts and terms of loans made by banks to related parties. This presumption would also apply to beneficial owners of ADSs representing more than 1.0% of the shares. Finally, according to the regulations of the SBIF, Chilean banks that issue ADSs are required to inform the SBIF if any person, directly or indirectly, acquires ADSs representing 5.0% or more of the total amount of shares of capital stock issued by such bank.

Article 16bis of the General Banking Law provides that the individuals or legal entities that, individually or with other people, directly control a bank and who individually own more than 10.0% of its shares must send to the SBIF reliable information on their financial situation in the form and in the opportunity set forth in Resolution No. 3,156 of the SBIF.

There are no limitations for non-resident or foreign shareholders to hold or exercise voting rights on the securities.

### Preemptive Rights and Increases of Share Capital

The Chilean Corporations Law provides that whenever a Chilean company issues new shares for cash, it must offer its existing shareholders the right to purchase a number of shares sufficient to maintain their existing ownership percentages in the company. Pursuant to this requirement, preemptive rights in connection with any future issue of shares will be offered by us to the Depositary as the registered owner of the shares underlying the ADRs. However, the Depositary will not be able to make such preemptive rights available to holders of ADSs unless a registration statement under the Securities Act is effective with respect to the underlying shares or an exemption from the registration requirements thereunder is available.

We intend to evaluate, at the time of any preemptive rights offering, the practicality under Chilean law and Central Bank regulations in effect at the time of making such rights available to our ADS holders, as well as the costs and potential liabilities associated with registration of such rights and the related shares of common stock under the Securities Act, and the indirect benefits to us of thereby enabling the exercise by all or certain holders of ADSs of their preemptive rights and any other factors we consider appropriate at the time, and then to make a decision as to whether to file such registration statement. We cannot assure you that any registration statement would be filed. If we do not file a registration statement and no exemption from the registration requirements under the Securities Act is

available, the Depositary will sell such holders' preemptive rights and distribute the proceeds thereof if a premium can be recognized over the cost of such sale. In the event that the Depositary is not able, or determines that it is not feasible, to sell such rights at a premium over the cost of any such sale, all or certain holders of ADSs may receive no value for such rights. Non-U.S. holders of ADSs may be able to exercise their preemptive rights regardless of whether a registration statement is filed. The inability of all or certain holders of ADSs to exercise preemptive rights in respect of shares of common stock underlying such ADSs could result in such holders not maintaining their percentage ownership of the common stock following such preemptive rights offering unless such holder made additional market purchases of ADSs or shares of common stock.

Under Chilean law, preemptive rights are exercisable or freely transferable by shareholders during a period that cannot be less than 30 days following the grant of such rights. During such period, and for an additional 30-day period thereafter, a Chilean corporation is not permitted to offer any unsubscribed shares for sale to third parties on terms which are more favorable than those offered to its shareholders. At the end of such additional 30-day period, a Chilean open stock corporation is authorized to sell unsubscribed shares to third parties on any terms, provided they are sold on a Chilean stock exchange. Unsubscribed shares that are not sold on a Chilean stock exchange can be sold to third parties only on terms no more favorable for the purchaser than those offered to shareholders.

#### C. Material Contracts

During the past two years, Santander-Chile was not a party to any contract outside its ordinary course of business that was material to the Santander Group as a whole.

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D. Exchange Controls

The Central Bank is responsible for, among other things, monetary policies and exchange controls in Chile. Appropriate registration of a foreign investment in Chile grants the investor access to the Formal Exchange Market. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates.” Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 or can be registered with the Central Bank under the Central Bank Act. The Central Bank Act is an organic constitutional law requiring a “special majority” vote of the Chilean Congress to be amended. Since April 18, 2001, all exchange controls in Chile have been eliminated.

Previously, Chilean law mandated that holders of shares of Chilean companies that were not residents of Chile register as foreign investors under one of the foreign investment regimes contemplated by Chilean law in order to receive dividends, sale proceeds or other amounts with respect to their shares remitted outside Chile through the Formal Exchange Market. 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 pay such U.S. dollars to ADS holders outside Chile, net of taxes, and no separate registration by ADR holders is required. As of April 19, 2001, the Central Bank deregulated the Exchange Market, eliminating the need to obtain approval from the Central Bank in order to remit dividends, but at the same time eliminating the possibility of guaranteeing access to the Formal Exchange Market. However, this did not affect the current Foreign Investment Contract, which was signed prior to April 19, 2001, and which still permits access to the Formal Exchange Market based on the prior approval of the Central Bank. Therefore the holders of ADRs of Santander-Chile are still subject to the Foreign Investment Contract, including its clauses referring to the prior exchange rules including the now extinct Chapter XXVI of the Compendium.

E. Taxation

The following discussion summarizes certain Chilean tax and United States federal income tax consequences to beneficial owners arising from the ownership and disposition of our common stock or ADSs. The summary does not purport to be a comprehensive description of all potential Chilean and United States federal income tax considerations that may be relevant to a decision to own or dispose of our common stock or ADSs and is not intended as tax advice to any particular investor. This summary does not describe any tax consequences arising under the laws of any state, locality or other taxing jurisdiction other than Chile and the United States. There is currently no income tax treaty between the United States and Chile. However, the U.S. government and the government of Chile signed on February 4, 2010 the Proposed Income Tax Treaty between the United States of America and the Republic of Chile (the “Proposed U.S.-Chile Treaty”), which is now subject to ratification by the U.S. Senate and Chilean Congress. If the Proposed U.S.-Chile Treaty becomes effective, U.S. investors should consult their tax advisers as to the applicability of the treaty in their particular circumstances.

Material Tax Consequences of Owning Shares of Our Common Stock or ADSs

## Chilean Taxation

The following is a summary of certain Chilean tax consequences of the ownership and disposition of shares of our common stock or of ADSs evidenced by ADRs by Foreign Holders (as defined herein). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to own or dispose shares of our common stock or ADSs and does not purport to address the tax consequences applicable to all categories of investors, some of whom may be subject to special rules. Holders of shares of our common stock or ADSs are advised to consult their tax advisers concerning the Chilean and other tax consequences of the ownership and disposition of shares of our common stock or of ADSs evidenced by ADRs.

The description of Chilean tax laws set forth below is based on Chilean laws in force as of the date of this Annual Report and is subject to any changes in such laws occurring after the date of this Annual Report. These changes can be made on a retroactive basis, but may not be used retroactively against taxpayers who acted in good faith relying on regulations or interpretations that were in force at that moment.

For purposes of this summary, the term “Foreign Holder” means either (1) in the case of an individual, a person who is not resident or domiciled in Chile; or (2) in the case of a legal entity, a legal entity that is not organized under the laws of Chile, unless the shares of our common stock or ADSs are assigned to a branch or a permanent establishment of such entity in Chile. For purposes of Chilean taxation, (a) an individual holder is resident in Chile

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if he or she has remained in Chile for more than six months in one calendar year, or a total of more than six months in two consecutive fiscal years, and (b) an individual is domiciled in Chile if he or she resides in Chile with the actual or presumptive intent of staying in Chile.(intention that can be evidenced by circumstances such as the acceptance of an employment in Chile or the relocation of one’s family to Chile)

The Income Tax Law provides that a Foreign Holder is subject to income taxes on his/her incomes of Chilean sources. For this purposes, Chilean source income means earnings from activities performed within Chilean territory or from sale, disposition or other transactions in connection with assets or goods located in Chile.

## Taxation of Dividends

Cash dividends paid by us with respect to shares of our common stock held by a Foreign Holder, including shares represented by ADSs, will be subject to a 35% Chilean Withholding Tax, which is withheld and paid over by us (the “Withholding Tax”). If we have paid Corporate Income Tax (the “First Category Tax”) on the income from which the dividend is paid, a credit for the First Category Tax effectively reduces the rate of Withholding Tax. When a credit is available, the Withholding Tax is computed by applying the 35% rate to the pre-tax amount needed to fund the dividend and then subtracting from the tentative withholding tax so determined the amount of First Category Tax actually paid on the pre-tax income. For purposes of determining the rate at which First Category Tax was paid, dividends are treated as paid from our oldest retained earnings.

The effective rate of Withholding Tax to be imposed on dividends paid by us will vary depending upon the amount of First Category Tax paid by us on the earnings underlying the dividends. The statutory rate for the First Category Tax attributed to earnings generated during the fiscal year 2008, 2009 and 2010 was 17.0%. And for fiscal years 2011, 2012 and 2013 was 20%. The example below illustrates the effective Chilean Withholding Tax burden on a cash dividend received by a Foreign Holder, assuming a Withholding Tax rate of 35%, a statutory First Category Tax rate of 20% and a distribution of all of the net proceeds available after payment of the First Category Tax.

|  |            |
|--|------------|
| Taxable income   | U.S.\$ 100 |
| First Category Tax (20% of U.S.\$100)  | (20)       |
| Net proceeds available   | 80         |
| Dividend payment   | 80         |
| Withholding Tax (35% of the sum of the dividend (U.S.\$80) and the available First Category Tax credit (U.S.\$20)) | (35)       |
| First Category Tax credit  | (20)       |
| Payable Withholding Tax  | (15)       |
| Net dividend received  | 65 (80-15) |
|  | 18.75%     |
| Effective dividend withholding tax rate  | (15/80)    |



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Dividend distributions made in kind would be subject to the same Chilean tax rules as cash dividends. Stock dividends received by the Foreign Holder are not subject to Chilean taxation. The distributions of preemptive rights relating to shares of common stock will not be subject to Chilean taxation.

If the Proposed U.S.-Chile Treaty becomes effective, U.S. investors should consult their tax advisers as to the applicability of the treaty in their particular circumstances.

### Taxation of Capital Gains

Gain realized on the sale, exchange or other disposition by a Foreign Holder of ADSs will not be subject to Chilean taxation, provided that such sale or disposition occurs outside Chile or that it is performed under the rules of Title XXIV of the Chilean Securities Market Law, as amended by Law No. 19,601, dated January 18, 1999. The deposit and withdrawal of shares of common stock in exchange for ADSs will not be subject to any Chilean taxes.

Gain recognized on a sale or exchange of shares of common stock (as distinguished from sales or exchanges of ADSs representing such shares of common stock) by a Foreign Holder will be subject both to First Category Tax (currently imposed at a rate of 20%) and Withholding Tax (the first can be used as credit against the second) if (1) the Foreign Holder has held such shares of common stock for less than one year since exchanging ADSs for the shares of common stock, (2) the Foreign Holder acquired and disposed of the shares of common stock in the ordinary course of its business or as a regular trader of stock or (3) the sale is made to a company in which the Foreign Holder holds an interest. In certain other cases where the Foreign Holder of shares of common stock has some connection with Chile, gain on the disposition of shares of common stock will be subject only to First Category Tax as a single tax (currently imposed at a rate of 20%).

The sale of shares of common stock by a Foreign Holder to an individual or entity non-resident or domiciled in Chile is subject to a provisional withholding. Such a provisional withholding will be equal to (i) 5% of the total amount to remit, without any deduction, paid to, credited to or putted at the disposal of the Foreign Holder if the transaction is subject to the First Category Tax as a single tax, unless the gain subject to taxation can be determined, in which case the withholding will be equal to the rate of First Category Tax (currently 20%) on the gain, or (ii) the difference between Withholding Tax (35%) and First Category Tax (20%) rates, which currently would be 15%, of the total amount to remit, without any deduction, paid to, credited to or putted at the disposal of the Foreign Holder, if the transaction is subject to both First Category and Withholding Tax, unless the gain subject to taxation can be determined, in which case the withholding will be equal to a 35% on the gain. . For income tax purposes, the capital gain shall be the difference between the sales price and the acquisition cost of the stock. The tax basis of shares of common stock received in exchange for ADSs will be the acquisition value of such shares. The valuation procedure set forth in the deposit agreement, which values shares of common stock that are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, generally will determine the acquisition value for this purpose. Consequently, the conversion of ADSs into shares of common stock and sale of

such shares of common stock for the value established under the deposit agreement will not generate a capital gain subject to taxation in Chile.

In the case where ADSs were exchanged for shares and the subsequent sale of the shares is made on a day that is different than the date on which the exchange is recorded, capital gains subject to taxation in Chile may be generated. On October 1, 1999, the Chilean Internal Revenue Service issued Ruling No. 3708 whereby it allowed Chilean issuers of ADSs to amend the Deposit Agreements in which they are parties in order to include a clause that states that, in the case that the exchanged shares are sold by the ADSs' holder on a Chilean Stock Exchange, either on the same day on which the exchange is recorded in the shareholders' registry of the issuer or within the two prior business days to such date, the acquisition price of such exchanged shares shall be the price registered in the invoice issued by the stock broker that participated in the sale transaction. Consequently, as we have included this clause in the form of ADRs attached to the deposit agreement, the capital gain that may be generated if the shares received in exchange for ADSs were sold within two days prior to the date on which the exchange is recorded will not be subject to taxation.

The distribution and exercise of preemptive rights relating to the shares of common stock will not be subject to Chilean taxation. Cash amounts received in exchange for the shares or assignment of preemptive

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rights relating to the shares will be subject to both the First Category Tax and the Withholding Tax (the former being creditable against the latter to the extent described above).

In certain cases and provided certain requirements are met, capital gains realized on the sale of actively traded stock of Chilean public companies may be exempt from Chilean income taxes. Our stock is currently considered an actively traded stock in the Santiago Stock Exchange, and Foreign Holders of the stock may qualify for an income tax exemption. Foreign Holders are urged to consult with their own tax advisers to determine whether an exemption applies to them.

If the Proposed U.S.-Chile Treaty becomes effective, it may further restrict the amount of Chilean tax, if any, imposed on gains derived from the sale or exchange of shares of common stock by U.S. residents eligible for the benefits of the treaty. If the Proposed Tax Treaty becomes effective, U.S. investors should consult their tax advisers as to the applicability of the treaty in their particular circumstances.

### Other Chilean Taxes

No Chilean inheritance, donation or succession taxes apply to the transfer or disposition of the ADSs by a Foreign Holder, but such taxes generally will apply to the transfer at death or by donation of shares of our common stock by a Foreign Holder. No Chilean stamp, issue, registration or similar taxes or duties apply to Foreign Holders of shares or ADSs.

### Withholding Tax Certificates

Upon request, we will provide to Foreign Holders appropriate documentation evidencing the payment of Withholding Taxes. For further information, the investor should contact: Robert Moreno, [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl).

Dividends payable to holders of ADSs are net of foreign currency conversion expenses of the Depositary and will be subject to the Withholding Tax currently at the rate of 35% (subject to credits in certain cases as described above).

### Chilean Tax Reform Bill

Chilean National Congress is currently discussing a new tax reform that, among others, will change the Corporate Tax rate (First Category rate). The statutory tax rate is expected to increase to 21% in business year 2014, 22.5% in 2015, 24% in 2016 and to 25% from 2017 onwards. The tax reform will also change the way that investments are taxed with personal income taxes, and we assume the same will happen to foreign investors. The Chilean tax system is integrated, which means that the Corporate Tax rate is basically an advance payment of individual taxes. Under the current system only dividends are considered as taxable income, and if the Tax Reform Bill is passed, personal/withholding taxable income will include all the net income of the investment, no matter the dividend payout ratio. Therefore, under the tax reform, the effective withholding tax rate will be dependent on the dividend payout ratio.

As the Bill proposed could be amendment during the Parliamentary discussion, we recommended Foreign Investor to consult their personal tax advisers in order to verify the applicability of the Tax Reform in their particular circumstances.

#### U.S. Federal Income Tax Considerations

The following is a discussion of material U.S. federal income tax consequences of owning and disposing of shares of our common stock or ADSs to U.S. holders described below, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold such common stock or ADSs. The discussion applies only if you hold shares of our common stock or ADSs as capital assets for U.S. federal income tax purposes. It does not address all aspects of U.S. federal income taxation that may be relevant to you in light of your particular circumstances, including the alternative minimum tax and the Medicare contribution tax, nor does it describe all tax consequences that may be relevant to U.S. holders subject to special rules, such as:

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- certain financial institutions;
- insurance companies;
- dealers and traders in securities who use a mark-to-market method of tax accounting;
- persons holding shares or ADSs as part of a hedge, “straddle,” conversion transaction, integrated transaction or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, including “individual retirement accounts” or “Roth IRAs”;
- persons holding shares of our common stock or ADSs that own or are deemed to own ten percent or more of our voting stock;
- persons who acquired shares of our common stock or ADSs pursuant to the exercise of any employee stock option plan or otherwise as compensation; or
- persons whose shares or ADSs are held in connection with a trade or business conducted outside the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes owns shares of our common stock or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partnerships owning shares of our common stock or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the shares of our common stock or ADSs.

As used herein, a “U.S. holder” is a person that for U.S. federal income tax purposes is a beneficial owner of shares of our common stock or ADSs and is:

- a citizen or individual resident of the United States;

a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, a state thereof or the District of Columbia; or

- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. In addition, this discussion does not address U.S. state, local and non-U.S. tax consequences. Please consult your tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of shares or ADSs in your particular circumstances.

In general, if you own ADSs, you will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released prior to delivery of shares to the depositary (“pre-release”) or intermediaries in the chain of ownership between U.S. holders of American depositary shares and the issuer of the security underlying the American

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depository shares may be taking actions that are inconsistent with the claiming of foreign tax credits for holders of American depository shares. These actions would also be inconsistent with the claiming of the favorable tax rates, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Chilean taxes and the availability of the favorable tax rates for dividends received by certain non-corporate holders, each described below, could be affected by actions that may be taken by such parties or intermediaries.

This discussion assumes that we are not, and will not become, a passive foreign investment company, as described below.

## Taxation of Distributions

Distributions paid on shares of our common stock or ADSs, other than certain pro rata distributions of common shares or rights, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. holders as dividends. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, certain dividends paid by “qualified foreign corporations” to certain non-corporate U.S. holders may be taxable at rates applicable to long-term capital gains. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on a securities market in the United States, such as the NYSE where our ADSs are traded. You should consult your tax advisers to determine whether the favorable rates may apply to dividends you receive and whether you are subject to any special rules that limit your ability to be taxed at the favorable rates. The amount of the dividend will include any amounts withheld by us or our paying agent in respect of Chilean taxes at the effective rate (after credit for First Category Taxes) as described above under “— Material Tax Consequences of Owning Shares of Our Common Stock or ADSs—Taxation of Dividends” above. The amount of the dividend will be treated as foreign-source dividend income to you and will not be eligible for the dividends received deduction generally allowed to U.S. corporations under the Code.

Dividends will be included in your income on the date of your (or in the case of ADSs, the depository’s) receipt of the dividend. The amount of any dividend income paid in Chilean pesos will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

Subject to applicable limitations that may vary depending upon your circumstances and the discussion above regarding concerns expressed by the U.S. Treasury, Chilean taxes withheld from cash dividends on shares of our common stock or ADSs, reduced by the credit for any First Category Tax, as described above under “—Chilean Taxation,” generally will be creditable against your U.S. federal income tax liability. If, however, the Proposed U.S.-Chile Treaty

becomes effective, any Chilean income taxes withheld from dividends on shares or ADSs in excess of the rate provided by the treaty will not be creditable by a U.S. holder who is eligible for the benefits of the treaty. The rules governing foreign tax credits are complex and you should consult your tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits. Instead of claiming a credit, you may, at your election, deduct such Chilean taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

#### Sale or Other Disposition of Shares or ADSs

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of shares of our common stock or ADSs generally will be capital gain or loss, and will be long-term capital gain or loss if you held the shares of our common stock or ADSs for more than one year. The amount of your gain or loss will be equal to the difference between your tax basis in the shares of our common stock or ADSs disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. If a Chilean tax is

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withheld on the sale or disposition of the shares of our common stock or ADSs, your amount realized will include the gross amount of the proceeds of such sale or disposition before deduction of the Chilean tax. See “—Chilean Taxation—Taxation of Capital Gains” for a description of when a disposition may be subject to taxation by Chile. Such gain or loss generally will be U.S.-source gain or loss for foreign tax credit purposes. Consequently, you may not be able to credit any Chilean tax imposed on the disposition of shares of our common stock or ADSs against your taxable income unless you have other foreign-source income in the appropriate foreign tax credit category. If the Proposed U.S.-Chile Treaty becomes effective, however, a U.S. holder who is eligible for the benefits of the treaty and whose gain from the sale of shares is not exempt from Chilean tax under such treaty may elect to treat disposition gain that is subject to Chilean tax as foreign-source gain and claim a credit in respect of the tax. You should consult your tax advisers as to whether the Chilean tax on gains may be creditable against your U.S. federal income tax on foreign-source income from other sources. Alternatively, instead of claiming a credit, you may elect to deduct otherwise creditable taxes in computing your income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

## Passive Foreign Investment Company Rules

Based on proposed Treasury regulations (the “Proposed Regulations”), which are proposed to be effective for taxable years beginning after December 31, 1994, we believe that we were not a “passive foreign investment company” (a “PFIC”) for U.S. federal income tax purposes for the year ended December 31, 2013. However, since the Proposed Regulations may not be finalized in their current form and since PFIC status depends upon the composition of a company’s income and assets and the market value of its assets (including, among others, less than 25 percent owned equity investments) from time to time, there can be no assurance that we will not be a PFIC for any taxable year. If we were a PFIC for any taxable year during which you held an ADS or a share of our common stock, certain adverse tax consequences could apply to you.

If we were a PFIC for any taxable year during which you held shares of our common stock or ADSs, gain recognized by you on a sale or other disposition (including certain pledges) of a share of our common stock or an ADS would generally be allocated ratably over your holding period for the share of our common stock or ADS. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability for that taxable year. Similar rules would apply to any distribution in respect of shares of our common stock or ADSs that exceeds 125% of the average of the annual distributions on shares of our common stock or ADSs received by you during the preceding three years or your holding period, whichever is shorter. Certain elections may be available that would result in alternative treatments of the shares of our common stock or ADSs (including, with respect to our ADSs, a mark-to-market election). In addition, if we were a PFIC for a taxable year in which we pay a dividend or the prior taxable year, the favorable rates discussed above with respect to dividends paid to non-corporate holders would not apply.

If we were to be treated as a PFIC in any taxable year, a U.S. holder may be required to file reports with the Internal Revenue Service containing such information as the Treasury Department may require.

#### Information Reporting and Backup Withholding

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and may be subject to backup withholding, unless you are a corporation or other exempt recipient or in the case of backup withholding, you provide a correct taxpayer identification number and certify that you are not subject to backup withholding.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

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Certain U.S. holders may be required to report information relating to stock of a non-U.S. person, subject to certain exceptions (including an exception for stock held in custodial accounts maintained by a U.S. financial institution). You should consult your tax advisers regarding any reporting obligations you may have with respect to shares of our common stock or ADSs.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The documents concerning us which are referred to in this Annual Report may be inspected at our offices at Bandera 140 Santiago, Chile. We are subject to the information reporting requirements of the Exchange Act, except that, as a foreign issuer, we are not subject to the proxy rules or the short-swing profit and disclosure rules of the Exchange Act. In accordance with these statutory requirements, we file or furnish reports and other information with the SEC. Reports and other information filed or furnished by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Section by calling the SEC at 1-800-732-0330. The SEC maintains a website on the Internet at <http://www.sec.gov> that contains reports and information statements and other information regarding us. The reports and information statements and other information about us can be downloaded from the SEC's website and can also be inspected and copied at the offices of the NYSE, Inc., 20 Broad Street, New York, New York 10005.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## Introduction

The principal types of risk inherent in Santander-Chile's business are market, liquidity, operational and credit risks. The effectiveness with which we are able to manage the balance between risk and reward is a significant factor in our ability to generate long term, stable earnings growth. Toward that end, our senior management places great emphasis on risk management.

### A. Risk Committee

The Risk Committee is responsible for revising and following all risks that may affect us, including reputation risk, allowing for an integral risk management. This committee serves as the governing body through which the Board supervises risk in general. It also evaluates the reasonability of the systems for measurement and control of risks.

- Credit risk
- Market risk
- Operational risk
- Solvency risk (BIS)
- Legal risks

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|   |                    |
|---|--------------------|
| . | Compliance risks   |
| . | Reputational risks |

This Committee includes the Vice Chairman of the Board and five Board members. This committee also includes the CEO, the Director of Risk, the CRO and other senior level executives from the commercial side of our business: The Board members of this committee are:

| Board member           | Position in Committee |
|------------------------|-----------------------|
| Oscar von Chrismar     | Chairman              |
| Marco Colodro          | Member                |
| Vittorio Corbo         | Member                |
| Roberto Méndez         | Member                |
| Raimundo Monge         | Member                |
| Juan Pedro Santa María | Member                |

Below is an organizational chart of the Risk Department:

B. Credit risk:

All issues regarding risk in the Bank are the responsibility of the Bank's Risk Department. The Risk Department reports to the CEO but has full independence, and no risk decisions can be made without its approval. All risks (credit, market and operational) are approved and measured by the Risk Department and reported simultaneously to local management and to Santander Spain's Risk Department, which follows global risk levels. The frequency of reporting depends on the nature of the risk. In general, market risks are measured daily and other risks are reviewed weekly. Within this structure, the Board and senior management interact extensively with the Risk Department.

1. Executive Credit Committee

The Executive Credit Committee is comprised of the following Board members:

| Board member       | Position in Committee |
|--------------------|-----------------------|
| Mauricio Larraín   | Chairman              |
| Oscar von Chrismar | Vice-Chairman         |
| Marco Colodro      | Second Vice-Chairman  |
| Roberto Méndez     | Member                |

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In addition, this committee also includes: the Corporate Director of Risk, the CEO, the Corporate Legal Counsel, the Manager of Global Banking, the Corporate Director of Human Resources and Administration (this is a newly-created position) and two senior members of the Credit Risk Department, who present the loans being reviewed. The Executive Credit Committee meets weekly and performs the following main functions:

- Reviews the main client exposures by: economic sector, geography, type of risk and segment.
- Supervises and reviews the main credit risk indicators (non-performing loans, coverage, impaired loans, etc.).

Takes notes, analyzes and follows up on the observations and recommendations of the regulatory bodies and the external and internal auditors on credit-risk-related issues.

Reviews the loan positions reviewed by the Senior Credit Committee above U.S.\$10 million and approves those loan positions greater than U.S.\$40 million.

The Credit Risk Department must present to the Board on a monthly basis. In this presentation, all loans above U.S.\$5 million that were granted in the previous month must be reviewed. In addition, any other topic or subject of importance regarding credit risk is also presented (for example, a proposal to change a provisioning model must be presented and approved by the Board). Finally, at least once a year, the Credit Risk Department presents a report to assure the Board that our loan loss allowances are adequate for all known and estimated incurred losses.

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2. Role of Santander Spain's Global Risk Department: Credit Risk

In matters regarding Credit Risk, Santander Spain's Global Risk Department has the following role:

All credit risks greater than U.S.\$40 million (U.S.\$60 million for financial institutions), after being approved locally, are reviewed by Santander Spain. This additional review ensures that no global exposure limit is being breached.

In standardized risks, the consumer and mortgage scoring models are developed locally but are reviewed and approved by Santander Spain's Global Risk Department.

For each scoring model, a monthly Risk Report is prepared, which is reviewed locally and is also sent to Santander Spain's Global Risk Department. This report includes the evolution of basic credit risk parameters such as: loan amounts, non-performance, charge offs and provisions.

Monthly, the Controller of the Risk Department sends a report to Santander Spain's Global Risk Department covering all the main indicators regarding credit risk and the evolution of credit risk as compared to the budgeted levels.

B. Operational risks

All issues regarding operational risks in the Bank fall under the Non-Financial Risk Department that reports to the Risk Department. Below is an organization chart of this department.

All operational risks are measured in this Department and reported simultaneously to local management and the Board through various channels.

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*1. Audit Committee*

On a monthly basis, the Director of Risk and the Manager of Operational Risk inform the Audit Committee of the most important events regarding operational risks. In addition, the Audit Committee also has the role of establishing the main policies and strategies regarding operational risk. The periodic reviews performed by the different operational risk committees are submitted to the Audit Committee, where senior level executive and the board are informed of these events. The members of the Audit Committee are:

| Board member             | Position in Committee                    |
|--------------------------|--|
| Carlos Olivos            | Chairman                                 |
| Víctor Arbulú Crousillat | First Vice Chairman and Financial Expert |
| Lisandro Serrano         | Second Vice Chairman                     |
| Juan Pedro Santa Maria   | Secretary                                |

*2. Role of Santander Spain's Global Risk Division: Operational Risk*

In matters regarding operational risk, Santander Spain's Global Risk Department's role is to define certain global policies, guidelines and procedures regarding operational risk. The Corporate Operational Risk Committee is the main body in which the different units of Santander discuss and review the major operational risk events and policies.

D. Market Risks

This section describes the market risks that we are exposed to, the tools and methodology used to control these risks, the portfolios over which these market risk methods were applied and quantitative disclosure that demonstrate the level of exposure to market risk that we are assuming. This section also discloses the derivative instruments that we use to hedge exposures and offer to our clients.

Market risk is the risk of losses due to unexpected changes in interest rates, foreign exchange rates, inflation rates and other rates or prices. We are exposed to market risk mainly as a result of the following activities:

- trading in financial instruments, which exposes us to interest rate and foreign exchange rate risk;

· engaging in banking activities, which subjects us to interest rate risk, since a change in interest rates affected gross interest income, gross interest expense and customer behavior;

engaging in banking activities, which exposes us to inflation rate risk, since a change in expected inflation affects gross interest income, gross interest expense and customer behavior;

trading in the local equity market, which subjects us to potential losses caused by fluctuations of the stock market;  
and

investing in assets whose returns or accounts are denominated in currencies other than the Chilean peso, which subjects us to foreign exchange risk between the Chilean peso and such other currencies.

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The main decisions that relate to market risk for the Bank and the limits regarding market risk are made in the Asset and Liability Committee and the Market Committee. The measurement and oversight of market risks is performed by the Market Risk Department. Below is a list of the main reports produced by the Market Risk Department and who they are addressed to:

| <b>Report</b>            | <b>Unit</b>  | <b>Objective</b>  | <b>Addressed to:</b>  | <b>Periodicity</b> |
|--------------------------|--------------|---|---|--------------------|
| Daily Global Report      | Market risks | Give a global vision of the market, positions, risks, sensitivity, vision and alerts of the trading and non-trading positions | Market Risk (local and global), Senior Management, Internal Auditors  | Daily              |
| Stress Test              | Market risks | Stress test report over the Bank's trading and ALCO books   | Market Risk (local and global), Senior Management, Internal Auditors  | Monthly            |
| Sensitivity Analysis     | Market risks | Sensitivity analysis of the ALCO book   | Market Risk (local and global), Senior Management, Internal Auditors  | Daily              |
| Fixed income positions   | Market risks | Fixed income positions and general information  | Market Risk (local and global), Senior Management, Internal Auditors  | Daily              |
| Interest rate gap        | Market risks | Interest rate gap sensitivity and limit levels  | Market Risk (local and global), Senior Management, Internal Auditors  | Monthly            |
| Liquidity gap            | Market risks | Liquidity levels and limits   | Market Risk (local and global), Senior Management, Internal Auditors  | Monthly            |
| Market report            | Market risks | Main market indicators and evolution  | Market Risk (local and global), Senior Management, Internal Auditors  | Daily              |
| VaR                      | Market risks | VaR position and limits   | - Market risk (local and global) and Senior Management  | Daily              |
| Trading Portfolio Limits | Market risks | Trading book evolution, instruments and limits  | Market Risk (local and global), Senior Management, Internal Auditors  | Daily              |
| Largest depositors       | Market risks | Largest 20 and largest 50 depositors  | - Market risk (local and global) and Senior Management  | Weekly             |
| Follow-up report         | Market risks | summary of Market risk information for Senior Management  | Market Risk (local and global), Senior Management (local and global), Internal Auditors   | Monthly            |
| Liquidity stress-test    | Market risks | Liquidity stress test simulation  | Market Risk (local and global), Senior Management, Internal Auditors  | Quarterly          |
| Interest rate risk       | Market risks | Interest rate risk report, limits and estimates of results from interest rate risk  | - Market risk (local and global), Manager of Global banking and markets, Manager of Treasury, Manager of Market Making and Prop Trading | Daily              |
| Backtesting              | Market risks | Backtesting of VaR estimates to actual results  | Market Risk (local and global), Senior Management, Internal Auditors  | Weekly             |
| PNL Treasury             | Market risks | Treasury income statement   | - Market risk (local and global), Manager of Global banking and markets, Manager of Treasury, Manager of Market Making and Prop Trading | Daily              |

Santander-Chile's governance rules have established the existence of two high-level committees that, among other things, function to monitor and control market risks: the Asset and Liability Committee and the Market Committee.

*1. Asset and Liability Committee*

The Asset and Liability Committee ("ALCO") includes the Chairman of the Board and five additional members of the Board, the Chief Executive Officer, the Corporate Financial Controller, the Manager of the Financial Management Division, the Manager of Market Risk, the Manager of the Treasury Division and other senior members of management. The ALCO meets monthly. All limits reviewed by the ALCO are measured and prepared by the Market Risk Department. The non-Board members of the ALCO meet weekly to review liquidity, funding, capital and market risk related matters.

| Board member       | Position in Committee |
|--------------------|-----------------------|
| Mauricio Larraín   | Chairman              |
| Oscar von Chrismar | Vice-Chairman         |
| Vittorio Corbo     | Second Vice-Chairman  |
| Marco Colodro      | Member                |
| Roberto Zahler     | Member                |
| Raimundo Monge     | Member                |

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The main functions of the ALCO are:

Making the most important decisions regarding interest rate risk, funding, capital and liquidity levels. The main limits set and monitored by the ALCO (and measured by the Market Risk Department) are:

| <b>Risk</b>              | <b>Measure</b>                                    |
|--------------------------|---|
|                          | Sensitivity Capital                               |
| <b>Interest rates</b>    | Sensibilidad NIM                                  |
|                          | Regulatory market risk limits                     |
|                          | Regulatory limit 30 Days                          |
| <b>Liquidity</b>         | Regulatory limit 90 Days                          |
|                          | Internal liquidity limit                          |
|                          | BIS ratio   |
| <b>Capital</b>           | BIS ratio with market risk                        |
|                          | Bis ratio with market and operational risk        |
|                          | Intergroup exposure: Derivatives, deposits, loans |
| <b>Foreign exposures</b> | Foreign assets: Derivatives, Deposits, Loans      |

Review of the Bank's main gaps (foreign currency and inflation gap).

Review of the evolution of the most relevant local and international markets and monetary policies.

2. *Market Committee*

The Market Committee includes the Vice-Chairman of the Board, three additional members of the Board, the Chief Executive Officer, the Manager of Global Banking and Markets, the Manager of the Treasury Division, the Manager of the Financial Management Division, the Manager of Market Risk, the Financial Controller and other senior members of management.

| Board member       | Position in Committee |
|--------------------|-----------------------|
| Oscar von Chrismar | Chairman              |
| Roberto Zahler     | Vice-Chairman         |
| Vittorio Corbo     | Second Vice-Chairman  |
| Mauricio Larraín   | Member                |
| Marco Colodro      | Member                |

The Market Committee is responsible for:

- Establishing a strategy for the Bank's trading portfolio.

Establishing the Bank's policies, procedures and limits with respect to its trading portfolio. The Bank's Market Risk Department measures all risks and limits and reports these to the Market Committee.

- Reviewing the evolution of the most relevant local and international markets and monetary policies.

Table of Contents*3. Role of Santander Spain's Global Risk Division: Market Risk*

In matters regarding Market Risk, the role of Santander Spain's Global Risk Department is to define certain global policies, guidelines and procedures regarding market risk. The information produced by our local Market Risk Department is standardized for the whole group in order to facilitate a consolidation of risks being taken on a global basis. They review daily the consumption of limits and provide valuable input on the evolution of markets, especially regarding the Eurozone.

*3. Market Risk: Quantitative Disclosure**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 month. One UF equaled Ch\$ 23.309,56 at December 31, 2013, Ch\$22,840.75 at December 31, 2012, and Ch\$22,294.03 at December 31, 2011. 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. Inflation measured as the annual variation of the UF was 2.1% in 2013, 2.5% in 2012, and 3.9% in 2011. 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.* 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.

*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 2013, the loss from the swaps taken in order to hedge mainly for inflation and interest rate risk and included in net interest income totaled a loss of Ch\$67,239 million compared to a loss of Ch\$57,118 million in 2012 and a loss of Ch\$58,775 million in 2011.

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The average gap between our total assets and total liabilities linked to the inflation, including hedging was Ch\$3,735,888 million in 2013 compared to Ch\$3,106,779 million in 2012 and Ch\$2,349,038 million in 2011. In the year ended December 31, 2013, the net gain from inflation sensitive income was Ch\$359,029 million an increase of 15.5% compared to 2012. The lower UF inflation rate in 2013 compared to 2012 was compensated by a larger UF gap, which was due to the growth of funding, mainly deposits in nominal pesos.

\*Includes hedging

| Inflation sensitive income         | As of December 31,    |           |           | % Change % Change |           |
|------------------------------------|-----------------------|-----------|-----------|-------------------|-----------|
|                                    | 2013                  | 2012      | 2011      | 2013/2012         | 2012/2011 |
|                                    | (In millions of Ch\$) |           |           |                   |           |
| Interest earned on UF assets(1)    | 631,953               | 648,594   | 703,286   | (2.6%)            | (7.8%)    |
| Interest paid on UF liabilities(1) | (218,304)             | (280,695) | (388,349) | (22.2%)           | (27.7%)   |
| Hedging results                    | (67,239)              | (57,118)  | (58,775)  | 17.7%             | (2.8%)    |
| Net gain                           | 346,410               | 310,781   | 256,162   | 11.5%             | 21.3%     |

(1)

Excludes results from hedging.

*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. Operating and Financial Review and Prospects—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 30.0%, 29.4% and 27.3% for the years ended December 31, 2013, 2012 and 2011, respectively.

*Interest rate sensitivity*

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. Operating and Financial Review and Prospects—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

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UF-denominated deposits to peso-denominated deposits, which generally bear higher interest rates, thereby adversely affecting our net interest margin.

As of December 31, 2013, the breakdown of maturities of assets and liabilities is as follows:

|   | On-Demand        | Up to 1 month    | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | More than 5 years | Total             |
|---|------------------|------------------|------------------------|-------------------------|-----------------------|-------------------|-------------------|
| <b>Interest-earning assets:</b>               |                  |                  |                        |                         |                       |                   |                   |
| Cash and deposits in banks                    | 1,571,810        | -                | -                      | -                       | -                     | -                 | 1,571,810         |
| Cash items in process of collection           | 604,077          | -                | -                      | -                       | -                     | -                 | 604,077           |
| Trading investments                           | -                | 10,018           | 17                     | -                       | 203,608               | 73,924            | 287,567           |
| Investment under resale agreements            | -                | -                | 17,469                 | -                       | -                     | -                 | 17,469            |
| Financial derivative contracts                | -                | 168,785          | 99,471                 | 225,617                 | 565,329               | 434,816           | 1,494,018         |
| Interbank loans                               | 1,224            | 66,264           | 56,901                 | 1,060                   | -                     | -                 | 125,449           |
| Loans and accounts receivables from customers | 773,387          | 2,173,231        | 1,776,530              | 3,533,313               | 6,367,870             | 6,310,981         | 20,935,312        |
| Available for sale investments                | -                | 228,997          | 240,018                | 627,052                 | 275,281               | 329,645           | 1,700,993         |
| <b>Total interest-earning assets</b>          | <b>2,950,498</b> | <b>2,647,295</b> | <b>2,190,406</b>       | <b>4,387,042</b>        | <b>7,412,088</b>      | <b>7,149,366</b>  | <b>26,736,695</b> |
| <b>Interest-bearing liabilities:</b>          |                  |                  |                        |                         |                       |                   |                   |
| Deposits and other demand liabilities         | 5,620,763        | -                | -                      | -                       | -                     | -                 | 5,620,763         |
| Cash items in process of being cleared        | 276,379          | -                | -                      | -                       | -                     | -                 | 276,379           |
| Obligations under repurchase agreements       | -                | 185,140          | 18,466                 | 5,366                   | -                     | -                 | 208,972           |
| Time deposits and other time liabilities      | 104,233          | 5,351,489        | 2,333,001              | 1,743,525               | 87,380                | 55,644            | 9,675,272         |
|   | -                | 126,238          | 89,018                 | 223,031                 | 508,206               | 345,292           | 1,291,785         |

|   |                  |                  |                  |                  |                  |                  |                   |
|---|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Financial derivative contracts            |                  |                  |                  |                  |                  |                  |                   |
| Interbank borrowings                      | 8,199            | 104,490          | 216,472          | 1,201,070        | 152,146          | -                | 1,682,377         |
| Issued debt instruments                   | -                | 470,600          | 688,261          | 590,027          | 1,548,733        | 1,901,037        | 5,198,658         |
| Other financial liabilities               | 97,027           | 568              | 1,111            | 2,992            | 29,685           | 58,398           | 189,781           |
| <b>Total interest-bearing liabilities</b> | <b>6,106,601</b> | <b>6,238,525</b> | <b>3,346,329</b> | <b>3,766,011</b> | <b>2,326,150</b> | <b>2,360,371</b> | <b>24,143,987</b> |

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2013, 2012 and 2011, in each case together with the related average nominal interest rates paid thereon.

|   | 2013                                   |                                |                      | 2012            |                                |                      | 2011            |                                |                      |
|---|--|--------------------------------|----------------------|-----------------|--------------------------------|----------------------|-----------------|--------------------------------|----------------------|
|   | Average Balance                        | % of Total Average Liabilities | Average Nominal Rate | Average Balance | % of Total Average Liabilities | Average Nominal Rate | Average Balance | % of Total Average Liabilities | Average Nominal Rate |
|   | (millions of Ch\$, except percentages) |                                |                      |                 |                                |                      |                 |                                |                      |
| Savings accounts                        | 103,760                                | 0.4%                           | 1.9%                 | 102,420         | 0.4%                           | 2.5%                 | 103,085         | 0.4%                           | 3.6%                 |
| Time deposits                           | 9,949,401                              | 36.8%                          | 4.5%                 | 9,659,815       | 38.5%                          | 5.2%                 | 9,107,719       | 37.7%                          | 4.9%                 |
| Central Bank borrowings                 | 221                                    | 0.0%                           | 6.3%                 | 4,469           | 0.0%                           | 5.2%                 | 3,097           | 0.0%                           | 6.0%                 |
| Repurchase agreements                   | 266,883                                | 1.0%                           | 5.6%                 | 369,338         | 1.5%                           | 4.2%                 | 249,174         | 1.0%                           | 3.5%                 |
| Mortgage finance bonds                  | 102,778                                | 0.4%                           | 8.0%                 | 131,070         | 0.5%                           | 8.6%                 | 174,224         | 0.7%                           | 9.2%                 |
| Other interest bearing liabilities      | 6,850,953                              | 25.3%                          | 4.7%                 | 5,927,893       | 23.6%                          | 5.3%                 | 6,128,052       | 25.4%                          | 5.2%                 |
| Subtotal interest bearing liabilities   | 17,273,996                             | 63.9%                          | 4.6%                 | 16,195,005      | 64.5%                          | 5.3%                 | 15,765,351      | 65.2%                          | 5.1%                 |
| <b>Non-interest bearing liabilities</b> |  |                                |                      |                 |                                |                      |                 |                                |                      |
| Non-interest bearing deposits           | 4,620,849                              | 17.1%                          |                      | 4,177,432       | 16.6%                          |                      | 3,575,544       | 14.8%                          |                      |

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|  | 2013                                   |                                   |                            | 2012               |                                   |                            | 2011               |                                   |                            |
|--|--|-----------------------------------|----------------------------|--------------------|-----------------------------------|----------------------------|--------------------|-----------------------------------|----------------------------|
|  | Average<br>Balance                     | % of Total Average<br>Liabilities | Average<br>Nominal<br>Rate | Average<br>Balance | % of Total Average<br>Liabilities | Average<br>Nominal<br>Rate | Average<br>Balance | % of Total Average<br>Liabilities | Average<br>Nominal<br>Rate |
|  | (millions of Ch\$, except percentages) |                                   |                            |                    |                                   |                            |                    |                                   |                            |
| Derivatives                                  | 1,467,723                              | 5.4%                              |                            | 1,141,169          | 4.5%                              |                            | 1,457,638          | 6.1%                              |                            |
| Other non-interest<br>bearing liabilities    | 1,325,975                              | 4.9%                              |                            | 1,395,112          | 5.6%                              |                            | 1,340,699          | 5.6%                              |                            |
| Shareholders' equity                         | 2,349,448                              | 8.7%                              |                            | 2,187,716          | 8.8%                              |                            | 1,994,487          | 8.3%                              |                            |
| Subtotal non-interest<br>bearing liabilities | 9,763,995                              | 36.1%                             |                            | 8,901,429          | 35.5%                             |                            | 8,368,368          | 34.8%                             |                            |
| Total liabilities                            | 27,037,991                             | 100.0%                            |                            | 25,096,434         | 100.0%                            |                            | 24,133,719         | 100.0%                            |                            |

*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. The Central Bank exchange rate depreciated 9.4% in 2013, which led to a pickup in CPI inflation in 2013. See "Item 3. Key Information—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. 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).

Our current strategy is not to maintain a significant difference between the balances of our assets and liabilities in foreign currencies. In 2013, 2012 and 2011, the Bank's spot position in foreign currency held more liabilities than assets in foreign currencies, mainly U.S. dollars as a result of an ample supply of U.S.\$ 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. In general, the Bank is not permitted, due to guidelines set by the ALCO, to open a meaningful gap in foreign currency. Therefore, all foreign currency risk is included in the trading portfolio and is measured using VaR. 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 composition on our assets and liabilities at December 31, 2013 by foreign currency was as follows:

Non-Trading U.S.\$ portfolio (in millions of U.S.\$)

| Assets                | Liabilities   |                                 |
|-----------------------|---------------|---------------------------------|
| Loans                 | 4,481         | Client deposits 2,916           |
| Fixed assets          | 367           | Long-term market funding 6,397  |
| Financial investments | 1,484         | Short-term market funding 1,758 |
| Derivatives           | 4,781         | Other liabilities 42            |
| <b>Total</b>          | <b>11,113</b> | <b>Total 11,113</b>             |

Including the trading portfolio, as of December 31, 2013, the net difference between assets and liabilities in foreign currency was a net liability position of U.S.\$2.5 million and the average difference between assets and liabilities in foreign currency in 2013 was a net asset position of U.S.\$1.5 million. Both figures include derivatives used to hedge foreign currency risk. Below is a graph that illustrates the net daily foreign currency position in 2013.

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We also set an absolute limit on the size of Santander-Chile's consolidated net foreign currency trading position, which is equivalent to the maximum differential allowed between assets and liabilities in foreign currencies, including hedging of this gap. The limit on the size of the net foreign currency position is determined by the Market Committee and is calculated and monitored by the Market Risk Department. At December 31, 2013, this was equal to U.S.\$200 million. This limit in various other currencies is as follows:

| <b>Currency</b>                 | <b>Limit (in millions of U.S.\$)</b> |
|---------------------------------|--------------------------------------|
| U.S. dollars                    | 200                                  |
| Euros                           | 75                                   |
| Yen                             | 22.5                                 |
| Real                            | 15                                   |
| Mexican peso                    | 15                                   |
| Colombian peso                  | 15                                   |
| Other European currencies       | 15                                   |
| Other Latin American currencies | 7.5                                  |
| Other currencies                | 3.75                                 |
| <b>Total Limit</b>              | <b>200</b>                           |

*Liquidity risk management*

The Financial Management Division receives information from all the business units on the liquidity profile of their financial assets and liabilities, as well as breakdowns of other projected cash flows stemming from future businesses. On the basis of that information, the Financial Management Division maintains a portfolio of liquid short-term assets, comprised mainly of liquid investments, loans and advances to other banks, to make sure the Bank has sufficient liquidity. The business units' liquidity needs are met through short-term transfers from the Financial Management Division to cover any short-term fluctuations and long-term financing to address all the structural liquidity requirements.

The Bank monitors its liquidity position every day, determining the future flows of its outlays and revenues. In addition, stress tests are performed at the close of each month, for which a variety of scenarios encompassing both normal market conditions and conditions of market fluctuation are used. The liquidity policy and procedures are subject to review and approval by the Bank's Board. Periodic reports are generated by the Market Risk Department, providing a breakdown of the liquidity position of the Bank and its subsidiaries, including any exceptions and the corrective measures adopted, which are regularly submitted to the ALCO for review.

The Bank relies on customer (retail) and institutional deposits, obligations to banks, debt instruments, and time deposits as its main sources of funding. Although most obligations to banks, debt instruments and time deposits mature in over a year, customer (retail) and institutional deposits tend to have shorter maturities and a large proportion of them are payable within 90 days. The short-term nature of these deposits increases the Bank's liquidity risk, and hence, the Bank actively manages this risk by continual supervision of the market trends and price management.

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Liquidity risk 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. The following table sets forth the balance of our liquidity portfolio managed by our Financial Management Division in the manner in which it is presented to the Asset and Liability Committee (ALCO) and the Board. The ALCO has determined that our liquidity portfolio must be comprised of cash plus assets that can be readily convertible into cash either through the Chilean Central Bank window, overnight deposits or instruments or the local secondary market. The management of the Bank's liquidity portfolio is performed by the Financial Management Division under rules determined by the ALCO.

|                                   | December 31, December 31, |                  |
|-----------------------------------|---------------------------|------------------|
|                                   | 2013                      | 2012             |
|                                   | Ch\$ million              |                  |
| <b>Balance as of (1):</b>         |                           |                  |
| Financial investments for trading | 287,567                   | 338,287          |
| Available for sale investments    | 1,700,993                 | 1,826,158        |
| Encumbered assets (net) (2)       | (71,896)                  | (151,620)        |
| Net cash (3)                      | 248,073                   | (195)            |
| Net interbank deposits (4)        | 984,666                   | 875,537          |
| <b>Total liquidity portfolio</b>  | <b>3,149,403</b>          | <b>2,888,167</b> |

|                                   | December 31, December 31, |                  |
|-----------------------------------|---------------------------|------------------|
|                                   | 2013                      | 2012             |
|                                   | Ch\$ million              |                  |
| <b>Average balance as of:</b>     |                           |                  |
| Financial investments for trading | 412,012                   | 488,367          |
| Available for sale investments    | 1,706,631                 | 2,008,324        |
| Encumbered assets (net) (2)       | (100,021)                 | (72,399)         |
| Net cash (3)                      | 29,812                    | 89,849           |
| Net interbank deposits (4)        | 858,699                   | 501,561          |
| <b>Total liquidity portfolio</b>  | <b>2,907,134</b>          | <b>3,015,702</b> |

(1) The figures used by the Financial Management Division to calculate liquidity portfolio are prepared in accordance with the Bank's local Chilean Bank GAAP financial statements.

(2) Assets encumbered through repurchase agreements are deducted from the liquidity portfolio

(3) Cash minus reserve requirements

(4) Includes overnight deposits in the Central Bank, domestic banks and foreign banks

The Bank must also comply with regulatory limits imposed by the SBIF and the Central Bank that are the following:

The sum of the liabilities with a maturity of less than 30 days may not exceed the sum of the assets with a maturity of less than 30 days by more than an amount greater than our capital. This limit must be calculated in local currency and foreign currencies together as one gap. At December 31, 2013 the percentage of (i) our liabilities with a maturity of less than 30 days in excess of our assets with a maturity of less than 30 days to (ii) our capital and reserves was 30%.

The sum of the liabilities in foreign currency with a maturity of less than 30 days may not exceed the sum of the assets in foreign currency with a maturity of less than 30 days by more than an amount greater than our capital. At December 31, 2013 the percentage of (i) our liabilities with a maturity of less than 30 days in foreign currency in excess of our assets in foreign currency with a maturity of less than 30 days to (ii) our capital and reserves was 16%.

The sum of the liabilities with a maturity of less than 90 days may not exceed the sum of the assets with a maturity of less than 90 days by more than 2 times our capital. This limit must be calculated in local

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currency and foreign currencies together as one gap. At December 31, 2013 the percentage of (i) our liabilities with a maturity of less than 90 days in excess of our assets with a maturity of less than 90 days to (ii) our capital and reserves was -22%.

*Market risk management*

The Bank's internal management of market risk is based chiefly on the procedures and standards of Santander Spain, which are in turn based on analysis of management in three principal components:

trading portfolio;

local financial management portfolio; and

foreign financial management portfolio.

The trading portfolio is comprised chiefly of investments valued at fair market value and free of any restriction on their immediate sale, which are often bought and sold by the Bank with the intention of selling them in the short term to benefit from short-term price fluctuations. The trading portfolio also includes the Bank's exposure to foreign currency. The financial management portfolios include all the financial investments not considered to be part of trading portfolio.

Market risk – management of trading portfolio

The Bank applies VaR methodologies to measure the market risk of its trading portfolio. The Bank has a consolidated commercial position comprised of fixed-income investments and foreign currency trading. This portfolio is comprised mostly of Central Bank of Chile bonds, mortgage bonds, locally issued, low-risk corporate bonds and foreign currencies, mainly US dollars. At the end of each year, the trading portfolio included no stock portfolio investments.

For the Bank, the VaR estimate is made under the historical simulation methodology, which consists of observing the behavior of the profits and losses that would have occurred in the current portfolio if the market conditions for a given historical period had been in force, in order to infer the maximum loss on the basis of that information, with a given degree of confidence. The methodology has the advantage of precisely reflecting the historical distribution of the market variables and not requiring any assumptions regarding the distribution of specific probabilities. All the VaR measures are intended to determine the distribution function for a change in the value of a given portfolio, and once

that distribution is known, to calculate the percentile related to the necessary degree of confidence, which will be equal to the value at risk by virtue of those parameters. As calculated by the Bank, the VaR is an estimate of the maximum expected loss of market value for a given portfolio over a 1-day horizon, with a 99.00% confidence level. It is the maximum 1-day loss that the Bank could expect to experience in a given portfolio, with a 99.00% confidence level. In other words, it is the loss that the Bank would expect to experience only 1.0% of the time. The VaR provides a single estimate of market risk which is not comparable from one market risk to another. Returns are calculated through the use of a 2-year time window or at least 520 data points obtained since the last reference date for calculation of the VaR going backward in time.

We do not calculate three separate VaRs. We calculate a single VaR for the entire trading portfolio, which in addition is segregated by risk type. The VaR software performs a historical simulation and calculates a Profit and Loss Statement (P&L) for 520 data points (days) for each risk factor (fixed income, foreign currency and variable income.) The P&L of each risk factor is added together and a consolidated VaR is calculated with 520 points or days of data. At the same time a VaR is calculated for each risk factor based on the individual P&L calculated for each individual risk factor. Furthermore, a weighted VaR is calculated in the manner described above, but which gives a greater weighting to the 30 most recent data points. The larger of the two VaRs is the one that is reported. In 2013, 2012 and 2011, we used the same VaR model and there has been no change in methodology or assumptions for subsequent periods.

The Bank uses the VaR estimates to provide a warning when the statistically estimated incurred losses in its trading portfolio would exceed prudent levels, and hence, there are certain predetermined limits.

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Limitations of the VaR model

When applying a calculation methodology, no assumptions are made regarding the probability distribution of the changes in the risk factors; the historically observed changes are used for the risk factors on which each position in the portfolio will be valued.

It is necessary to define a valuation function  $f_j(x_i)$  for each instrument  $j$ , preferably the same one used to calculate the market value and income of the daily position. This valuation function will be applied in each scenario to generate simulated prices for all the instruments in each scenario.

In addition, the VaR methodology is subject to the following limitations:

Changes in market rates and prices may not be independent and identically distributed random variables, and may not have a normal distribution; In particular, the assumption of normal distribution may underestimate the probability of extreme market movements;

The historical data used by the Bank may not provide the best estimate of the joint distribution of changes in the risk factors in the future, and any modification of the data may be inadequate; In particular, the use of historical data may fail to capture the risk of potential extreme and adverse market fluctuations, regardless of the time period used;

A 1-day time horizon may not fully capture the market risk positions which cannot be liquidated or covered in a single day; It would not be possible to liquidate or cover all the positions in a single day;

The VaR is calculated at the close of business, but trading positions may change substantially in the course of the trading day;

The use of a 99% degree of confidence does not take account of, or make any statement about, the losses that could occur outside of that degree of confidence; and

A model such as the VaR does not capture all the complex effects of the risk factors over the value of the positions or portfolios, and accordingly, it could underestimate potential losses.

At no time in 2013, 2012 and 2011 did the Bank exceed the VaR limits in respect of the three components which comprise the trading portfolio: fixed-income investments, variable-income investments and foreign currency

investments. We perform back-testing daily and generally find that trading losses exceed our VaR estimate approximately one out of every 100 trading days. At the same time, we set a limit to the maximum VaR that we are willing to accept over our trading portfolio. In 2013, the Bank remained within the maximum limit it had set for VaR, including those instances in which the actual VaR exceeded the estimate.

The high, low, and average levels for each component and each year below were as follows:

| Consolidated                 | 2013                    | 2012 | 2011  |
|------------------------------|-------------------------|------|-------|
|                              | (in millions of U.S.\$) |      |       |
| VaR:                         |                         |      |       |
| High                         | 3.48                    | 4.62 | 11.02 |
| Low                          | 1.06                    | 0.96 | 2.39  |
| Average                      | 1.72                    | 2.33 | 6.07  |
| Fixed-income investments:    |                         |      |       |
| High                         | 2.39                    | 4.99 | 11.18 |
| Low                          | 0.97                    | 0.95 | 2.54  |
| Average                      | 1.57                    | 2.24 | 6.09  |
| Variable-income investments: |                         |      |       |
| High                         | 0.19                    | 0.07 | 0.23  |
| Low                          | 0.00                    | 0.00 | 0.00  |
| Average                      | 0.00                    | 0.00 | 0.07  |

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|              |                         |      |      |
|--------------|-------------------------|------|------|
| Consolidated | 2013                    | 2012 | 2011 |
|              | (in millions of U.S.\$) |      |      |

## Foreign currency investments:

|         |      |      |      |
|---------|------|------|------|
| High    | 3.20 | 3.23 | 3.87 |
| Low     | 0.06 | 0.03 | 0.09 |
| Average | 0.69 | 0.66 | 0.9  |

## Market risk – local and foreign financial management

The Bank's financial management portfolio includes most of the Bank's non-trading assets and liabilities, including the credit/loan portfolio. For these portfolios, investment and financing decisions are strongly influenced by the Bank's commercial strategies.

The Bank uses a sensitivity analysis to measure the market risk of local and foreign currency (not included in the trading portfolio). The Bank performs a simulation of scenarios, which will be calculated as the difference between the present value of the flows in the chosen scenario (a curve with a parallel movement of 100 bp in all its segments) and their value in the base scenario (current market). All the inflation-indexed local currency (UF) positions are adjusted by a sensitivity factor of 0.57, which represents a 57 basis point change in the rate curve for the real rates and a 100 basis point change for the nominal rates. The same scenario is performed for the net foreign currency positions and the interest rates in US dollars. The Bank has also established limits in regard to the maximum loss which these interest rate movements could impose on the capital and net financial income budgeted for the year.

To determine the consolidated limit, the foreign currency limit is added to the local currency limit for both the net financial income loss limit and the loss limit over capital and reserves using the following formula:

Consolidated limit = Square root of  $a^2 + b^2 + 2ab$

a: limit in local currency.

b: limit in foreign currency.

Since correlation is assumed to be 0.  $2ab = 0$ .

#### Limitations of the sensitivity models

The most important assumption is the use of a 100 basis point change in the yield curve (57 basis points for the real rates). The Bank uses a 100 basis point change because sudden changes of that magnitude are considered realistic. The Santander Spain Global Risk Department has established comparable limits by country, to be able to compare, monitor and consolidate the market risk by country in a realistic and orderly way. In addition, the sensitivity simulation methodology should be interpreted with consideration for the following limitations:

The simulation of scenarios assumes that the volumes remain in the Bank's Consolidated General Balance Sheet and are always renewed at maturity, thereby omitting the fact that certain credit risk and prepayment considerations may affect the maturity of certain positions.

This model assumes an identical change along the entire length of the yield curve and takes no account of the different movements for different maturities.

- The model takes no account of the sensitivity of volumes which results from interest rate changes.

The limits to losses of budgeted financial income are calculated on the basis of the financial income foreseen for the year, which may not be actually earned, meaning that the real percentage of financial income at risk may be higher than the expected one.

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## Market Risk – Financial management portfolio – December 31, 2013, 2012 and 2011

|  | 2013<br>Effect on net<br>interest<br>income | Effect on<br>equity | 2012<br>Effect on net<br>interest<br>income | Effect on<br>equity | 2011<br>Effect on net<br>interest<br>income | Effect on<br>equity |
|--|---|---------------------|---|---------------------|---|---------------------|
| Financial management portfolio – local currency<br>(in millions of Ch\$)     |   |                     |   |                     |   |                     |
| Loss limit   | 35,500                                      | 167,530             | 37,300                                      | 167,530             | 22,380                                      | 167,530             |
| High   | 28,923                                      | 86,196              | 26,233                                      | 100,175             | 19,823                                      | 107,745             |
| Low  | 21,129                                      | 69,729              | 13,885                                      | 85,546              | 590   | 71,805              |
| Average  | 25,124                                      | 77,849              | 20,054                                      | 92,312              | 9,053                                       | 93,328              |
| Financial management portfolio – foreign currency<br>(in millions of U.S.\$) |   |                     |   |                     |   |                     |
| Loss limit   | 30.0  | 30.0                | 40.0  | 44.0                | 44.0  | 44.0                |
| High   | 17.2  | 26.0                | 24.3  | 14.7                | 22.8  | 16.0                |
| Low  | 2.1   | 2.3                 | 3.7   | 4.5                 | 3.0   | 1.2                 |
| Average  | 10.2  | 18.6                | 12.8  | 11.7                | 14.1  | 7.8                 |
| Financial management portfolio – consolidated (in<br>millions of Ch\$)       |   |                     |   |                     |   |                     |
| Loss limit   | 35,500                                      | 167,530             | 39,200                                      | 167,530             | 37,300                                      | 167,530             |
| High   | 28,958                                      | 86,212              | 26,437                                      | 100,201             | 21,149                                      | 107,845             |
| Low  | 21,204                                      | 69,787              | 17,037                                      | 85,566              | 7,032                                       | 71,863              |
| Average  | 25,146                                      | 77,891              | 21,165                                      | 92,457              | 13,004                                      | 93,417              |

## Market risk –Regulatory method

The following table illustrates our market risk exposure according to the Chilean regulatory method, as of December 31, 2013. This information is sent to the SBIF on a quarterly basis. Our maximum exposure to long-term interest rate fluctuations is set at 35% of regulatory capital and is approved by the board of directors.

| Regulatory Market Risk                        | As of December 31, 2013<br>(Ch\$ million) |
|---|---|
| <b>Market risk of trading portfolio (EMR)</b> |   |
| Interest rate risk of trading portfolio       | 90,095                                    |
| Foreign currency risk of trading portfolio    | 4,635                                     |
| Risk from interest rate options               | 80,236                                    |
| Risk from foreign currency options            | 39  |
| <b>Total market risk of trading portfolio</b> | <b>175,005</b>                            |

|                            |                |
|----------------------------|----------------|
| 10% x Risk-weighted assets | 2,227,256      |
| Subtotal                   | 2,402,261      |
| Limit = Regulatory Capital | 2,828,488      |
| <b>Available margin</b>    | <b>426,227</b> |

**Non-trading portfolio market risk**

|   |                |
|---|----------------|
| Short-term interest rate risk                     | 78,126         |
| Inflation risk                                    | 82,091         |
| Long-term interest rate risk                      | 545,263        |
| <b>Total market risk of non-trading portfolio</b> | <b>705,480</b> |

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Regulatory Market Risk As of December 31, 2013  
(Ch\$ million)

**Regulatory limit of exposure to short-term interest rate and inflation risk**

|  |               |
|--|---------------|
| Short-term exposure to interest rate risk  | 78,126        |
| Exposure to inflation risk   | 82,091        |
| Limit: 20% of (net interest income + net fee income sensitive to interest rates) | 213,883       |
| <b>Available margin</b>  | <b>53,666</b> |

**Regulatory limit of exposure to long-term interest rate risk**

|  |                |
|--|----------------|
| Long-term exposure to interest rate risk | 545,263        |
| 35% of regulatory capital                | 989,971        |
| <b>Available margin</b>                  | <b>444,708</b> |

*Derivative activities*

At December 31, 2013, 2012 and 2011, derivatives are valued at market price on the balance sheet and the net unrealized gain (loss) on derivatives is classified as a separate line item on the income statement. Notional amounts are not recorded on the balance sheet. 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 SBIF recognizes three kinds of hedge accounting: (i) cash flow hedges, (ii) fair value hedges and (iii) hedging of foreign investments.

When a cash flow hedge exists, the fair value movements on the part of the hedging instrument 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.

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. Hedged items in the balance sheet are presented at their market value.

When a hedge of foreign investment exposure exists (*i.e.* investment in a foreign branch), the fair value movements on the part of the hedging instrument 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.

We classify some of our derivative financial instruments as being held for trading, due to the guidelines from the SBIF. However, substantially all of our derivatives are not actually used for speculative purposes or trading. We use derivatives to hedge our exposure to foreign exchange, interest rate and inflation risks. We had the following derivative financial instruments portfolio as of December 31, 2013, 2012 and 2011:

|  | As of December 31, 2013 |                   |                  | Fair Value    |              |
|--|-------------------------|-------------------|------------------|---------------|--------------|
|  | Notional amounts        |                   |                  |               |              |
|  |                         | After 3           |                  |               |              |
|  | Within 3 months but     | months within one | After one year   | Assets        | Liabilities  |
|  | year                    |                   |                  |               |              |
|  | (Ch\$ million)          |                   |                  |               |              |
| <b>Fair value hedge derivative instruments</b> |                         |                   |                  |               |              |
| Currency forwards                              | -                       | -                 | -                | -             | -            |
| Interest rate swaps                            | -                       | 55,000            | 375,599          | 9,951         | 1,009        |
| Cross currency swaps                           | -                       | 233,824           | 899,293          | 63,528        | 1,736        |
| Call currency options                          | -                       | -                 | -                | -             | -            |
| Call interest rate options                     | -                       | -                 | -                | -             | -            |
| Put currency options                           | -                       | -                 | -                | -             | -            |
| Put interest rate options                      | -                       | -                 | -                | -             | -            |
| Interest rate future                           | -                       | -                 | -                | -             | -            |
| Other Derivatives                              | -                       | -                 | -                | -             | -            |
| <b>Subtotal</b>                                | <b>-</b>                | <b>288,824</b>    | <b>1,274,892</b> | <b>73,479</b> | <b>2,745</b> |

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|   | As of December 31, 2013 |                                    |                   | Fair Value       |                  |
|---|-------------------------|------------------------------------|-------------------|------------------|------------------|
|   | Notional amounts        |                                    |                   | Assets           | Liabilities      |
|   | Within 3 months         | After 3 months but within one year | After one year    |                  |                  |
|   | (Ch\$ million)          |                                    |                   |                  |                  |
| <b>Cash Flow hedge derivative instruments</b> |                         |                                    |                   |                  |                  |
| Currency forwards                             | -                       | -                                  | -                 | -                | -                |
| Interest rate swaps                           | -                       | -                                  | -                 | -                | -                |
| Cross currency swaps                          | 522,451                 | 937,529                            | 661,676           | 60,453           | 13,908           |
| Call currency options                         | -                       | -                                  | -                 | -                | -                |
| Call interest rate options                    | -                       | -                                  | -                 | -                | -                |
| Put currency options                          | -                       | -                                  | -                 | -                | -                |
| Put interest rate options                     | -                       | -                                  | -                 | -                | -                |
| Interest rate future                          | -                       | -                                  | -                 | -                | -                |
| Other Derivatives                             | -                       | -                                  | -                 | -                | -                |
| <b>Subtotal</b>                               | <b>522,451</b>          | <b>937,529</b>                     | <b>661,676</b>    | <b>60,453</b>    | <b>13,908</b>    |
| <b>Derivative instruments for trading</b>     |                         |                                    |                   |                  |                  |
| Currency forwards                             | 14,972,304              | 9,801,554                          | 1,749,378         | 198,130          | 188,340          |
| Interest rate swaps                           | 4,526,349               | 11,332,697                         | 25,005,852        | 241,528          | 242,563          |
| Cross currency swaps                          | 1,634,855               | 3,927,402                          | 14,246,746        | 915,099          | 840,718          |
| Call currency options                         | 443,944                 | 42,805                             | 5,557             | 1,327            | 2,398            |
| Call interest rate options                    | -                       | 7,031                              | -                 | -                | -                |
| Put currency options                          | 428,638                 | 38,450                             | 2,936             | 3,831            | 1,108            |
| Put interest rate options                     | -                       | -                                  | -                 | -                | -                |
| Interest rate future                          | -                       | -                                  | -                 | -                | -                |
| Other Derivatives                             | 54,777                  | -                                  | -                 | 171              | 5                |
| <b>Subtotal</b>                               | <b>22,060,867</b>       | <b>25,149,939</b>                  | <b>41,010,469</b> | <b>1,360,086</b> | <b>1,275,132</b> |
| <b>Total</b>                                  | <b>22,583,318</b>       | <b>26,376,292</b>                  | <b>42,947,037</b> | <b>1,494,018</b> | <b>1,291,785</b> |

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|  | As of December 31, 2012 |                                    |                   | Fair Value       |                  |
|--|-------------------------|------------------------------------|-------------------|------------------|------------------|
|  | Notional amounts        |                                    |                   | Assets           | Liabilities      |
|  | Within 3 months         | After 3 months but within one year | After one year    |                  |                  |
|  | (Ch\$ million)          |                                    |                   |                  |                  |
| <b>Fair value hedge derivative instruments</b> |                         |                                    |                   |                  |                  |
| Currency forwards                              | —                       | —                                  | —                 | —                | —                |
| Interest rate swaps                            | 95,200                  | 397,092                            | 395,471           | 12,647           | 4,054            |
| Cross currency swaps                           | 25,396                  | 14,975                             | 671,942           | 12,716           | 4,361            |
| Call currency options                          | —                       | —                                  | —                 | —                | —                |
| Call interest rate options                     | —                       | —                                  | —                 | —                | —                |
| Put currency options                           | —                       | —                                  | —                 | —                | —                |
| Put interest rate options                      | —                       | —                                  | —                 | —                | —                |
| Interest rate future                           | —                       | —                                  | —                 | —                | —                |
| Other Derivatives                              | —                       | —                                  | —                 | —                | —                |
| <b>Subtotal</b>                                | <b>120,596</b>          | <b>412,067</b>                     | <b>1,067,413</b>  | <b>25,363</b>    | <b>8,415</b>     |
| <b>Cash Flow hedge derivative instruments</b>  |                         |                                    |                   |                  |                  |
| Currency forwards                              | 13,704                  | —                                  | —                 | —                | 298              |
| Interest rate swaps                            | —                       | —                                  | —                 | —                | —                |
| Cross currency swaps                           | 268,693                 | 666,668                            | 689,045           | 1,851            | 52,589           |
| Call currency options                          | —                       | —                                  | —                 | —                | —                |
| Call interest rate options                     | —                       | —                                  | —                 | —                | —                |
| Put currency options                           | —                       | —                                  | —                 | —                | —                |
| Put interest rate options                      | —                       | —                                  | —                 | —                | —                |
| Interest rate future                           | —                       | —                                  | —                 | —                | —                |
| Other Derivatives                              | —                       | —                                  | —                 | —                | —                |
| <b>Subtotal</b>                                | <b>282,397</b>          | <b>666,668</b>                     | <b>689,045</b>    | <b>1,851</b>     | <b>52,887</b>    |
| <b>Derivative instruments for trading</b>      |                         |                                    |                   |                  |                  |
| Currency forwards                              | 17,560,012              | 7,109,216                          | 563,301           | 159,624          | 187,304          |
| Interest rate swaps                            | 4,578,678               | 9,882,478                          | 13,752,690        | 204,800          | 230,380          |
| Cross currency swaps                           | 1,126,961               | 3,215,654                          | 11,639,636        | 899,174          | 665,100          |
| Call currency options                          | 413,452                 | 8,032                              | —                 | 567              | 1,485            |
| Call interest rate options                     | 3,917                   | 14,458                             | 12,481            | 24               | 20               |
| Put currency options                           | 402,234                 | 1,928                              | —                 | 1,777            | 516              |
| Put interest rate options                      | —                       | —                                  | —                 | —                | —                |
| Interest rate future                           | —                       | —                                  | —                 | —                | —                |
| Other Derivatives                              | 19,415                  | —                                  | —                 | 32               | 54               |
| <b>Subtotal</b>                                | <b>24,104,669</b>       | <b>20,231,766</b>                  | <b>25,968,108</b> | <b>1,265,998</b> | <b>1,084,859</b> |
| <b>Total</b>                                   | <b>24,507,662</b>       | <b>21,310,501</b>                  | <b>27,724,566</b> | <b>1,293,212</b> | <b>1,146,161</b> |



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|  | As of December 31, 2011 |                                    |                   | Fair Value       |                  |
|--|-------------------------|------------------------------------|-------------------|------------------|------------------|
|  | Notional amounts        |                                    |                   | Assets           | Liabilities      |
|  | Within 3 months         | After 3 months but within one year | After one year    |                  |                  |
|  | (Ch\$ million)          |                                    |                   |                  |                  |
| <b>Fair value hedge derivative instruments</b> |                         |                                    |                   |                  |                  |
| Currency forwards                              | —                       | —                                  | —                 | —                | —                |
| Interest rate swaps                            | —                       | 368,885                            | 444,845           | 22,374           | 35               |
| Cross currency swaps                           | 30,989                  | —                                  | 277,469           | 20,498           | 869              |
| Call currency options                          | —                       | —                                  | —                 | —                | —                |
| Call interest rate options                     | —                       | —                                  | —                 | —                | —                |
| Put currency options                           | —                       | —                                  | —                 | —                | —                |
| Put interest rate options                      | —                       | —                                  | —                 | —                | —                |
| Interest rate future                           | —                       | —                                  | —                 | —                | —                |
| Other Derivatives                              | —                       | —                                  | —                 | —                | —                |
| <b>Subtotal</b>                                | <b>30,989</b>           | <b>368,885</b>                     | <b>722,314</b>    | <b>42,872</b>    | <b>904</b>       |
| <b>Cash Flow hedge derivative instruments</b>  |                         |                                    |                   |                  |                  |
| Currency forwards                              | —                       | —                                  | —                 | —                | —                |
| Interest rate swaps                            | —                       | —                                  | —                 | —                | —                |
| Cross currency swaps                           | 284,875                 | 1,234,882                          | 394,050           | 94,544           | 713              |
| Call currency options                          | —                       | —                                  | —                 | —                | —                |
| Call interest rate options                     | —                       | —                                  | —                 | —                | —                |
| Put currency options                           | —                       | —                                  | —                 | —                | —                |
| Put interest rate options                      | —                       | —                                  | —                 | —                | —                |
| Interest rate future                           | —                       | —                                  | —                 | —                | —                |
| Other Derivatives                              | —                       | —                                  | —                 | —                | —                |
| <b>Subtotal</b>                                | <b>284,875</b>          | <b>1,234,882</b>                   | <b>394,050</b>    | <b>94,544</b>    | <b>713</b>       |
| <b>Derivative instruments for trading</b>      |                         |                                    |                   |                  |                  |
| Currency forwards                              | 14,305,612              | 8,473,390                          | 604,935           | 264,574          | 217,022          |
| Interest rate swaps                            | 5,527,118               | 11,459,132                         | 13,716,043        | 265,084          | 302,327          |
| Cross currency swaps                           | 1,405,419               | 2,511,430                          | 10,688,479        | 934,045          | 769,203          |
| Call currency options                          | 36,180                  | 23,502                             | —                 | 740              | 560              |
| Call interest rate options                     | 5,855                   | 18,773                             | 29,672            | 68               | 256              |
| Put currency options                           | 14,416                  | 17,503                             | —                 | 750              | 1,017            |
| Put interest rate options                      | —                       | —                                  | —                 | —                | —                |
| Interest rate future                           | —                       | —                                  | —                 | —                | —                |
| Other Derivatives                              | 102,084                 | 1,694                              | —                 | 219              | 400              |
| <b>Subtotal</b>                                | <b>21,396,684</b>       | <b>22,505,424</b>                  | <b>25,039,129</b> | <b>1,464,480</b> | <b>1,290,785</b> |

|              |                   |                   |                   |                  |                  |
|--------------|-------------------|-------------------|-------------------|------------------|------------------|
| <b>Total</b> | <b>21,712,548</b> | <b>24,109,191</b> | <b>26,155,493</b> | <b>1,601,896</b> | <b>1,292,402</b> |
|--------------|-------------------|-------------------|-------------------|------------------|------------------|

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*Other subsidiaries*

For VaR measurements and scenario simulations, our consolidated trading and consolidated non-trading portfolios do not consolidate the asset liability structure of the following subsidiaries:

- Santander S.A. Corredores de Bolsa
- Santander S.A. Sociedad Securitizadora
- Santander Corredores de Seguros Ltda.
- Santander Servicios de Recaudación y Pagos Ltda.

The balance sheets of these subsidiaries are mainly comprised of non-sensitive assets and liabilities, fixed assets and capital and in total only represent 0.7% of our total consolidated assets.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Right

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Our Depositary is JPMorgan Chase Bank, N.A., with its principal executive office located at 270 Park Avenue, New York, NY 10017-2070.

Each ADS represents the right to receive 400 shares of Common Stock without par value.

Fees charged to investors as outlined in the deposit agreement are the following:

| <b>Category of Service</b>                           | <b>Depositary Actions</b>   | <b>Associated Fee</b>  |
|--|---|--|
| (a) Depositing or substituting the underlying shares | Each person to whom ADSs are issued, including against deposits of shares, in respect of share distributions, rights and other distributions, <sup>1</sup> pursuant to a stock dividend or stock split declared by the Bank, pursuant to a merger, exchange of securities or other transaction or event affecting the ADSs. | \$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered.  |
| (b) Receiving or distributing dividends              | Distribution of dividends.  | \$0.02 per ADS.  |
| (c) Selling or Exercising Rights                     | Distribution or sale of securities  | An amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities. |
| (d) Transferring an ADR                              | Transfer of ADRs.   | \$1.50 per ADR.  |

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|  |  |  |
|--|--|--|
| (e) Withdrawing an underlying security | Acceptance of ADRs surrendered for withdrawal of deposited securities.   | \$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered. |
|  | Expenses incurred on behalf of holders in connection with:   |  |
|  | i) Stock transfer or other taxes and other governmental charges (including any penalties and/or interest).   |  |
| (f) Expenses of the Depositary         | ii) Cable, telex and facsimile transmission and delivery.  | Expenses payable at the sole discretion of the depository.                       |
|  | iii) Expenses of the Depositary in connection with the conversion of foreign currency into US dollars (which are paid out of such foreign currency).   |  |
|  | iv) Such fees and expenses as are incurred by the Depositary (including without limitation expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the Depositary's or its Custodian's compliance with applicable law, rule or regulation. |  |

<sup>1</sup> The Depositary may sell (by public or private sale) sufficient securities and property received in respect of such share distributions, rights and other distributions prior to such deposit to cover such charge.

Direct and Indirect Payments

The Depositary, has agreed to reimburse certain of our reasonable expenses related to our ADR program and incurred by us in connection with the program. Under certain circumstances, including termination of the program, we are required to repay to the Depositary amounts reimbursed in prior periods.

The reimbursements include direct payments (legal and accounting fees incurred in connection with preparation of Form 20-F and ongoing SEC compliance and listing requirements, listing fees, investor relations expenses, advertising and public relations expenses and fees payable to service providers for the distribution of hard copy materials to beneficial ADR holders in the Depositary Trust Company, such as information related to shareholders' meetings and related voting instruction cards); and indirect payments (third-party expenses paid directly and fees waived).

In 2013, the Depositary made direct payments and reimbursements to us in the gross amount of U.S.\$821,921 for expenses related to investor relations of which 30% was withheld for tax purposes in the U.S.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

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ITEM 15. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of December 31, 2013, the Bank, under the supervision and with the participation of the Bank's management, including its Disclosure Committee, the Chief Executive Officer, the Chief Financial Officer and the Financial Controller, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). There are, as described below, inherent limitations to the effectiveness of any control system, including disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives.

Based on such evaluation, the Bank's Disclosure Committee, the Chief Executive Officer, the Chief Financial Officer and the Financial Controller concluded that the Bank's disclosure controls and procedures were effective in ensuring that information relating to the Bank, including its consolidated subsidiaries, required to be disclosed in the reports it files under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to the management, including its Disclosure Committee and principal financial officers as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

The Bank's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Bank's internal control over financial reporting is a process designed by, or under the supervision of, the Bank's principal executive and principal financial officers and effected by the Bank's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS-IASB and includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS-IASB, and that our receipts and expenditures are being made only in accordance with authorizations of the Bank's management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting, no matter how well designed may not prevent or detect misstatements, due to the possibility that a control can be circumvented or overridden or that misstatements due to error or fraud may occur that are not detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Bank's management, including the Disclosure Committee, the Chief Executive Officer, the Chief Financial Officer and the Financial Controller, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on this assessment, our management concluded that, as of December 31, 2013, our internal control over financial reporting was effective based on those criteria.

Our internal control over financial reporting as of December 31, 2013 has been audited by an independent registered public accounting firm, as stated in its report, which follows below.

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Changes in Internal Control Over Financial Reporting

There has been no change in the Bank's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

Banco Santander Chile

We have audited the internal control over financial reporting of Banco Santander Chile and subsidiaries (the "Bank") as of December 31, 2013, based on criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Bank's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting

principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the consolidated financial statements as of and for the year ended December 31, 2013 of the Bank and our report dated April 30, 2014 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the translation of Chilean peso amounts into U.S. dollar amounts in conformity with the basis stated in Note 1e. and that such U.S. dollar amounts are presented solely for the convenience of readers in the United States of America.

/s/ Deloitte

April 30, 2014

Santiago, Chile

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ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that one of the members of our Audit Committee, Víctor Arbulú Crousillat, meets the requirements of an “audit committee financial expert” in accordance with SEC rules and regulations, in that he has an understanding of IFRS-IASB and financial statements, the ability to assess the general application of IFRS-IASB in connection with the accounting for estimates, accruals and reserves, experience analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our consolidated financial statements, an understanding of internal controls over financial reporting, and an understanding of audit committee functions. All four members of our Audit Committee have experience overseeing and assessing the performance of Santander-Chile and its consolidated subsidiaries and our external auditors with respect to the preparation, auditing and evaluation of our consolidated financial statements.

All four members of our Audit Committee are considered to be independent according to applicable NYSE criteria. Víctor Arbulú Crousillat is relying on the exemption provided by Rule 10A-3(b)(1)(iv)(B), which allows an otherwise independent director to serve on both the audit committee of the issuer and the Board of Directors of an affiliate.

ITEM 16B. CODE OF ETHICS

The Bank has adopted a code of ethics that is applicable to all of the Bank’s employees and a copy is included as an exhibit hereto. We will provide to any person without charge, upon request, a copy of our code of ethics. Please email [rmorenoh@santander.cl](mailto:rmorenoh@santander.cl) to request a copy. Our code of ethics is available on our website, which does not form part of this Annual Report on Form 20-F, at [www.santander.cl](http://www.santander.cl) under the heading “*Información Corporativa*”.

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## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Amounts paid to the auditors for statutory audit and other services were as follows:

|                                      | 2013                     | 2012         |
|--------------------------------------|--------------------------|--------------|
|                                      | (in millions<br>of Ch\$) |              |
| Audit Fees                           |                          |              |
| - Statutory audit                    | 478                      | 494          |
| - Audit-related regulatory reporting | 256                      | 255          |
| Tax Fees                             |                          |              |
| - Compliance                         | –                        | –            |
| - Advisory Services                  | 34                       | 67           |
| All Other Fees                       | 657                      | 219          |
| <b>Total</b>                         | <b>1,425</b>             | <b>1,035</b> |

**Statutory audit:** Consists of fees billed for professional services rendered in connection with the audit of our consolidated financial statements that are provided by Deloitte Auditores y Consultores Limitada in connection with statutory and regulatory filings or engagements, and attest services.

**Audit-related regulatory reporting:** Consists of fees billed for assurance and related services that were specifically related to the performance of the audit and review of our filings under the Securities Act.

**Tax fees:** Consist of fees billed for related services that were specifically related to tax related matters such as assuring the Bank was in compliance with tax laws and other tax advisory services.

**Other fees:** Consist of fees related to preparing various forms and prospectuses.

Auditors are pre-approved by the Audit Committee. The selection of external auditors is subject to approval by shareholders at the Annual Shareholders' Meeting. All proposed payments have been presented to our Audit Committee, which has determined that they are reasonable and consistent with internal policies.

## ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

#### ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

In 2013, neither Santander-Chile nor any of its affiliates purchased any of Santander-Chile's equity securities.

#### ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

#### ITEM 16G. CORPORATE GOVERNANCE

##### Summary Comparison of Corporate Governance Standards and NYSE Listed Company Standards

Our corporate governance standards, dictated by Chilean corporate law, differ from the standards followed by U.S. companies under the New York Stock Exchange (NYSE) listing standards in a number of ways. Consequently, you will not have the same protections afforded to shareholders of companies that are subject to all NYSE corporate governance requirements. The following is a non-exhaustive summary of a few key differences:

Whether a company's executive officers may serve as its directors – the NYSE standards do not prohibit a U.S. company's executive officer from also serving as a director, whereas our corporate governance standards prohibits this.

Whether the shareholders must be given an opportunity to vote on equity-compensation plans – the NYSE standards require that shareholders be allowed to vote on all equity compensation plans of a U.S. company,

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whereas our corporate governance standards only require that shareholders be allowed to vote on director compensation.

The adoption and disclosure of corporate governance guidelines – the NYSE standards require all U.S. companies listed on the NYSE to adopt the NYSE corporate governance guidelines, whereas we follow the corporate governance guidelines established under Chilean law.

As more than 50% of our voting power is held by another company, Santander Spain, we would be permitted to elect for certain exemptions under NYSE corporate governance standards if we were a U.S. company. Specifically, as a U.S. company, we could elect to be exempted from the requirements (i) that we have a majority of independent directors (as defined by the NYSE), (ii) that we have a nominating/corporate governance committee meeting certain conditions, and (iii) that we have a compensation committee meeting certain requirements. Because we would not be required to follow these standards if we were a U.S. company, we have not summarized the differences, if any, between these provisions and our own corporate governance procedures.

Summary of Corporate Governance Standards

Santander-Chile has adopted diverse measures to promote good corporate governance. Among the measures adopted are:

- Board of Directors mainly composed of professionals not related to Santander Spain, our parent company.

- Active participation of Directors in main committees of the Bank.

All personnel must subscribe to a code of ethics and good conduct. Those who interact directly with the capital markets must also subscribe to an additional code of conduct.

Segregation of functions in order to assure adequate management of risks. Commercial areas separated from back office areas. Risk management independent of commercial areas. Main credit decisions taken in committees.

- Internal Auditing Area clearly independent from the Administration.

- The Bank also has an Internal Compliance Division that oversees the fulfillment of the Bank's codes of conduct.

Santander-Chile has a commitment to transparency. This includes:

· Equal treatment for all shareholders: one share equals to one vote.

· Monthly publication of the Bank's results by the SBIF.

· Quarterly report of a detailed analysis of Bank results published by us at least 30 days after the close of each interim quarter and 40 days after close of the full year.

· Quarterly conference call open to the public.

· All information relevant to the public available immediately on the web page [www.santander.cl](http://www.santander.cl).

· Ample and periodic coverage of the Bank by international and local stock analysts.

· The Bank has five credit risk ratings by five independent rating agencies, domestic and international.

In addition, our corporate governance practices reflect the Santander Spain corporate governance framework described below.

In December 2012, primarily in response to the requirements of the European Banking Authority, our controlling shareholder, Santander Spain, adopted a corporate governance framework (*Marco de Gobierno Interno del Grupo Santander*). The purpose of the framework is to organize and standardize the corporate governance

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practices of Santander Spain and its most significant subsidiaries, including us, in order to enhance the ability of Santander Spain to manage the risks arising from its operations around the world.

The three pillars of the framework are (i) an organizational model based on functions subject to internal governance, (ii) terms of reference according to which Santander Spain exercises control and oversight over its subsidiaries and participates in specific decisions at the subsidiary level and (iii) corporate models establishing common guidelines for the management and control of Santander Spain's subsidiaries, subject to local autonomy considerations. In general, the framework purports to implement organizational and procedural changes rather than mandating particular substantive outcomes. However, in some cases, and subject to the limitations set forth in the framework, the framework states that Santander Spain may require that its subsidiaries make substantive changes or take specific actions. The framework enables Santander Spain to participate in the decision-making processes of its subsidiaries by requiring its approval of certain decisions that may have a significant impact on the Santander Group as a whole due to their significance or potential risk, such as decisions relating to mergers and acquisitions, capital structure, dividends and risk appetite, among other things. The framework also requires that a single person at each subsidiary be in charge of each function subject to internal governance and gives Santander Spain the authority to participate in the appointment, evaluation and compensation of each such person.

By its own terms, the framework as a whole is premised on the legal and financial autonomy of the subsidiaries and does not empower Santander Spain to supplant its subsidiaries' decision-making processes. Moreover, each of the three pillars of the framework is explicitly made subject to local legal requirements. Our Board of Directors approved the adoption of this corporate governance framework in April 2013, subject to certain overarching principles:

the precedence of applicable laws and regulations and orders of competent authorities over the framework to the extent they are in conflict; and

the disclosure of the adoption of the corporate governance framework to the public and to our employees and subsidiaries.

As a result of the precedence given to local legal requirements in the framework itself and in our Board of Directors' adopting resolutions, we do not expect that the adoption of the corporate governance framework will affect our ability to comply with applicable corporate governance regulations, including SEC and NYSE rules applicable to foreign private issuers. For example, although one provision of the framework states that we must obtain Santander Spain's approval for our audit plan and that Santander Spain may request additional audits at its discretion, to the extent that this provision of the framework would prevent our audit committee from fulfilling any of the requirements of applicable SEC or NYSE rules (including, for example, the audit committee's obligation to be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing an audit report), we understand that this provision would be limited so as not to conflict with such requirements due to the precedence given to local legal requirements in the framework and our adopting resolutions. Similarly, we understand that the authorities given to Santander Spain under the framework to approve certain decisions by us and to approve the compensation of certain persons in charge of functions subject to internal

governance are limited by the framework and the adopting resolutions so as not to limit the ability of members of our audit committee to make independent decisions or take independent actions as required by the audit committee independence requirements of applicable SEC and NYSE rules.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

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PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this Item.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

ITEM 19. EXHIBITS

a) Index to Financial Statements

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| <u>Consolidated Statements of Other Comprehensive Income for each of the three years in the period ended December 31, 2013, 2012 and 2011</u> | F-6  |
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b) Index to Exhibits

| Exhibit<br>Number | Description  |
|-------------------|--|
| 1A.1              | Restated Articles of Incorporation of Santander-Chile (Spanish Version) (incorporated by reference to our Registration Statement on Form F-4 (Registration No. 333-100975) filed with the Commission on December 12, 2002).  |
| 1A.2              | Restated Articles of Incorporation of Santander-Chile (English Version) (incorporated by reference to our Registration Statement on Form F-4 (Registration No. 333-100975) filed with the Commission on December 12, 2002).  |
| 1B.1              | Amended and Restated By-Laws ( <i>estatutos</i> ) of Santander-Chile (Spanish Version)   |
| 1B.2              | Amended and Restated By-Laws ( <i>estatutos</i> ) of Santander-Chile (English Version)   |
| 2A.1              | Form of Amended and Restated Deposit Agreement, dated August 4, 2008, among Banco Santander-Chile, JPMorgan Chase Bank, N.A. (as depositary) and Holders of American Depositary Receipts (incorporated by reference to our Registration Statement on Form F-6 (Registration No. 333-152664) filed with the Commission on July 31, 2008). |

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2A.2 Form of Foreign Investment Contract among Banco Santiago, JPMorgan Chase Bank, N.A. and the Central Bank of Chile relating to the foreign exchange treatment of an investment in ADSs (accompanied by an English translation) (incorporated by reference to our Registration Statement on Form F-1 (Registration No. 333-7676) filed with the Commission on October 23, 1997).

2A.3 Copy of the Central Bank Chapter XXVI Regulations Related to the Acquisition of Shares in Chilean Corporations and the Issuance of Instrument on Foreign Stock Exchanges or under Other Terms and Conditions of Issue (accompanied by an English translation) (incorporated by reference to Old Santander-Chile's Annual Report for the fiscal year ended December 31, 1996 (File No. 1-13448) filed with the Commission on June 30, 1997).

2A.4 Form of Amended and Restated Deposit Agreement, dated October 22, 2012 among Banco Santander-Chile, JPMorgan Chase Bank, N.A. (as depository) and Holders of American Depositary Receipts (incorporated by reference to our Registration Statement on Form F-6 (Registration No. 333-184234) filed with the Commission on October 2, 2012).

2B.1 Agreement for the Issuance of Bonds dated November 26, 1996 between Old Santander-Chile and Banco Security (accompanied by an English translation) (incorporated by reference to Old Santander-Chile's Annual Report for the fiscal year ended December 31, 1996 (File No. 1-13448) filed with the Commission on June 30, 1997).

2B.2 Indenture dated December 9, 2004 between Santander-Chile and Deutsche Bank Trust Company Americas, as trustee, providing for issuance of securities in series (incorporated by reference to Banco Santiago's Annual Report on Form 20-F for the fiscal year ended December 31, 2005 (File No. 1-4554) filed with the Commission on April 12, 2006).

2B.3 Indenture dated March 16, 2001, as amended on May 30, 2003, October 22, 2004, May 3, 2005, and September 20, 2005 between Santander-Chile and Banco de Chile, as trustee, relating to issuance of UF14 million senior notes (copy to be furnished upon request).

8.1 List of Subsidiaries (incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 1-4554) filed with the Commission on June 30, 2005).

11.1 Code of Conduct for Executive Personnel of Banco Santander-Chile and Subsidiaries (incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 1-4554) filed with the Commission on June 30, 2005).

11.2 Code of Conduct for all Grupo Santander Personnel (incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 1-4554) filed with the Commission on June 30, 2005).

12.1 Section 302 Certification by the Chief Executive Officer.

12.2 Section 302 Certification by the Chief Financial Officer.

12.3 Section 302 Certification by the Financial Controller.

13.1 Section 906 Certification.

We will furnish to the Securities and Exchange Commission, upon request, copies of any unfiled instruments that define the rights of holders of long-term debt of Banco Santander-Chile.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

**BANCO  
SANTANDER-CHILE**

By: /s/ Cristian Florence  
Name: Cristian Florence  
Title: General Counsel

Date: April 30, 2014

**FINANCIAL**

**STATEMENTS 2013 Banco Santander Chile**

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Deloitte

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Banco Santander Chile

We have audited the accompanying consolidated statements of financial position of Banco Santander Chile and subsidiaries (the “Bank”) as of December 31, 2013, and 2012, and the corresponding consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Banco Santander Chile and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS-IASB”).

Our audits also comprehended the translation of Chilean peso amounts into U.S. dollar amounts; in our opinion, such translation has been made in conformity with the basis stated in Note 1e. The translation into U.S. dollars has been made solely for the convenience of readers in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the Bank's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 30, 2014 expressed an unqualified opinion on the Bank's internal control over financial reporting.

/s/ Deloitte

April 30, 2014

Santiago, Chile

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Table of Contents**Banco Santander Chile and Subsidiaries****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

|   |             | <b>As of December 31,</b> |                   |                   |
|---|-------------|---------------------------|-------------------|-------------------|
|   |             | <b>2013</b>               | <b>2013</b>       | <b>2012</b>       |
|   | <b>NOTE</b> | <b>ThUS\$</b>             | <b>MCh\$</b>      | <b>MCh\$</b>      |
| <b>ASSETS</b>                                     |             |                           |                   |                   |
| Cash and deposits in banks                        | 5           | 2,998,493                 | 1,571,810         | 1,250,414         |
| Cash items in process of collection               | 5           | 1,152,379                 | 604,077           | 520,267           |
| Trading investments                               | 6           | 548,583                   | 287,567           | 338,287           |
| Investments under resale agreements               | 7           | 33,325                    | 17,469            | 6,993             |
| Financial derivative contracts                    | 8           | 2,850,092                 | 1,494,018         | 1,293,212         |
| Interbank loans, net                              | 9           | 238,371                   | 124,954           | 90,414            |
| Loans and accounts receivable from customers, net | 10          | 38,765,498                | 20,320,874        | 18,326,190        |
| Available for sale investments                    | 11          | 3,244,931                 | 1,700,993         | 1,826,158         |
| Held to maturity investments                      |             | -                         | -                 | -                 |
| Investments in associates and other companies     | 12          | 18,468                    | 9,681             | 7,614             |
| Intangible assets                                 | 13          | 127,247                   | 66,703            | 87,347            |
| Property, plant, and equipment                    | 14          | 343,791                   | 180,215           | 162,214           |
| Current taxes                                     | 15          | 3,134                     | 1,643             | 10,227            |
| Deferred taxes                                    | 15          | 433,585                   | 227,285           | 181,875           |
| Other assets                                      | 16          | 982,330                   | 514,938           | 657,890           |
| <b>TOTAL ASSETS</b>                               |             | <b>51,740,227</b>         | <b>27,122,227</b> | <b>24,759,102</b> |
| <b>LIABILITIES</b>                                |             |                           |                   |                   |
| Deposits and other demand liabilities             | 17          | 10,722,554                | 5,620,763         | 4,970,019         |
| Cash items in process of being cleared            | 5           | 527,240                   | 276,379           | 284,953           |
| Obligations under repurchase agreements           | 7           | 398,649                   | 208,972           | 304,117           |
| Time deposits and other time liabilities          | 17          | 18,457,215                | 9,675,272         | 9,112,213         |
| Financial derivative contracts                    | 8           | 2,464,297                 | 1,291,785         | 1,146,161         |
| Interbank borrowings                              | 18          | 3,209,418                 | 1,682,377         | 1,438,003         |
| Issued debt instruments                           | 19          | 9,917,318                 | 5,198,658         | 4,571,289         |
| Other financial liabilities                       | 19          | 362,039                   | 189,781           | 192,611           |
| Current taxes                                     | 15          | 95,845                    | 50,242            | 525               |
| Deferred taxes                                    | 15          | 51,037                    | 26,753            | 9,544             |
| Provisions  | 21          | 414,556                   | 217,310           | 191,892           |
| Other liabilities                                 | 22          | 594,199                   | 311,479           | 341,274           |
| <b>TOTAL LIABILITIES</b>                          |             | <b>47,214,367</b>         | <b>24,749,771</b> | <b>22,562,601</b> |
| <b>EQUITY</b>                                     |             |                           |                   |                   |

|   |    |                       |                       |                       |
|---|----|-----------------------|-----------------------|-----------------------|
| <b>Attributable to the Bank's shareholders:</b> |    | <b>4,471,484</b>      | <b>2,343,952</b>      | <b>2,162,236</b>      |
| Capital   | 24 | 1,700,311             | 891,303               | 891,303               |
| Reserves  | 24 | 2,157,556             | 1,130,991             | 975,460               |
| Valuation adjustments                           | 24 | (11,377)              | (5,964)               | (3,781)               |
| <b>Retained earnings</b>                        |    | <b>624,994</b>        | <b>327,622</b>        | <b>299,254</b>        |
| Retained earnings from prior years              |    | 34,369                | 18,016                | 49,490                |
| Income for the year                             |    | 843,750               | 442,294               | 356,808               |
| Minus: Provision for mandatory dividends        | 24 | (253,125)             | (132,688)             | (107,044)             |
| <b>Non-controlling interest</b>                 | 25 | <b>54,376</b>         | <b>28,504</b>         | <b>34,265</b>         |
| <b>TOTAL EQUITY</b>                             |    | <b>4,525,860</b>      | <b>2,372,456</b>      | <b>2,196,501</b>      |
| <br><b>TOTAL LIABILITIES AND EQUITY</b>         |    | <br><b>51,740,227</b> | <br><b>27,122,227</b> | <br><b>24,759,102</b> |

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Table of Contents**Banco Santander Chile and Subsidiaries****CONSOLIDATED STATEMENTS OF INCOME****For the years ended**

|   |             | <b>December 31,</b> |                  |                  |                  |
|---|-------------|---------------------|------------------|------------------|------------------|
|   |             | <b>2013</b>         | <b>2013</b>      | <b>2012</b>      | <b>2011</b>      |
|   | <b>NOTE</b> | <b>ThUS\$</b>       | <b>MCh\$</b>     | <b>MCh\$</b>     | <b>MCh\$</b>     |
| <b>OPERATING INCOME</b>   |             |                     |                  |                  |                  |
| Interest income   | 26          | 3,569,638           | 1,871,204        | 1,890,953        | 1,768,735        |
| Interest expense  | 26          | (1,515,532)         | (794,442)        | (848,219)        | (796,435)        |
| <b>Net interest income</b>  |             | <b>2,054,106</b>    | <b>1,076,762</b> | <b>1,042,734</b> | <b>972,300</b>   |
| Fee and commission income   | 27          | 660,282             | 346,120          | 360,427          | 363,041          |
| Fee and commission expense  | 27          | (221,831)           | (116,284)        | (89,855)         | (85,205)         |
| <b>Net fee and commission income</b>                                  |             | <b>438,451</b>      | <b>229,836</b>   | <b>270,572</b>   | <b>277,836</b>   |
| Net profit (loss) from financial operations (net trading profit loss) | 28          | (38,705)            | (20,289)         | (64,079)         | 170,857          |
| Net foreign exchange gain (loss)                                      | 29          | 276,089             | 144,726          | 146,378          | (76,660)         |
| Other operating income  | 34          | 168,170             | 88,155           | 13,105           | 18,749           |
|   |             | <b>2,898,111</b>    | <b>1,519,190</b> | <b>1,408,710</b> | <b>1,363,082</b> |

**Net operating profit before provision for loan losses**

|                           |    |           |           |           |           |
|---------------------------|----|-----------|-----------|-----------|-----------|
| Provision for loan losses | 30 | (708,626) | (371,462) | (403,692) | (316,137) |
|---------------------------|----|-----------|-----------|-----------|-----------|

|                             |  |                  |                  |                  |                  |
|-----------------------------|--|------------------|------------------|------------------|------------------|
| <b>NET OPERATING PROFIT</b> |  | <b>2,189,485</b> | <b>1,147,728</b> | <b>1,005,018</b> | <b>1,046,945</b> |
|-----------------------------|--|------------------|------------------|------------------|------------------|

|                                 |    |           |           |           |           |
|---------------------------------|----|-----------|-----------|-----------|-----------|
| Personnel salaries and expenses | 29 | (588,218) | (308,344) | (299,904) | (280,040) |
|---------------------------------|----|-----------|-----------|-----------|-----------|

|                         |    |           |           |           |           |
|-------------------------|----|-----------|-----------|-----------|-----------|
| Administrative expenses | 32 | (359,007) | (188,191) | (183,379) | (166,825) |
|-------------------------|----|-----------|-----------|-----------|-----------|

|                               |    |           |          |          |          |
|-------------------------------|----|-----------|----------|----------|----------|
| Depreciation and amortization | 33 | (116,509) | (61,074) | (56,369) | (53,466) |
|-------------------------------|----|-----------|----------|----------|----------|

|  |    |       |       |      |       |
|--|----|-------|-------|------|-------|
| Impairment of property, plant, and equipment | 33 | (465) | (244) | (90) | (116) |
|--|----|-------|-------|------|-------|

|                          |    |          |          |          |          |
|--------------------------|----|----------|----------|----------|----------|
| Other operating expenses | 34 | (99,844) | (52,338) | (59,637) | (64,208) |
|--------------------------|----|----------|----------|----------|----------|

|                                 |  |                    |                  |                  |                  |
|---------------------------------|--|--------------------|------------------|------------------|------------------|
| <b>Total operating expenses</b> |  | <b>(1,164,043)</b> | <b>(610,191)</b> | <b>(599,379)</b> | <b>(564,655)</b> |
|---------------------------------|--|--------------------|------------------|------------------|------------------|

|                         |  |                  |                |                |                |
|-------------------------|--|------------------|----------------|----------------|----------------|
| <b>OPERATING INCOME</b> |  | <b>1,025,442</b> | <b>537,537</b> | <b>405,639</b> | <b>482,290</b> |
|-------------------------|--|------------------|----------------|----------------|----------------|

|   |    |       |       |     |       |
|---|----|-------|-------|-----|-------|
| Income from investments in associates and other companies | 12 | 2,713 | 1,422 | 267 | 2,140 |
|---|----|-------|-------|-----|-------|

|                          |  |                  |                |                |                |
|--------------------------|--|------------------|----------------|----------------|----------------|
| <b>Income before tax</b> |  | <b>1,028,155</b> | <b>538,959</b> | <b>405,906</b> | <b>484,430</b> |
|--------------------------|--|------------------|----------------|----------------|----------------|

|                    |    |           |          |          |          |
|--------------------|----|-----------|----------|----------|----------|
| Income tax expense | 15 | (180,332) | (94,530) | (44,473) | (77,308) |
|--------------------|----|-----------|----------|----------|----------|

|                                |  |                |                |                |                |
|--------------------------------|--|----------------|----------------|----------------|----------------|
| <b>NET INCOME FOR THE YEAR</b> |  | <b>847,823</b> | <b>444,429</b> | <b>361,433</b> | <b>407,122</b> |
|--------------------------------|--|----------------|----------------|----------------|----------------|

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|  |    |         |         |         |         |
|--|----|---------|---------|---------|---------|
| Equity holders<br>of the Bank  |    | 843,750 | 442,294 | 356,808 | 402,191 |
| Non-controlling<br>interest  | 25 | 4,073   | 2,135   | 4,625   | 4,931   |
| Earnings per<br>share<br>attributable to<br>Equity holders<br>of the Bank :<br>(expressed in<br>Chilean pesos) |    |         |         |         |         |
| Basic earnings   | 23 | 4.477   | 2.347   | 1.893   | 2.134   |
| Diluted<br>earnings  | 23 | 4.477   | 2.347   | 1.893   | 2.134   |

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Table of Contents**Banco Santander Chile and Subsidiaries**

## CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

**For the years ended**

|   |             | <b>December 31,</b> |                |                |                 |
|---|-------------|---------------------|----------------|----------------|-----------------|
|   |             | <b>2013</b>         | <b>2013</b>    | <b>2012</b>    | <b>2011</b>     |
|   | <b>NOTE</b> | <b>ThUS\$</b>       | <b>MCh\$</b>   | <b>MCh\$</b>   | <b>MCh\$</b>    |
| <b>NET INCOME FOR THE YEAR</b>  |             | <b>847,823</b>      | <b>444,429</b> | <b>361,433</b> | <b>407,122</b>  |
| <b>OTHER COMPREHENSIVE INCOME - ITEMS WHICH MAY BE RECLASSIFIED SUBSEQUENTLY</b>                                    |             |                     |                |                |                 |
| <b>TO PROFIT OR LOSS</b>  |             |                     |                |                |                 |
| Available for sale investments  | 11          | 20,712              | 10,857         | (13,060)       | 21,639          |
| Cash flow hedge   | 23          | (25,891)            | (13,572)       | 4,921          | (11,564)        |
| <b>Other comprehensive income which may be reclassified subsequently to profit or loss, before tax</b>              |             | <b>(5,179)</b>      | <b>(2,715)</b> | <b>(8,139)</b> | <b>(10,075)</b> |
| Income tax related to items which may be reclassified subsequently to profit or loss                                | 15          | 1,036               | 543            | 1,572          | (1,880)         |
| <b>Other comprehensive income for the year which may be reclassified subsequently to profit or loss, net of tax</b> |             | <b>(4,143)</b>      | <b>(2,172)</b> | <b>(6,567)</b> | <b>8,195</b>    |
| <b>OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b>                      |             | -                   | -              | -              | -               |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>  |             | <b>843,680</b>      | <b>442,257</b> | <b>354,866</b> | <b>415,317</b>  |
| Attributable to:  |             |                     |                |                |                 |
| Equity holders of the Bank  |             | 839,586             | 440,111        | 350,195        | 410,203         |
| Non-controlling interests   | 25          | 4,094               | 2,146          | 4,671          | 5,114           |

Table of Contents**Banco Santander Chile and Subsidiaries**

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2013 and 2012

|   | Capital<br>MCh\$ | RESERVES   |   | VALUATION ADJUSTMENTS                            |                             |                                   | RETAINED EARNINGS                                  |                                    |   |
|---|------------------|--|---|--|-----------------------------|-----------------------------------|--|------------------------------------|---|
|   |                  | Reserves<br>and other<br>retained<br>earnings<br>MCh\$ | Effects of<br>merger of<br>companies<br>under<br>common<br>control<br>MCh\$ | Available<br>for<br>sale<br>investments<br>MCh\$ | Cash flow<br>hedge<br>MCh\$ | Income<br>tax<br>effects<br>MCh\$ | Retained<br>earnings<br>of<br>prior years<br>MCh\$ | Income<br>for<br>the year<br>MCh\$ | Provision<br>for<br>mandatory<br>dividends<br>MCh\$ |
| <b>Equity as of<br/>December 31,<br/>2010</b>           | <b>891,303</b>   | <b>613,891</b>   | <b>(2,224)</b>  | <b>(18,341)</b>                                  | <b>11,958</b>               | <b>1,203</b>                      | <b>54,603</b>                                      | <b>505,393</b>                     | <b>(151,618)</b>                                    |
| Adjustment for<br>accounting<br>changes (IAS<br>19) (*) | -                | (1,101)  | -   | -  | -                           | -                                 | (458)  | -                                  | -   |
| Distribution of<br>income from<br>previous period       | -                | -  | -   | -  | -                           | -                                 | 505,393  | (505,393)                          | -   |
| <b>Equity as of<br/>January 1,<br/>2011</b>             | <b>891,303</b>   | <b>612,790</b>   | <b>(2,224)</b>  | <b>(18,341)</b>                                  | <b>11,958</b>               | <b>1,203</b>                      | <b>559,538</b>                                     | <b>-</b>                           | <b>(151,618)</b>                                    |
| Dividends<br>distributions/<br>withdrawals<br>made      | -                | -  | -   | -  | -                           | -                                 | (286,294)  | -                                  | 151,618   |
| Transfer of<br>retained<br>earnings to<br>reserves      | -                | 190,861  | -   | -  | -                           | -                                 | (190,861)  | -                                  | -   |
| Provision for<br>mandatory<br>dividends                 | -                | -  | -   | -  | -                           | -                                 | -  | -                                  | (120,657)   |
| <b>Subtotals</b>  | <b>-</b>         | <b>190,861</b>   | <b>-</b>  | <b>-</b>   | <b>-</b>                    | <b>-</b>                          | <b>(477,155)</b>                                   | <b>-</b>                           | <b>30,961</b>                                       |
|   | -                | -  | -   | 21,418   | (11,564)                    | (1,842)                           | -  | -                                  | -   |

|   |                |                |                |                 |                 |                |                  |                |                  |
|---|----------------|----------------|----------------|-----------------|-----------------|----------------|------------------|----------------|------------------|
| Other comprehensive income                  |                |                |                |                 |                 |                |                  |                |                  |
| Income for the year                         | -              | -              | -              | -               | -               | -              | -                | 402,191        | -                |
| <b>Subtotals</b>                            | -              | -              | -              | <b>21,418</b>   | <b>(11,564)</b> | <b>(1,842)</b> | -                | <b>402,191</b> | -                |
| <b>Equity as of December 31, 2011</b>       | <b>891,303</b> | <b>803,651</b> | <b>(2,224)</b> | <b>3,077</b>    | <b>394</b>      | <b>(639)</b>   | <b>82,383</b>    | <b>402,191</b> | <b>(120,657)</b> |
| Distribution of income from previous period | -              | -              | -              | -               | -               | -              | 402,191          | (402,191)      | -                |
| <b>Equity as of January 1, 2012</b>         | <b>891,303</b> | <b>803,651</b> | <b>(2,224)</b> | <b>3,077</b>    | <b>394</b>      | <b>(639)</b>   | <b>484,574</b>   | -              | <b>(120,657)</b> |
| Dividends distributions/withdrawals made    | -              | -              | -              | -               | -               | -              | (261,051)        | -              | 120,657          |
| Transfer of retained earnings to reserves   | -              | 174,033        | -              | -               | -               | -              | (174,033)        | -              | -                |
| Provision for mandatory dividends           | -              | -              | -              | -               | -               | -              | -                | -              | (107,044)        |
| <b>Subtotals</b>                            | -              | <b>174,033</b> | -              | -               | -               | -              | <b>(435,084)</b> | -              | <b>13,613</b>    |
| Other comprehensive income                  | -              | -              | -              | (13,118)        | 4,921           | 1,584          | -                | -              | -                |
| Income for the year                         | -              | -              | -              | -               | -               | -              | -                | 356,808        | -                |
| <b>Subtotals</b>                            | -              | -              | -              | <b>(13,118)</b> | <b>4,921</b>    | <b>1,584</b>   | -                | <b>356,808</b> | -                |
| <b>Equity as of December 31, 2012</b>       | <b>891,303</b> | <b>977,684</b> | <b>(2,224)</b> | <b>(10,041)</b> | <b>5,315</b>    | <b>945</b>     | <b>49,490</b>    | <b>356,808</b> | <b>(107,044)</b> |
| Distribution of income from previous period | -              | -              | -              | -               | -               | -              | 356,808          | (356,808)      | -                |
| <b>Equity as of January 1, 2013</b>         |                | <b>977,684</b> | <b>(2,224)</b> | <b>(10,041)</b> | <b>5,315</b>    | <b>945</b>     | <b>406,298</b>   | -              | <b>(107,044)</b> |
| Own shares transactions (1)                 | -              | 29             | -              | -               | -               | -              | -                | -              | -                |
| Dividends distributions/withdrawals made    | -              | -              | -              | -               | -               | -              | (232,780)        | -              | 107,044          |
| Transfer of retained                        | -              | 155,502        | -              | -               | -               | -              | (155,502)        | -              | -                |

|                                       |                |                  |                |               |                 |              |                  |                |                  |
|---------------------------------------|----------------|------------------|----------------|---------------|-----------------|--------------|------------------|----------------|------------------|
| earnings to reserves (*)              |                |                  |                |               |                 |              |                  |                |                  |
| Provision for mandatory dividends     | -              | -                | -              | -             | -               | -            | -                | -              | (132,688)        |
| <b>Subtotals</b>                      | -              | <b>155,531</b>   | -              | -             | -               | -            | <b>(388,282)</b> | -              | <b>(25,644)</b>  |
| Other comprehensive income            | -              | -                | -              | 10,843        | (13,572)        | 546          | -                | -              | -                |
| Income for the year                   | -              | -                | -              | -             | -               | -            | -                | 442,294        | -                |
| <b>Subtotals</b>                      | -              | -                | -              | <b>10,843</b> | <b>(13,572)</b> | <b>546</b>   | -                | <b>442,294</b> | -                |
| <b>Equity as of December 31, 2013</b> | <b>891,303</b> | <b>1,133,215</b> | <b>(2,224)</b> | <b>802</b>    | <b>(8,257)</b>  | <b>1,491</b> | <b>18,016</b>    | <b>442,294</b> | <b>(132,688)</b> |

(1) Corresponds to the profit on sale of own shares received in lieu of payment, see Note 24 - Equity

| Period   | Total attributable to Bank shareholders<br>MCh\$ | Allocated to reserves<br>MCh\$ | Allocated to dividends<br>MCh\$ | Percentage distributed<br>% | Number of shares | Dividend per share<br>(in pesos) |
|--|--|--------------------------------|---------------------------------|-----------------------------|------------------|----------------------------------|
| Year 2012<br>(Shareholders Meeting April 2013) (*) | 387,967  | 155,187                        | 232,780                         | 60                          | 188,446,126,794  | 1.235                            |
| Year 2011<br>(Shareholders Meeting April 2012)     | 435,084  | 174,033                        | 261,051                         | 60                          | 188,446,126,794  | 1.385                            |

(\*) For presentation purposes, these amounts have been adjusted to reflect the requirements established by IAS 19 - Revised 'Employee Benefits'. The amount of dividends distributed in 2012, are shown as that amount approved at that time by the Shareholders in their meeting. See Note 02 - Accounting changes.

Table of Contents**Banco Santander Chile and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the years ended**

|   |             | <b>December 31,</b> |                |                |                |
|---|-------------|---------------------|----------------|----------------|----------------|
|   | <b>NOTE</b> | <b>2013</b>         | <b>2013</b>    | <b>2012</b>    | <b>2011</b>    |
|   |             | <b>ThUS\$</b>       | <b>MCh\$</b>   | <b>MCh\$</b>   | <b>MCh\$</b>   |
| <b>A - CASH FLOWS FROM OPERATING ACTIVITIES</b>                           |             |                     |                |                |                |
| <b>CONSOLIDATED INCOME BEFORE TAX</b>                                     |             | <b>1,028,155</b>    | <b>538,959</b> | <b>405,906</b> | <b>484,430</b> |
| <b>Debits (credits) to income that do not represent cash flows</b>        |             |                     |                |                |                |
| Depreciation and amortization   | 33          | 116,509             | 61,074         | 56,369         | 53,466         |
| Impairment of property, plant, and equipment                              | 14          | 465                 | 244            | 90             | 116            |
| Provision for loan losses   | 30          | 814,090             | 426,746        | 436,707        | 351,962        |
| Mark to market of trading investments                                     |             | (26,156)            | (13,711)       | (9,978)        | (5,331)        |
| Income from investments in associates and other companies                 | 12          | (2,713)             | (1,422)        | (267)          | (2,140)        |
| Net gain on sale of assets received in lieu of payment                    | 34          | (12,535)            | (6,571)        | (2,654)        | (5,629)        |
| Provision on assets received in lieu of payment                           | 34          | 4,508               | 2,363          | 7,546          | 10,050         |
| Net gain on sale of investments in associates and other companies         | 34          | (149,031)           | (78,122)       | (599)          | -              |
| Net gain on sale of property, plant and equipment                         | 34          | (336)               | (176)          | (9,194)        | (11,863)       |
| Net interest income   | 26          | (2,054,106)         | (1,076,762)    | (1,042,734)    | (972,300)      |
| Net fee and commission income   | 27          | (438,451)           | (229,836)      | (270,572)      | (277,836)      |
| Debits (credits) to income that do not represent cash flows               |             | 73,598              | 38,580         | 18,324         | 24,181         |
| Changes in deferred taxes   | 15          | (52,762)            | (27,658)       | (39,354)       | (38,057)       |
| <b>Increase/decrease in operating assets and liabilities</b>              |             |                     |                |                |                |
| Decrease (increase) of loans and accounts receivables from customers, net |             | (3,774,500)         | (1,978,593)    | (1,240,427)    | (1,498,982)    |
| Decrease (increase) of financial investments                              |             | 335,532             | 175,886        | (93,372)       | (217,424)      |
| Decrease (increase) due to resale agreements (assets)                     |             | (19,985)            | (10,476)       | 5,935          | 158,057        |
| Decrease (increase) of interbank loans                                    |             | (66,516)            | (34,868)       | (2,985)        | (17,869)       |
| Decrease (increase) of assets received or awarded in lieu of payment      |             | 8,613               | 4,515          | 46,463         | 51,061         |
| Increase of debits in customers checking accounts                         |             | 758,075             | 397,383        | 462,367        | 213,424        |
| Increase (decrease) of time deposits and other time liabilities           |             | 1,074,130           | 563,059        | 195,535        | 1,652,579      |
| Increase (decrease) of obligations with domestic banks                    |             | 954                 | 500            | -              | -              |
| Increase (decrease) of other demand liabilities or time obligations       |             | 483,329             | 253,361        | 93,838         | (36,043)       |
| Increase (decrease) of obligations with foreign banks                     |             | 465,568             | 244,051        | (481,677)      | 336,614        |

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|   |    |                  |                |                    |                  |
|---|----|------------------|----------------|--------------------|------------------|
| Increase (decrease) of obligations with Central Bank of Chile     |    | (338)            | (177)          | (412)              | (497)            |
| Increase (decrease) obligations under repurchase agreements       |    | (181,505)        | (95,145)       | (240,264)          | 249,656          |
| Increase (decrease) in other financial liabilities                |    | (5,398)          | (2,830)        | 16,012             | 10,310           |
| Net increase of other assets and liabilities                      |    | (821,125)        | (430,434)      | (665,506)          | (426,883)        |
| Redemption of letters of credit                                   |    | (76,747)         | (40,231)       | (45,830)           | (86,747)         |
| Mortgage bond issuance  |    | 134,184          | 70,339         | -                  | -                |
| Senior bond issuances   |    | 1,267,497        | 664,422        | 623,457            | 590,250          |
| Redemption of senior bonds and payments of interest               |    | (363,829)        | (190,719)      | (507,369)          | (283,570)        |
| Issuance of subordinated bonds                                    |    | 269,063          | 141,043        | -                  | 111,458          |
| Redemption of subordinated bonds and payments of interest         |    | (59,708)         | (31,299)       | (135,881)          | (34,879)         |
| Interest received   |    | 3,635,124        | 1,905,532      | 1,910,729          | 1,787,128        |
| Interest paid   |    | (1,392,488)      | (729,942)      | (871,130)          | (813,125)        |
| Dividends received from investments in other companies            | 12 | 1,479            | 775            | 896                | 795              |
| Fees and commissions received                                     | 27 | 660,282          | 346,120        | 360,427            | 363,041          |
| Fees and commissions paid   | 27 | (221,831)        | (116,284)      | (89,855)           | (85,205)         |
| Income tax  | 15 | (180,332)        | (94,530)       | (44,473)           | (77,308)         |
| <b>Total cash flow provided by (used in) operating activities</b> |    | <b>1,230,763</b> | <b>645,166</b> | <b>(1,153,932)</b> | <b>1,556,890</b> |

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Table of Contents**Banco Santander Chile and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the years ended**

|  |             | <b>December 31,</b> |                  | <b>2012</b>        | <b>2011</b>      |
|--|-------------|---------------------|------------------|--------------------|------------------|
|  | <b>NOTE</b> | <b>2013</b>         | <b>2013</b>      | <b>2012</b>        | <b>2011</b>      |
|  |             | <b>ThUS\$</b>       | <b>MCh\$</b>     | <b>MCh\$</b>       | <b>MCh\$</b>     |
| <b>B - CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>  |             |                     |                  |                    |                  |
| Purchases of property, plant, and equipment  | 14          | (77,812)            | (40,789)         | (36,738)           | (26,689)         |
| Sales of property, plant, and equipment  | 14          | 664                 | 348              | 6,573              | 8,645            |
| Purchases of investments in associates and other companies   | 12          | (2,747)             | (1,440)          | (61)               | -                |
| Sales of investments in associates and other companies   | 12          | 172,226             | 90,281           | 401                | -                |
| Purchases of intangible assets   | 13          | (35,101)            | (18,400)         | (42,262)           | (34,051)         |
| <b>Total cash flow provided by (used in) investment activities</b>                                 |             | <b>57,230</b>       | <b>30,000</b>    | <b>(72,087)</b>    | <b>(52,095)</b>  |
| <b>C - CASH FLOW FROM FINANCING ACTIVITIES:</b>  |             |                     |                  |                    |                  |
| <b>From shareholders' financing activities</b>   |             | <b>(444,067)</b>    | <b>(232,780)</b> | <b>(261,051)</b>   | <b>(286,294)</b> |
| Dividends paid   |             | (444,067)           | (232,780)        | (261,051)          | (286,294)        |
| <b>From non-controlling interest financing activities</b>  |             | <b>(15,084)</b>     | <b>(7,907)</b>   | <b>(4,207)</b>     | <b>(3,122)</b>   |
| Dividends and/or withdrawals paid  |             | 15,084              | (7,907)          | (4,207)            | (3,122)          |
| <b>Total cash flow used in financing activities</b>  |             | <b>(459,151)</b>    | <b>(240,687)</b> | <b>(265,258)</b>   | <b>(289,416)</b> |
| <b>D - NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>                    |             | <b>828,842</b>      | <b>434,479</b>   | <b>(1,491,277)</b> | <b>1,215,379</b> |
| <b>E - EFFECTS OF FOREIGN EXCHANGE RATE FLUCTUATIONS</b>   |             | <b>(39,487)</b>     | <b>(20,699)</b>  | <b>(3,664)</b>     | <b>(71,151)</b>  |
| <b>F - INITIAL BALANCE OF CASH AND CASH EQUIVALENTS</b>  |             | <b>2,834,277</b>    | <b>1,485,728</b> | <b>2,980,669</b>   | <b>1,836,441</b> |
| <b>FINAL BALANCE OF CASH AND CASH EQUIVALENTS 5</b>  |             | <b>3,623,632</b>    | <b>1,899,508</b> | <b>1,485,728</b>   | <b>2,980,669</b> |
| <b>Reconciliation of provisions for the Consolidated Statement of Cash Flow for the year ended</b> |             |                     |                  |                    |                  |
|  |             | <b>2013</b>         | <b>2013</b>      | <b>2012</b>        | <b>2011</b>      |
|  |             | <b>ThUS\$</b>       | <b>MCh\$</b>     | <b>MCh\$</b>       | <b>MCh\$</b>     |
| Provision for loan losses for cash flow purposes   | 30          | 814,090             | 426,746          | 436,707            | 351,962          |
| Recovery of loans previously charged off   | 30          | (105,464)           | (55,284)         | (33,015)           | (35,825)         |
| <b>Provision for loan losses - net</b>   |             | <b>708,626</b>      | <b>371,462</b>   | <b>403,692</b>     | <b>316,137</b>   |

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**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 01

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2013, 2012 and 2011

**CORPORATE INFORMATION**

Banco Santander Chile (formerly Banco Santiago) is a corporation (limited company bank) organized under the laws of the Republic of Chile, headquartered at Bandera #140, Santiago, which provides a broad range of general banking services to its customers, from individuals to major corporations. Banco Santander Chile and its subsidiaries (collectively referred to herein as the “Bank” or “Banco Santander Chile”) offers commercial and consumer banking services, as well as other services, including factoring, collection, leasing, securities and insurance brokerage, mutual and investment fund management, and investment banking.

Banco Santander Spain controls Banco Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones Ltda. and Santander-Chile Holding S.A., which are controlled subsidiaries of Banco Santander Spain. As of December 31, 2013 Banco Santander Spain owns or controls directly and indirectly 99.5% of Santander-Chile Holding S.A. and 100% of Teatinos Siglo XXI Inversiones Ltda. This gives Banco Santander Spain control over 67.18% of the Bank’s shares.

a)

**Basis of preparation**

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For purposes of these financial statements we use certain terms and conventions. References to “US\$”, “U.S. dollars” and “dollars” are to United States dollars, references to “EUR” are to European Economic Community Euro, references to “CNY” are to Chinese Yuan, references to “CHF” are to Swiss franc, 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.

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 month. One UF equaled Ch\$22,840.75 as of December 31, 2012 and Ch\$23,309.56 as of December 31, 2013. In 2013, UF inflation was 2.1% compared to 2.5% in 2012. 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.

**b) Basis of preparation for the Financial Statements**

The Consolidated Financial Statements as of December 31, 2013 and 2012 consolidate the financial statements of the Bank entities over which the bank has control (including structured entities); and includes the adjustments, reclassifications and eliminations needed to comply with the accounting and valuation criteria established by IFRS issued by IASB. Control is achieved when the Bank:

- I. has power over the investee;
- II. is exposed, or has rights, to variable returns from its involvement with the investee; and
- III. has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities over the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank’s voting rights in an investee are sufficient to give it power, including:

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

·the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;  
·potential voting rights held by the Bank, other vote holders or other parties;  
·rights arising from other agreements; and  
·any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct  
·the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Income and in the Consolidated Statement of Other Comprehensive Income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with the Bank accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between consolidated entities are eliminated in full on consolidation.

Changes in the consolidated entities ownership interests in subsidiaries that do not result in losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

In addition, third parties' shares in the Consolidated Bank's equity are presented as "Non-controlling interests" in the Consolidated Statement of Changes in Equity. Their share in the income for the year is presented as "Attributable to non-controlling interests" in the Consolidated Statement of Income

The following companies are considered entities controlled by the Bank and are therefore within the scope of consolidation:

**i. Entities controlled by the Bank through participation in equity**

| Name of the Subsidiary   | Main activity  | Place of Incorporation and operation | Percent ownership share |      |        |        |          |        |        |          |        |
|--|--|--------------------------------------|-------------------------|------|--------|--------|----------|--------|--------|----------|--------|
|  |  |                                      | As of December 31,      |      |        | 2012   |          |        | 2011   |          |        |
|  |  |                                      | 2013                    | 2012 | 2011   | Direct | Indirect | Total  | Direct | Indirect | Total  |
| %  | %  | %                                    | %                       | %    | %      | %      | %        | %      | %      | %        | %      |
| Santander Corredora de Seguros Limitada                              | Insurance brokerage                                  | Santiago, Chile                      | 99.75                   | 0.01 | 99.76  | 99.75  | 0.01     | 99.76  | 99.75  | 0.01     | 99.76  |
| Santander S.A. Corredores de Bolsa                                   | Financial instruments brokerage                      | Santiago, Chile                      | 50.59                   | 0.41 | 51.00  | 50.59  | 0.41     | 51.00  | 50.59  | 0.41     | 51.00  |
| Santander Asset Management S.A. Administradora General de Fondos (*) | Third-party funds administration                     | Santiago, Chile                      | -                       | -    | -      | 99.96  | 0.02     | 99.98  | 99.96  | 0.02     | 99.98  |
| Santander Agente de Valores Limitada                                 | Securities brokerage                                 | Santiago, Chile                      | 99.03                   | -    | 99.03  | 99.03  | -        | 99.03  | 99.03  | -        | 99.03  |
| Santander S.A. Sociedad Securitizadora                               | Purchase of credits and issuance of debt instruments | Santiago, Chile                      | 99.64                   | -    | 99.64  | 99.64  | -        | 99.64  | 99.64  | -        | 99.64  |
| Santander Servicios de Recaudación y Pagos Limitada                  | Support society, making and receiving payments       | Santiago, Chile                      | 99.90                   | 0.10 | 100.00 | 99.90  | 0.10     | 100.00 | 99.90  | 0.10     | 100.00 |

(\*) Santander Asset Management S.A. Administradora General de Fondos was sold in December 2013, see Note 03 - Significant events.

The Bank only holds complete controlling participation in Santander Servicios de Recaudación y Pagos Limitada. The detail of non-controlling participation on all the remaining subsidiaries can be seen in Note 25 – Non-controlling interest.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**ii. Entities controlled by the Bank through other considerations**

The following companies have been consolidated based on the determination that the Bank has control as previously defined above and in accordance with IFRS 10, *Consolidated Financial Statements*:

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

**iii. Associates**

An associate is an entity over which the Bank has significant influence. Significant influence, in this case, is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate.

The following companies are considered “Associates” in which the Bank accounts for its participation using the equity method:

| Place of<br>incorporation and | Percentage of<br>ownership share<br>As of December<br>31,<br>2013 2012 2011 |
|-------------------------------|---|
|-------------------------------|---|

| <b>Subsidiaries</b>                                | <b>Main activity</b>  | <b>operation</b> | <b>%</b> | <b>%</b> | <b>%</b> |
|--|---|------------------|----------|----------|----------|
| Redbanc S.A.                                       | ATM services  | Santiago, Chile  | 33.43    | 33.43    | 33.43    |
| Transbank S.A.                                     | Debit and credit card services  | Santiago, Chile  | 25.00    | 25.00    | 32.71    |
| Centro de Compensación Automatizado                | Electronic fund transfer and compensation services                                      | Santiago, Chile  | 33.33    | 33.33    | 33.33    |
| Sociedad Interbancaria de Depósito de Valores S.A. | Delivery of securities on public offer  | Santiago, Chile  | 29.28    | 29.28    | 29.28    |
| Cámara de Compensación de Alto Valor S.A.          | Payments clearing   | Santiago, Chile  | 14.14    | 14.14    | 12.65    |
| Administrador Financiero del Transantiago S.A.     | Administration of boarding passes to public transportation                              | Santiago, Chile  | 20.00    | 20.00    | 20.00    |
| Sociedad Nexus S.A.                                | Credit card processor   | Santiago, Chile  | 12.90    | 12.90    | 12.90    |
| Servicios de Infraestructura de Mercado OTC S.A.   | Administration of the infrastructure for the financial market of derivative instruments | Santiago, Chile  | 11.11    | -        | -        |

In the case of Nexus S.A. and Cámara Compensación de Alto Valor S.A., Banco Santander Chile has a representative on the Board of Directors. According to this fact and definitions previously mentioned, the Bank has concluded that it exerts significant influence over those entities.

In July, 2013 national banks jointly created the company Servicios de Infraestructura de Mercado OTC S.A., and its objective is to offer certain services to the financial market, granting services of registration, confirmation, storage, consolidation and reconciliation of operations with derivative financial instruments. Banco Santander possesses 11.11% equity participation (see Note 12 - Investments in associates and other companies). This investee is considered an associate since, through its executives; the Bank has been actively involved in managing the company, in the process of organization and in the implementation of the functional structure of this company, resulting in significant influence over this company.

#### **iv. Share or rights in other companies**

Such entities represent those over which the Bank has no control or significant influences are presented in this category. These holdings are shown at purchase value.

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**c) Non-controlling interest**

Non-controlling interest represents the portion of net income and net assets which the Bank does not own, either directly or indirectly. It is presented as “Attributable to non-controlling interest” separately in the Consolidated Statement of Income, and separately from shareholders’ equity in the Consolidated Statement of Financial Position.

In the case of entities controlled by the Bank through other considerations, income and equity are presented in full as non-controlling interest, since the Bank controls them, but does not have any ownership expressed as a percentage.

**d) Operating segments**

The Bank discloses separate information for each operating segment that

- i. has been identified
- ii. exceeds the quantitative thresholds stipulated for a segment.

Operating segments with similar economic characteristics often have a similar long-term financial performance. Two or more segments can be combined only if aggregation is consistent with International Financial Reporting Standard 8 “Operating Segments” (IFRS 8) and the segments have similar economic characteristics and are similar in each of the following respects:

- i. the nature of the products and services;
- ii. the nature of the production processes;
- iii. the type or class of customers that use their products and services;
- iv. the methods used to distribute their products or services; and
- v. if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

The Bank reports separately on each operating segment that exceeds any of the following quantitative thresholds:

i. Its reported revenue, from both external customers and intersegment sales or transfers, is 10% or more of the combined internal and external revenue of all the operating segments.

ii. The absolute amount of its reported profit or loss is 10% or more of the greater in absolute amount of: (i) the combined reported profit of all the operating segments that did not report a loss; (ii) the combined reported loss of all the operating segments that reported a loss.

iii. Its assets represent 10% or more of the combined assets of all the operating segments.

Operating segments that do not meet any of the quantitative thresholds may be treated as segments to be reported, in which case the information must be disclosed separately if management believes it could be useful for the users of the Consolidated Financial Statements.

Information about other business activities of the operating segments not separately reported is combined and disclosed in the "Other segments" category.

According to the information presented, the Bank's segments were determined under the following definitions: An operating segment is a component of an entity:

- i. that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses from transactions with other components of the same entity);
- ii. whose operating results are regularly reviewed by the entity's chief executive officer, who makes decisions about resources allocated to the segment and assess its performance; and
- iii. for which discrete financial information is available.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**e) Functional and presentation currency**

According to International Accounting Standard No.21 “The Effects of Changes in Foreign Exchange Rates” (IAS 21), the Chilean peso, which is the currency of the primary economic environment in which the Bank operates and the currency which influences its costs and revenues structure, has been defined as the Bank’s functional and presentation currency.

Accordingly, all balances and transactions denominated in currencies other than the Chilean Peso are treated as “foreign currency.”

The Bank maintains its accounting records and prepares its financial statements in Chilean pesos. The US dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader as of December 31, 2013 using the observed exchange rate of Ch\$524.20 per US\$1.00. This translation is just a reference and in no case should be construed as accurately representing the actual amounts.

**f) Foreign currency transactions**

The Bank grants loans and accepts deposits in amounts denominated in foreign currencies, mainly the U.S. dollar. Assets and liabilities denominated in foreign currencies, held by the Bank are translated to Chilean pesos based on the market rate published by Reuters at 1:30 p.m. on the last business day of every month; the rate used was Ch\$524.20 per US\$1 as of December 31, 2013 (Ch\$478.75 per US\$1 as of December 31, 2012).

The amounts of net foreign exchange gains and losses includes recognition of the effects that exchange rate variations have on assets and liabilities denominated in foreign currencies and the profits and losses on foreign exchange spot and forward transactions undertaken by the Bank.

**g) Definitions and classification of financial instruments**

**i. Definitions**

A “financial instrument” is any contract that gives rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.

An “equity instrument” is a legal transaction that evidences a residual interest in the assets of an entity deducting all of its liabilities.

A “Financial derivative” is a financial instrument whose value changes in response to the changes in an observable market variable (such as an interest rate, a foreign exchange rate, a financial instrument’s price, or a market index, including credit ratings), whose initial investment is very small compared with other financial instruments having a similar response to changes in market factors, and which is generally settled at a future date.

“Hybrid financial instruments” are contracts that simultaneously include a non-derivative host contract together with a financial derivative, known as an embedded derivative, which is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

**ii. Classification of financial assets for measurement purposes**

Financial assets are classified into the following specified categories: financial assets trading investments “at fair value through profit or loss’ (FVTPL), ‘held to maturity’ investments, ‘available for sale investments’ (AFS) financial assets and ‘loans and accounts receivable from customers’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Income is recognised on an effective interest basis for loans and accounts receivables other than those financial assets classified as at fair value through profit or loss.

***Financial assets at FVTPL - Trading investments***

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'net profit (loss) from financial operations' line item.

### *Held to maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

### *Available for sale investments (AFS investments)*

AFS investments are non-derivatives that are either designated as AFS or are not classified as (a) loans and accounts receivable from customers, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss (trading investments).

Financial instruments held by the Bank that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Bank also has investments in financial instruments that are not traded in an active market but that are also classified as AFS investments and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available for sale investments are recognised in other comprehensive income and accumulated under the heading of "Valuation Adjustment". When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated as the described in f) above. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

*Loans and accounts receivable from customers*

Loans and accounts receivable from customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and accounts receivables from customers (including loans and accounts receivable from customers and interbank loans) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

iii. Classification of financial assets for presentation purposes

For presentation purposes, the financial assets are classified by their nature into the following line items in the consolidated financial statements:

Cash and deposits in banks: This line includes cash balances, checking accounts and on-demand deposits with the -Central Bank of Chile and other domestic and foreign financial institutions. Amounts invested or received as overnight deposits are included in this item.

-

Cash items in process of collection: This item represents domestic transactions in the process of transfer through a central domestic clearinghouse or international transactions which may be delayed in settlement due to time differences, etc.

Trading investments: This item includes financial instruments held-for-trading and investments in mutual funds which must be adjusted to their fair value in the same way as instruments acquired for trading.

-Investments under resale agreements: Includes balances of financial instruments purchased under resale agreements.

Financial derivative contracts: Financial derivative contracts with positive fair values are presented in this item. It includes both independent contracts as well as derivatives that should and can be separated from a host contract, whether they are for trading or accounted for as hedging derivatives, as shown in Note 8 to the Consolidated Financial Statements.

Trading derivatives: Includes the fair value in favor of the Bank of derivatives which do not qualify for hedge accounting, including embedded derivatives separated from hybrid financial instruments.

Hedging derivatives: Includes the fair value in favor of the Bank of derivatives designated as hedging instruments in hedge accounting, including the embedded derivatives separated from the hybrid financial instruments designated as hedging instruments in hedge accounting.

Interbank loans: This item includes the balances of transactions with domestic and foreign banks, including the Central Bank of Chile, other than those reflected in the preceding items.

Loans and accounts receivables from customers: These loans are non-derivative financial assets for which fixed or determined amounts are charged, that are not listed on an active market and which the Bank does not intend to sell immediately or in the short term. When the Bank is the lessor in a lease, and it substantially transfers the risks and benefits incidental to the leased asset, the transaction is presented in loans and accounts receivable from customers.

Investment instruments: Are classified into two categories: held-to-maturity investments, and available-for-sale investments. The held-to-maturity investment category includes only those instruments for which the Bank has the ability and intent to hold them until their maturity. The remaining investments are treated as available for sale.

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:**

- iv. Classification of financial liabilities for measurement purposes

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

***Financial liabilities at FVTPL***

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
-

it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net profit (loss) from financial operations' line item.

### *Other financial liabilities*

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### v. Classification of financial liabilities for presentation purposes

The financial liabilities are classified by their nature into the following line items in the consolidated statements of financial position:

**Deposits and other demand liabilities:** This item includes all on-demand obligations except for term savings accounts, which are not considered on-demand instruments in view of their special characteristics. Obligations whose payment may be required during the period are deemed to be on-demand obligations. Operations which become callable the day after the closing date are not treated as on-demand obligations.

**Cash items in process of being cleared:** This item represents domestic transactions in the process of transfer through a central domestic clearinghouse or international transactions which may be delayed in settlement due to time differences, etc..

**Obligations under repurchase agreements:** This item includes the balances of sales of financial instruments under securities repurchase and loan agreements. According to actual applicable regulation, the Bank does not record instruments acquired under resale agreements in its investment portfolio, but as investments under resale agreements.



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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Time deposits and other time liabilities: This item shows the balances of deposit transactions in which a term at the end of which they become callable has been stipulated.

Financial derivative contracts: This item includes financial derivative contracts with negative fair values (i.e. against the Bank), whether they are for trading or for accounting hedging purposes, as set forth in Note 8.

Trading derivatives: Includes the fair value against the Bank of derivatives which do not qualify for hedge accounting, including embedded derivatives separated from hybrid financial instruments.

Hedging derivatives: Includes the fair value against the Bank of derivatives designated as hedging instruments in hedge accounting, including the embedded derivatives separated from the hybrid financial instruments designated as hedging instruments in hedge accounting.

Interbank borrowings: This item includes obligations due to other domestic banks, foreign banks, or the Central Bank of Chile, which were not classified in any of the previous categories.

Issued debt instruments: This encompasses three items; Obligations under letters of credit, Subordinated bonds and senior bonds placed in the local and foreign market.

Other financial liabilities: This item includes credit obligations to persons other than domestic banks, foreign banks, or the Central Bank of Chile, for financing purposes or operations in the normal course of business.

**h) Valuation of financial instruments and recognition of fair value changes**

In general, financial assets and liabilities are initially recorded at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. Financial instruments not measured at fair value through profit or loss includes transaction costs. Subsequently, and at the end of each reporting period, they are measured pursuant to the following criteria:

**i. Valuation of financial instruments**

Financial assets are measured according to their fair value, gross of any transaction costs that may be incurred for their sale, except for loans and accounts receivable.

According to IFRS 13 *Fair Value Measurement* (effective date from January 1, 2013), “fair value” is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place: (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, the most advantageous for the asset or liability. When there is no observable market to provide pricing information in connection with the sale of an asset or transfer a liability at the measurement date, the fair value shall be assumed in a transaction that date, considered from the perspective of a potential market who intends to maximize value associated with the asset or liability.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

· Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

· Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

· Level 3 inputs are unobservable inputs for the asset or liability.

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

All derivatives are recorded in the Consolidated Statements of Financial Position at the fair value from their trade date. If their fair value is positive, they are recorded as an asset, and if their fair value is negative, they are recorded as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recorded in “Net profit (loss) from financial operations” in the Consolidated Statement of Income.

Specifically, the fair value of financial derivatives included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price. If, for exceptional reasons, the quoted price cannot be determined on a given date, the fair value is determined using similar methods to those used to measure over the counter (OTC) derivatives. The fair value of OTC derivatives is the sum of the future cash flows resulting from the instrument, discounted to present value at the date of valuation (“present value” or “theoretical close”) using valuation techniques commonly used by the financial markets: “net present value” (NPV) and option pricing models, among other methods. Also, within the fair value of derivatives are included Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA), all with the objective that the fair value of each instrument includes the credit risk of its counterparty and Bank’s own risk.

The main techniques used as of December 31, 2013 and 2012 by the Bank’s internal models to determine the fair values of the financial instruments are as follows:

In the valuation of financial instruments permitting static hedging (mainly “forwards” and “swaps”), the “present value” method is used. Estimated future cash flows are discounted using the interest rate curves of the related currencies.

The interest rate curves are generally observable market data.

ii. In the valuation of financial instruments requiring dynamic hedging (mainly structured options and other structured instruments), the Black-Scholes model is normally used. Where appropriate, observable market inputs are used to obtain factors such as the bid-offer spread, exchange rates, volatility, correlation indexes and market liquidity.

iii.

In the valuation of certain financial instruments exposed to interest rate risk, such as interest rate futures, caps and floors, the present value method (futures) and the Black-Scholes model (plain vanilla options) are used. The main inputs used in these models are observable market data, including the related interest rate curves, volatilities, correlations and exchange rates.

The fair value of the financial instruments arising from the abovementioned internal models considers contractual terms and observable market data, which include interest rates, credit risk, exchange rates, the quoted market price of shares, volatility and prepayments, among other things. These methodologies can be adjusted and evaluated, as appropriate, through the internal calculation of fair value and the subsequent comparison with the related actively traded price.

“Loans and accounts receivable from customers” and “Held-to-maturity instrument portfolio” are measured at amortized cost using the “effective interest method.” “Amortized cost” is the acquisition cost of a financial asset or liability, plus or minus, as appropriate, prepayments of principal and the cumulative amortization (recorded in the consolidated income statement) of the difference between the initial cost and the maturity amount as calculated under the effective interest rate method. For financial assets, amortized cost also includes any reductions for impairment or uncollectibility. For loans and accounts receivable designated as hedged items in fair value hedges, the changes in their fair value related to the risk or risks being hedged are recorded in “Net profit (loss) from financial operations”.

The “effective interest method” is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

For fixed-rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, are a part of the financial return. For floating-rate financial instruments, the effective interest rate coincides with the rate of return prevailing until the next benchmark interest reset date.

The amounts at which the financial assets are recorded represent, in all material respects, the Bank’s maximum exposure to credit risk at each reporting date. The Bank has also received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, equity instruments and personal securities, assets leased out under leasing and rental agreements, assets acquired under repurchase agreements, securities loans and derivatives.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Income is recognized on an effective interest basis for loans and receivables other than those financial assets classified as trading investments.

**ii. Hedging transactions**

The Bank uses financial derivatives for the following purposes:

- i. to sell to customers who request these instruments in the management of their market and credit risks,
- ii. to use these derivatives in the management of the risks of the Bank entities' own positions and assets and liabilities ("hedging derivatives"), and
- iii. to obtain profits from changes in the price of these derivatives ("trading derivatives").

All financial derivatives that do not qualify for hedge accounting are accounted for as "trading derivatives."

The Bank designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

***Fair value hedges***

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

### *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'net foreign exchange gain (loss) line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when any forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### **iii. Derivatives embedded in hybrid financial instruments**

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not clearly and closely related to those of the host contracts and the contracts are not measured at fair value to profit and loss.

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**iv. Offsetting of financial instruments**

Financial asset and liability balances are offset, i.e., reported in the Consolidated Statements of Financial Position at their net amount, only if there is a legally enforceable right to offset the recorded amounts and an intent either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

**v. Derecognition of financial assets and liabilities**

The accounting treatment of transfers of financial assets depends on the extent and the manner in which the risks and rewards associated with the transferred assets are transferred to third parties:

i. If the Bank transfers substantially all the risks and rewards to third parties, as in the case of unconditional sales of financial assets, the transferred financial asset is removed from the Consolidated Statements of Financial Position.

ii. If the Bank retains substantially all the risks and rewards associated with the transferred financial asset, the transferred financial asset is not removed from the Consolidated Statements of Financial Position and continues to be measured by the same criteria as those used before the transfer. However, the following items are recorded:

An associated financial liability for an amount equal to the consideration received; this liability is subsequently measured at amortized cost.

- The income from the transferred asset as well as the expenses associated with the liability contracted.

iii. If the Bank neither transfers nor substantially retains all the risks and rewards associated with the transferred financial asset, the following distinction is made:

a. If the transferor does not retain control over the transferred financial asset: the asset is removed from the Consolidated Statements of Financial Position and any rights or obligations retained or created in the transfer are

recorded.

If the transferor retains control over the transferred financial asset: it continues to be recorded in the Consolidated Statements of Financial Position for an amount equal to its exposure to changes in value and a financial liability b. associated with the transferred financial asset is recorded. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained if the transferred asset is measured at amortized cost. If the rights and obligations are retained, the asset is measured at fair value.

Accordingly, financial assets are only removed from the Consolidated Statements of Financial Position when the rights over the cash flows they generate have terminated or when all the inherent risks and rewards of ownership have been substantially transferred to third parties. Similarly, financial liabilities are only derecognized from the Consolidated Statements of Financial Position when the obligations specified in the contract are discharged or cancelled or the contract has matured.

### **i) Recognizing income and expenses**

The most significant criteria used by the Bank to recognize its revenues and expenses are summarized as follows:

#### **i. Interest revenue, interest expense, and similar items**

Interest revenue and expense are recorded on an accrual basis using the effective interest method.

However, when the Bank believes that the debtor poses a high risk of default, the interest and inflation adjustments pertaining to these transactions are not recorded directly in the Consolidated Statement of Income unless they have been actually received.

This interest and inflation adjustments are generally referred to as “suspended” and are recorded in memo accounts which are not part of the Consolidated Statements of Financial Position. Instead, they are reported as part of the complementary information thereto and as memo accounts. This interest is recognized as income, when collected.

The resumption of interest income recognition of previously impaired loans only occurs when such loans became current (i.e. payments were received such that the loans are contractually past-due for less than 90 days) or they are no longer classified under the C3, C4, D1 or D2 categories (for loans individually evaluated for impairment).

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Dividends received from companies classified as “Investments in other companies” are recorded as income when the right to receive them arises.

**ii. Commissions, fees, and similar items**

Fee and commission income and expenses are recognized in the Consolidated Statement of Income using criteria that vary according to their nature. The main criteria are:

Fee and commission income and expenses relating to financial assets and liabilities which are measured at fair value through profit or loss are recognized when they are earned.

Those arising from transactions or services that are performed over a period of time are recognized over the life of these transactions or services.

- Those relating to services provided in a single act are recognized when the single act is performed.

**iv. Loan arrangement fees**

Fees that arise as a result of the origination of a loan, mainly application and analysis-related fees, are deferred and recognized in the Consolidated Statement of Income over the term of the loan.

**j) Impairment**

**i. Financial assets:**

A financial asset, other than that at fair value through profit and loss, is evaluated on each financial statement filing date to determine whether objective evidence of impairment exists.

A financial asset or group of financial assets will be impaired if, and only if, objective evidence of impairment exists as a result of one or more events that occurred after initial recognition of the asset (“event causing the loss”), and this event or events causing the loss have an impact on the estimated future cash flows of a financial asset or group of financial assets.

An impairment loss relating to financial assets recorded at amortized cost is calculated as the difference between the recorded amount of the asset and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

An impairment loss relating to a financial asset available for sale is calculated based on a significant or prolonged decline in its fair value.

Individually significant financial assets are individually tested to determine their impairment. The remaining financial assets are evaluated collectively in groups that share similar credit risk characteristics.

All impairment losses are recorded in income. Any impairment loss relating to a financial asset available for sale previously recorded in equity is transferred to profit or loss.

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. The reversal of an impairment loss shall not exceed the carrying amount that would have been determined if no impairment loss has been recognized for the asset in prior years. The reversal is recorded in income with the exception of available for sale equity financial assets; any reversal is recorded in other comprehensive income.

**ii. Non-financial assets:**

The Bank’s non-financial assets, excluding investment properties, are reviewed at each reporting date to determine whether there is any indication that those assets have suffered an impairment loss (i.e. its carrying amount exceeds its recoverable amount). If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

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Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

In connection to other assets, impairment losses recorded in prior periods are assessed at each reporting date in search of any indication that the loss has decreased or disappeared and should be reversed. An impairment loss shall be reversed only if it does not exceed the carrying amount of loss for impairment recognized for the asset in prior years.

**k) Property, plant, and equipment**

This category includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases. Assets are classified according to their use as follows:

**i. Property, plant and equipment for own use**

Property, plant and equipment for own use (including, among other things, tangible assets received by the consolidated entities in full or partial satisfaction of financial assets representing accounts receivable from third parties which are intended to be held for continuing own use and tangible assets acquired under finance leases) are presented at acquisition cost less the related accumulated depreciation and, if applicable, any impairment losses (when net carrying amount was higher than recoverable amount).

Depreciation is calculated using the straight line method over the acquisition cost of assets less their residual value, assuming that the land on which buildings and other structures stand has an indefinite life and, therefore, is not subject to depreciation.

The Bank must apply the following useful lives for the tangible assets that comprise its assets:

| <b>ITEM</b>  | <b>Useful<br/>life<br/>(Months)</b> |
|--|-------------------------------------|
| Land   | -                                   |
| Paintings and works of art                         | -                                   |
| Assets retired for disposal                        | -                                   |
| Carpets and curtains                               | 36                                  |
| Computers and hardware                             | 36                                  |
| Vehicles   | 36                                  |
| Computational systems and software                 | 36                                  |
| ATM's  | 60                                  |
| Machines and equipment in general                  | 60                                  |
| Office furniture                                   | 60                                  |
| Telephone and communication systems                | 60                                  |
| Security systems                                   | 60                                  |
| Rights over telephone lines                        | 60                                  |
| Air conditioning systems                           | 84                                  |
| Installations in general                           | 120                                 |
| Security systems (acquisitions up to October 2002) | 120                                 |
| Buildings  | 1,200                               |

The consolidated entities assess at each reporting date whether there is any indication that the carrying amount of any of their tangible assets' exceeds its recoverable amount. If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life, if the useful life needs to be revised.

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Similarly, if there is an indication of a recovery in the value of a tangible asset, the consolidated entities record the reversal of the impairment loss recorded in prior periods and adjust the future depreciation charges accordingly. In no circumstance may the reversal of an impairment loss on an asset increase its carrying value above the one it would have had if no impairment losses had been recorded in prior years.

The estimated useful lives of the items of property, plant and equipment held for own use are reviewed at least at the end of each reporting period to detect significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recorded in the Consolidated Statement of Income in future years on the basis of the new useful lives.

Maintenance expenses relating to tangible assets (property, plant and equipment) held for own use are recorded as an expense in the period in which they are incurred.

**ii. Assets leased out under operating leases**

The criteria used to record the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives, and to record the impairment losses thereof, are consistent with those described in relation to property, plant and equipment held for own use.

**l) Leasing**

**i. Finance leases**

Finance leases are leases that substantially transfer all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the consolidated entities act as the lessor of an asset, the sum of the present value of the lease payments receivable from the lessee, including the exercise price of the lessee's purchase option at the end of the lease term, which is equivalent to one additional lease payment and so is reasonably certain to be exercised, is recognized as lending to third parties and is therefore included under "Loans and accounts receivables from customers" in the Consolidated Statements of Financial Position.

When the consolidated entities act as lessees, they show the cost of the leased assets in the Consolidated Statements of Financial Position based on the nature of the leased asset, and simultaneously record a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise of the purchase option). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

In both cases, the finance income and finance expenses arising from these contracts are credited and debited, respectively, to "Interest income" and "Interest expense" in the Consolidated Statement of Income so as to achieve a constant rate of return over the lease term.

## **ii. Operating leases**

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the consolidated entities act as the lessor, they present the acquisition cost of the leased assets under "Property, plant and equipment". The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment held for own use and revenues from operating leases is recorded on a straight line basis under "Other operating income" in the Consolidated Statement of Income.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight line basis to "Administrative and other expenses" in the Consolidated Statement of Income.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**iii. Sale and leaseback transactions**

For sale at fair value and operating leasebacks, the profit or loss generated is recorded at the time of sale except in the case of excess of proceeds over fair value, which difference is amortized over the period of use of the asset. In the case of finance leasebacks, the profit or loss generated is amortized over the lease term.

**m) Intangible assets**

Intangible assets are identified as non-monetary assets (separately identifiable from other assets) without physical substance which arise as a result of a legal transaction (contractual terms) or are developed internally by the consolidated entities. They are assets whose cost can be estimated reliably and over which the consolidated entities have control and consider it probable that future economic benefits will be generated.

Intangible assets are recorded initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortization and any accumulated impairment losses.

Internally developed computer software

Internally developed computer software is recorded as an intangible asset if, among other requirements (basically the Bank's ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated. The estimated useful life for software is 3 years.

Intangible assets are amortized on a straight-line basis over their estimated useful life; which has been defined as 36 months.

Expenditure on research activities is recorded as an expense in the year in which it is incurred and cannot be subsequently capitalized.

**n) Cash and cash equivalents**

For the preparation of the cash flow statement, the indirect method was used, beginning with the Bank's consolidated pre-tax income and incorporating non-cash transactions, as well as income and expenses associated with cash flows, which are classified as operating, investment or financing activities.

**o) Allowances for loan losses**

The Bank has established allowances to cover incurred losses on loans and account receivables from customers in accordance with its internal models and risk assessment as approved by the Board of Directors.

The Bank models determine allowances and provisions for loan losses according to the type of portfolio or operations. Loans and accounts receivables from customers are divided into three categories:

- i. Consumer loans,
- ii. Mortgage loans, and
- iii. Commercial loans.

The Bank performs an assessment of the risk associated with loans and accounts receivable from customers to determine their allowance for loan losses as described below:

Individual assessment - represents the case where the Bank assesses a debtor as individually significant, or when -he/she cannot be classified within a group of financial assets with similar credit risk characteristics, due to their size, complexity or level of exposure.

Group assessment - A group assessment is relevant for analyzing a large number of operations with small individual -balances from individuals or small-size companies. The Bank groups debtors with similar credit risk characteristics giving to each group a default probability and recovery rate based on a historical analysis.

The models used to determine credit risk allowances are described as follows:

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**I. Allowances for individual assessment**

An individual assessment of commercial debtors is necessary in the case of companies which, due to their size, complexity or level of exposure regarding the entity, must be known and analyzed in detail.

For the purposes of establishing its provisions, the Bank assigns to each debtor, for both loans and contingent loans, a risk category, after assigning him/her to one of the portfolio categories. Risk factors used on the assignment are: industry or sector of the borrower, owners or managers of the borrower, their financial position and payment ability, and payment behavior.

The Bank's risk categories are as follows:

1. Debtors may be classified in risk categories A1, A2, A3 or B (if they are current on their payment obligations and show no sign of deterioration in their credit quality). B is different from the A categories by a certain history of late payments. The A categories are distinguished by different PNPs (as defined below).

2. Debtors classified as C1, C2, C3, C4, D1 or D2 include debtors whose loans with us have been charged off or administered by our Recovery Unit, or classified as Precontenciosos (PRECO or deteriorated).

For loans classified as A1, A2, A3 and B, we assign a specific provision level on an individual basis to each borrower and, therefore, the amount of loan loss allowance is determined on a case by case basis.

Estimated Incurred Loan Loss = Loan Loss Allowance

The estimated incurred loss is obtained by multiplying all risk factors defined in the following equation:

$$EIL = EXP \times PNP \times SEV$$

EIL = Estimated Incurred Loan Loss. The estimated incurred loan loss is how much could be lost in the event a debtor does not perform the obligations under the loan.

EXP = Exposure. This corresponds to the value of commercial loans.

PNP = Probability of Non-Performance. This variable, expressed as a percentage, indicates the probability that a debtor will default in a period of 12 months. This percentage is associated with the internal rating that we give to each debtor, which is determined by analyzing such parameters as debt servicing capacity (including, usually, projected cash flows), the company's financial history, the solvency and capacity of shareholders and management, and projections for the economic sector in which it operates.

SEV = Severity. This is the effective loss rate given default for debtors in the same segment, which is determined statistically based on the historical effective losses for us for each segment.

PNP and SEV are reviewed and updated every 3 years. Every year, models together with PNP and SEV assumptions, are tested by the Bank's Credit Risk Department, to ensure that they are appropriate at each reporting date so as to make sure any difference between the estimated incurred losses and actual losses is reduced.

These tests focus on the validation of the sufficiency of the Bank's allowances, and consist of comparisons between actual write-offs to allowances established by the model, and the coverage of the total allowance to actual write-offs in the most current periods. Individual loan classification and improvements to any customer classification are also presented for approval to our Risk Committee.

For loans classified in the C and D categories, loan loss allowances are based mainly on the fair value of the collateral, adjusted for an estimated cost to sell, that each of these loans have. Allowance percentage for each category is then based on the fair value of the collateral, or the expected future cash flow from the loan for each individually evaluated non-performing loans.



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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**II. Allowances for group assessment**

The Bank uses the concept of estimation of incurred debt to quantify the allowances levels over the group-evaluated portfolios. Incurred debt is the expected provision expense that will appear one year away from the balance date of the transaction's credit risk, considering the counterpart risk and the guarantees associated with each transaction.

Following the Bank's definition, the Bank uses group evaluation to approach transactions that have similar credit risk features, which indicate the debtor's payment capacity over the entire debt, principal and interests, pursuant to the contract's terms. In addition, this allows us to assess a high number of transactions with low individual amounts, whether they belong to individuals or small sized companies. Therefore, debtors and loans with similar features are grouped together and each group has a risk level assigned to it.

These models are meant to be used mainly to analyze loans granted to individuals (including consumer loans, credit lines, mortgage loans and commercial loans) and commercial loans to SMEs.

Allowances are established using these models, taking into account the historical Impairment and other known circumstances at the time of evaluation. After this, a historical loss rate is assigned to each portfolio profile constituting each segment.

Allowances for group-evaluated loans are established based on the credit risk of the profile to which the loan belongs, within the established segments for the type of loan. The method for assigning a profile is established based on a statistical building method, establishing a relation through logistic regression various variables, such as payment behavior in the Bank, payment behavior outside the Bank, various sociodemographic data, among others, and a response variable that determines a client's risk level, which in this case is 90 days of non-performance (The chosen features are relevant when calculating future cash flows per group of assets). Afterwards, common profiles are established and with differentiated default rates, applying the real historical loss the Bank has had with that portfolio.

The different risk categories are constructed and updated periodically based on the payment behavior of the client's profile to which they belong, as well as his or her sociodemographic characteristics. Therefore, when a customer has past due balance or has missed some payments, the outcome is that the customer will move to a different segment with a higher loss rate, therefore capturing current trends for each risk profile.

Allowance quantification, once the customers have been classified, is the product of three factors: exposure (EXP), Probability of Non-Performance (PNP) and Severity (SEV). The same equation used for individual assessment mentioned above.

The estimated incurred loss rates for group-evaluated loans correspond to charge-offs net of recoveries. The methodology establishes the period in which the estimated incurred loss for each risk profile emerges. Once the loss has been considered to have been incurred, the estimated incurred loss rates are applied to the corresponding risk profile to obtain the net charge-off level associated with this period. The loss rates applied to each risk profile are based only on the historical net charge-off data for that specific profile within one of the four groups of loans. No other statistical or other information other than net charge-offs is used to determine the loss rates.

To determine the estimated incurred loss for commercial and mortgage loans collectively evaluated for impairment, we mainly analyze the payment behavior of clients, particularly the payment behavior of clients with payments that are more than 90 days overdue, clients with other weaknesses, such as early non-performance (i.e., payments that are past-due, though by less than 90 days), clients with modified loans and clients with renegotiated loans, as well as success in recovery against these clients. We also take into account whether the loan is supported by collateral.

In connection with mortgage loans, historical net charge-offs are considered in the model to calculate loss rates for loans collectively evaluated for impairment. The risk categories are such that when a customer has a past-due balance or has missed some payments, the outcome is that the customer will move to a different risk category with a higher loss rate, therefore capturing current trends of the customer and, when aggregate, current trends in the market.

Our models for loans analyzed on a group basis (consumer loans, residential mortgage loans and small-and-mid- sized commercial loans) are monitored on a monthly basis with respect to predictability and stability, using indicators that seek to capture the underlying need to update the models for current loss trends. Therefore, the periods of historical net charge-offs used in the allowance model may be more than a year old as we only update the historical net charge-offs only when our assessment of predictability and stability indicators determine it is necessary.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 01****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued****III.****Charge-offs**

As a general rule, charge-offs should be done when all collection efforts have been exhausted. These charge-offs consist of derecognition from the Consolidated Statements of Financial Position of the corresponding loans operations in its entirety, and, therefore, include portions not past-due of a loan in the case of installments loans or leasing operations (no partial charge-offs exists).

Subsequent payments obtained from charged-off loans will be recognized in the Consolidated Statement of Income as a recovery of loans previously charged-off.

Loan and accounts receivable charge-offs are recorded for overdue, past due, and current installments based on the time periods expired since reaching overdue status, as described below:

| <b>Type of loan</b>                       | <b>Term</b> |
|---|-------------|
| Consumer loans with or without collateral | 6 months    |
| Other transactions without collateral     | 24 months   |
| Commercial loans with collateral          | 36 months   |
| Mortgage loans                            | 48 months   |
| Consumer leasing                          | 6 months    |
| Other non-mortgage leasing transactions   | 12 months   |
| Mortgage leasing (household and business) | 36 months   |

Any payment agreement of an already charged-off loan will not give rise to income—as long as the operation is still in an impaired status—and the effective payments received are accounted for as a recovery from loans previously charged-off.

#### **IV. Recovery of loans previously charged off and accounts receivable from customers**

Recovery of previously charged-off loans and accounts receivable from customers, are recorded in the Consolidated Statement of Income as a deduction from provisions for loan losses.

In accordance with our charge-off policy described in iii) above, we may subsequently recover a portion of the amount charged-off (at 100%). The allowance for loan losses on our collectively evaluated loans incorporates an expected recovery rate based on historical information. At the time we charge-off the carrying amount of any loans which have been collectively evaluated for impairment, the allowance for loan losses on collectively evaluated loans is replenished to reflect incurred losses based on statistical models developed in compliance with IAS 39 on the remaining pool of loans. The amounts required for replenishment are recorded in the financial statements as “Provision established”. When a charged-off line item within the financial statements also includes charge-offs on collectively impaired loans, the line item is titled “Charged-offs of individually significant loans and/or collectively evaluated loans”.

#### **Changes in accounting estimates**

In 2012, and as a response to the ongoing improvement and monitoring process of the allowance models, the Bank updated its allowance model for consumer loans. Until June 2012, estimated loss rates in said model were established by the historical behavior of net charge-offs of recoveries for each risk profile. It is important to mention that this method only considered historical debt data for each specific profile and did not include the use of any other statistical information. Since June 2012, loss rate has been estimated with the product of the Probability of Default (PD) and Loss Given Default (LGD); established according to the historical behavior of the different profiles and based on a duly based historical analysis. These changes generated an effect on income of Ch\$24,753 million. The effect of these improvements was considered as a change of estimate, following International Accounting Standards No. 8 “Accounting Policies, Changes in Accounting Estimates and Errors”; therefore, the effect was reported on the Consolidated Statement of Income.

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**p) Provisions, contingent assets, and contingent liabilities**

Provisions are liabilities of uncertain timing or amount. These provisions are recognized in the Consolidated Statements of Financial Position when the Bank:

- i. has a present obligation (legal or constructive) as a result of past events, and
- ii. To the date of these financial statements, it is probable that an outflow of resources will be required to settle these obligations and the amount of these resources can be readily measured.

Contingent assets or contingent liabilities are any potential rights or obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly under control of the Bank.

Consolidated annual accounts reflect all significant provisions for which it is estimated that the probability of having to meet the obligation is more likely than not.

Provisions are quantified using the best available information on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year and are used to address the specific liabilities for which they were originally recognized. Partial or total reversals are recorded when such liabilities cease to exist or decrease.

Provisions are classified according to the obligation covered as follows:

|   |  |
|---|--|
| - | Provision for employee salaries and expenses |
| - | Provision for mandatory dividends            |
| - | Provisions for contingent credit risks       |

**q) Deferred income taxes and other deferred taxes**

The Bank records, when appropriate, deferred tax assets and liabilities for the estimated future tax effects attributable to differences between the carrying amount of assets and liabilities and their tax bases. The measurement of deferred tax assets and liabilities is based on the tax rate, according to the applicable tax laws, using the tax rate that applies to the period when the deferred asset and liability will be settled. The future effects of changes in tax legislation or tax rates are recorded in deferred taxes beginning on the date on which the law approving such changes is published.

**r) Use of estimates**

The preparation of the financial statements requires Management to make estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

In certain cases, International Financial Reporting Standards (IFRS) require that assets or liabilities be recorded or disclosed at their fair values. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, quoted market prices in active markets have been used as the basis for measurement. Where quoted market prices in active markets are not available, the Bank has estimated such values based on the best information available, including the use of internal valuation models and other valuation techniques.

The Bank has established allowances to cover incurred losses to estimate allowances, the Bank must regularly re-evaluate taking into consideration factors such as changes in the nature and volume of the loan portfolio, trends in forecasted portfolio quality, credit quality and economic conditions that may adversely affect the borrowers' ability to pay. Increases in the allowances for loan losses are reflected as "Provision for loan losses" in the Consolidated Statement of Income. Loans are charged-off when Management determines that a loan or a portion thereof is impaired. Charge-offs are recorded as a reduction of the allowance for loan losses.

The relevant estimates and assumptions are regularly reviewed by the Bank's Management to quantify certain assets, liabilities, revenues, expenses, and commitments. Revised accounting estimates are recorded in the period in which the estimate is revised.

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**NOTE 01****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

These estimates, made on the basis of the best available information, mainly refer to:

|   |  |
|---|--|
| - | Impairment losses of certain assets (Notes 8, 9, 10, and 33)             |
| - | The useful lives of tangible and intangible assets (Notes 13, 14 and 33) |
| - | The fair value of assets and liabilities (Notes 6, 7, 8, 11 and 37)      |
| - | Commitments and contingencies (Note 23)                                  |
| - | Current and deferred taxes (Note 15)                                     |

s) **Assets received or awarded in lieu of payment**

Assets received or awarded in lieu of payment of loans and accounts receivable from clients are recognized at their fair value (as determined by an independent appraisal). A price is agreed upon by the parties through negotiation, or, when the parties do not reach an agreement, at the amount at which the Bank is awarded those assets at a judicial auction. In the both cases, an independent appraisal is performed. The excess of the outstanding loan balance over the fair value is charged to net income for the period, under "Provision for loan losses". Any excess of the fair value over the outstanding loan balance, less costs to sell of the collateral, is returned to the client. These assets are subsequently adjusted to their net realizable value less cost to sale (assuming a forced sale). The difference between the carrying value of the asset and the estimated fair value less costs to sell is charged to net income for the period, under "Other operating expenses". The result obtained in the sale of the asset is subsequently recorded under "Other operating income".

Independent appraisals are obtained at least every 18 months and fair values are adjusted accordingly. No adjustments have been made between appraisals with respect to the period covered by these financial statements considering the stability of the real estate market in Chile during past years and expected stability of the real estate market in the coming years.

At least once a year, the Bank performs the necessary analysis to update these assets' costs to sell. According to the Bank's survey, as of December 31, 2013 the average cost to sell was estimated at 5.7% of the appraised value (4.5% as of December 31, 2012).

**t) Earnings per share**

Basic earnings per share are determined by dividing the net income attributable to the Bank shareholders for the reported period by the weighted average number of shares outstanding during the reported period.

Diluted earnings per share are determined in the same way as basic earnings, but the weighted average number of outstanding shares is adjusted to take into consideration the potential diluting effect of stock options, warrants, and convertible debt.

As of December 31, 2013 and 2012 the Bank did not have any instruments that generated diluting effects over equity.

**u) Temporary acquisition (assignment) of assets**

Purchases (sales) of financial assets under non-optional resale (repurchase) agreements at a fixed price (“repos”) are recorded in the Consolidated Statements of Financial Position based on the nature of the debtor (creditor) under “Deposits in the Central Bank of Chile,” “Deposits in financial institutions” or “Loans and accounts receivable from customers” (“Central Bank of Chile deposits,” “Deposits from financial institutions” or “Customer deposits”).

Differences between the purchase and sale prices are recorded as financial interest over the term of the contract.

**v) Provision for mandatory dividends**

As of December 31, 2013 and 2012 the Bank recorded a provision for mandatory dividends. This provision is made pursuant to Article 79 of the Corporations Act, which is in accordance with the Bank’s internal 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 unanimous vote of the outstanding shares. This provision is recorded, as a deducting item, under the “Retained earnings – provisions for mandatory dividends” line of the Consolidated Statement of Changes in Equity with offset to Provisions.

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

w) **Employee benefits**

i. **Post-employment benefits – Defined Benefit Plan:**

According to current collective labor agreements and other agreements, the Bank has an additional benefit available to its principal executives, consisting of a pension plan whose purpose is to endow them with funds for a better supplementary pension upon their retirement.

Features of the Plan:

The main features of the Post-Employment Benefits Plan promoted by the Banco Santander Chile are:

- a. Aimed at the Group's management
- b. The general requisite to apply for this benefit is that the employee must be carrying out his/her duties when turning 60 years old.
- c. The Santander Group will take on insurance (pension fund) on their behalf that it will pay up periodically.
- d. The Santander Group will be responsible for granting the benefits directly.

To determine the present value of the defined benefit obligation and the current service cost, the method of projected unit credit is used.

Components of defined benefit cost include:

- current service cost and any past service cost, which are recognized in profit or loss for the period;

- net interest on the liability (asset) for net defined benefit, which is recognized in profit or loss for the period;
- new liability (asset) remeasurements for net defined benefit include: (a) actuarial gains and losses; (b) changes in the performance of the plan assets and; (c) changes in the effect of the asset ceiling, which are recognized in other comprehensive income.

The liability (asset) for net defined benefit is the deficit or surplus, determined as the difference between the present value of the defined benefit obligation minus the fair value of plan assets.

Plan assets comprise the insurance policies taken out by the Bank with a third party that is not a related party. These assets are held by an entity legally separated from the Bank and exist solely to pay benefits to employees.

The Bank presents the present service cost and the net interest of the Personnel wages and expenses on the Consolidated Statement of Income.

The liability for post-employment benefits recognized in the Consolidated Statement of Financial Position represents the deficit or surplus in the defined benefit plans of the Bank. Any surplus resulting from the calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions.

When employees leave the plan before meeting the requirements to be eligible for the benefit, contributions made by the Bank are reduced.

**ii. Cash-settled share based compensation**

The allocation of equity instruments to executives of the Bank and its Subsidiaries as a form of compensation for their services, when those instruments are provided at the end of a specific period of employment, is recorded as an expense in the Consolidated Statement of Income under the "Personnel expenses" item, as the relevant executives provide their services over the course of the period. The Bank pays the parent for the equity instruments granted to its employees. The cash obligation is determined at the grant date in an amount equal to the fair value of the liability with employees at that date. The Bank receives invoices from the parent on a bi-annual basis. Therefore, at the end of each six-month period, the liability recorded is reversed by the payment to the parent.

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Our stock performance plan corresponds to cash-settled share-based payment in accordance with IFRS 2 “Share based payments”. The fair value at grant date is determined using a Monte Carlo model which represents the basis of the payment amount, and is recorded on a straight-line basis over the life of the plan. IFRS 2 requires that the fair value of the liability be remeasured at the end of each reporting period and that fair value changes attributable to rendered services to date be reflected in the statement of income. Given the immateriality of any changes to the fair value of the liability over the 3-year life of the plan, the fair value remeasurement was not recorded. As a cash-settled share-based payment award, the offset of the journal entry to record the compensation expense is a liability for share-based payment awards.

**x) Application of new and revised International Financial Reporting Standards**

**i. New and revised IFRS standards effective in current year**

The following accounting pronouncements have been issued by the IASB, which have been fully incorporated by the Bank and are detailed as follows:

**Amendment to IFRS 1, First Time Adoption of international financial reporting standards IFRS** – On December 20, 2010 the IASB published certain modifications to IFRS 1, specifically:

(i) Elimination of Set Dates for First Time Adopters - These modifications help first time adopters of IFRS by replacing the back application date of the un-record of financial assets and liabilities of ‘January 1, 2004’ with the ‘transition date to IFRS’. In this way, first time IFRS adopters do not have to apply the un-record requirements of IAS 39 retrospectively to a previous date and free adopters to recalculate profit and losses of ‘day 1’ over transactions that took place before the transition date to IFRS.

(ii) Severe hyperinflation – These modifications provide guidelines for entities coming from a severe hyperinflation, allowing them at the date of transaction of entities, to measure all assets and liabilities held before the normalization

of functional currency date to fair value on the transition to IFRS date and use that fair value as the attributed cost for those assets and liabilities in the statements of opening financial position under IFRS. Entities using this exemption will have to describe the circumstances of how and why their functional currency was subjected to severe hyperinflation and the circumstances that led to end those conditions.

These modifications will be mandatorily applied for yearly periods beginning on or after July 1, 2012. Early implementation is permitted. *The implementation of this amendment did not have an impact on the Bank's Consolidated Financial Statements since we are already preparing our Statements according to IFRS.*

**IFRS 10, Consolidated Financial Statements** - IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Bank. *The implementation of this standard did not have a significant impact on our consolidated financial statements.*

**IFRS 11, Joint Arrangements** — IFRS 11 replaces IAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards. *The implementation of this standard did not have a significant impact on our consolidated financial statements.*

**IFRS 12, Disclosure of Interests in Other Entities** - On May 12, 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities, which requires further disclosures related to interests in subsidiaries, joint agreements, associates and/or unconsolidated structured entities. IFRS 12 establishes disclosure objectives and specifies minimum disclosures that an entity should provide to fulfill those objectives. An entity should disclose information that allows users of its financial statements evaluate the nature and risks associated with interests in other entities and the effects of those interests on its financial statements. The disclosure requirements are extensive and represent an effort that could require gathering the necessary information. *The implementation of this standard did not have a significant impact on our consolidated financial statements.*

**IFRS 13, Fair Value Measurement** - IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. *The implementation of this standard generated an impact amounted Ch\$18,324 million on our consolidated financial statements.*

**Amendment to IAS 1 - Presentation of Items of Other Comprehensive Income** - The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' [and the 'income statement' is renamed as the 'statement of profit or loss']. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Amendment to IAS 19 - Employee Benefits** - IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the ‘corridor approach’ permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a ‘net interest’ amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognized in profit or loss and other comprehensive income in prior years (see Note 2 – Accounting changes). In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011). *The Bank applied this amendment, in accordance with IAS 8 - Accounting Policies Changes. The effect of this application is shown in detail on Note 02 - Accounting changes, on these Consolidated Financial Statements.*

**Annual Improvements and International Standards to Financial Information** – On May 17, 2012 the IASB issued “Annual Improvements to IFRS: 2009-2011 Cycle”, incorporating amendments to five standards.

- IFRS 1 - First-time adoption of standards Related to the relative implementation of the IFRS 1 and loan costs.
- IAS 1 - Presentation of Financial Statements: Clarification on the requirements for comparative information.
- IAS 16 - Property, Plant and Equipment: Regarding the classification of the auxiliary equipment.
- IAS 32 - Financial Instruments: Presentation: On the tax effect of distributions to holders of equity instruments.
- IAS 34 - Interim Financial Reporting: Interim financial reporting and segmented information for total assets and liabilities.

The amendments to the IFRS, cycle 2009-2011, are effective for annual periods beginning on or after January 1, 2013, although early application is permitted. *These amendments did not have a material impact on our consolidated*

*financial statements.*

**IAS 27 (2011), Separated Financial Statements** - IAS 27 Consolidated and Separated Financial Statements was modified by IFRS 10 but keeps the current guidelines for separated financial statements. *These amendments did not have a material impact on our consolidated financial statements.*

**IAS 28 (2011) - Investments in Associates and Joint Ventures** - IAS 28 Investments in Associates was modified to conform the changes related to the issuing of IFRS 10 and IFRS 11. *These amendments did not have a material impact on our consolidated financial statements.*

**Amendment to IFRS 10 - Consolidated Financial Statements, IFRS 11 - Joint Agreements and IFRS 12 - Disclosure of Interests in Other Entities - Transition Guidance** - On June 28, 2012, the IASB published Consolidated Financial Statements, Joint Agreements and Disclosure of interests in Other Entities (amendments to IFRS 10, IFRS 11 and IFRS 12). Amendments are meant to lighten up the transition from IFRS 10, IFRS 11 and IFRS 12 by "limiting the requirement to provide comparative information adjusted only for the immediately preceding year comparative." Also, the amendments to IFRS 11 and IFRS 12 eliminate the requirement of providing comparative information for the periods prior to the immediately following year. The effective date of these amendments is for annual periods beginning on or after January 1, 2013, in line with the effective dates of IFRS 10, IFRS 11 and IFRS 12. *These amendments did not have a material impact on our consolidated financial statements.*

**Amendment to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities** - The Bank has applied the amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

*The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements, as the Bank has not enforceable master netting agreements in place.*

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**ii. New and revised IFRS issued but not yet effective**

**IFRS 9, Financial Instruments** – On November 12, 2009 the IASB issued IFRS 9, Financial Instruments. This regulation incorporates new requirements for the classification and measurement of financial assets and it is effective for yearly periods beginning on or after January 1, 2013. Early application is permitted. IFRS 9 specifies how an entity should classify and measure its financial assets. It requires that all financial assets be classified in their entirety on the basis of the entity's business model for the management of financial assets and the features of the financial assets agreement cash flows.

Financial assets are measured whether by amortized cost or fair value. Only financial assets classified as measured to amortize cost will be tested for Impairment. On October 28, 2010, the IFRS issued a revised version of IFRS 9, Financial Instruments. The revised Standard keeps the requirements for classification and measurement of financial assets published on November 2009 but it adds guidelines on classification and measurement of financial liabilities. As part of the restructuring of IFRS 9, the IASB has also reproduced the guidelines on un-record of financial instruments and related implementation guidelines from IAS 39 to IFRS 9. These new guidelines constitute the first stage of the IASB project to replace IAS 39. The other stages, impairment and hedge accounting, have not been finished yet.

The guidelines included in IFRS 9 about the classification and measurements of financial assets have not changed from those established in IAS 39. In other words, financial liabilities will continue to be measured whether by amortized cost or fair value with change in income. The concept of bifurcation of embedded derivatives in a contract by financial asset has not change either. Financial liabilities held for trade will continue to be measured at fair value with changes in profit and loss, and all other financial assets will be measured at amortized cost unless the fair value option is applied using currently existing criteria in IAS 39.

Notwithstanding the latter, there are two differences with regards to IAS 39:

- The presentation of effects from changes in fair value attributable to a liability's credit risk; and
- The elimination of the cost exemption for liability derivatives to be settled by giving non traded equity instruments.

On December 16, 2012 the IASB issued Mandatory Implementation Date of IFRS 9 and Transition Disclosures, deferring the effective date versions of both 2009 and 2010 for annual periods beginning on or after 01 January 2015. Prior to the amendments, the application of IFRS 9 was mandatory for annual periods beginning on or after 2013. Modifications change the requirements for the transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9. In addition, the amendments also modify IFRS 7 Financial Instruments: Disclosures, to add certain requirements in the reporting period including the enforcement date of IFRS 9.

Amendments are effective for yearly periods beginning on or after January 1, 2018; early application is permitted. *The Bank's management is assessing the potential impact of the adoption of these modifications.*

***Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities*** - The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. *Management believes that this amendment will be adopted in the consolidated financial statements of the Bank for the period beginning on January 1, 2014.*

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**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Investment entities – Amendments to IFRS 10 – Consolidated Financial Statements; IFRS 12 – Disclosures of Interests in Other Entities and IAS 27 – Separated Financial Statements** - On October 31, 2012, the IASB issued “Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27)”, providing an exception to the consolidation of subsidiaries under IFRS 10 Consolidated Financial Statements for entities that follow the definition of “investment entity”, as well as some investment funds. Instead, said entities will measure their investments in subsidiaries at fair value through profit and loss, pursuant to IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement.

Amendments also require additional disclosure about whether the entity is considered an investment entity, details of non-consolidated subsidiaries, the nature of the relationship and certain transactions between the investment entity and its subsidiaries. On the other hand, amendments force an investment entity to account for its investment in a subsidiary in the same way in the consolidated financial statements as well as in its individual financial statements (or just provide individual financial statements if all subsidiaries are not consolidated). These modifications will be effective for yearly periods beginning on or after January 1, 2014. In-advance enforcement is allowed. Early application permitted. Management believes this new regulation will be adopted in the Bank’s Consolidated Financial Statements for the period beginning on January 1, 2014. Management is currently evaluating the possible impact this might have. *The Bank’s management is assessing the potential impact of the adoption of these modifications.*

**Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities***

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement. *The Bank’s management is assessing the potential impact of the adoption of these modifications.*

**IFRIC 21 - Levies** – On May 20, 2013 the IASB issued this interpretation addressing the accounting for a liability to pay a levy if such liability is within the IAS 37. It also addresses the accounting for a liability to pay a levy which amount and maturity is true. For the purposes of this Interpretation, a levy is an outflow of resources embodying economic benefits imposed by governments to entities according to legislation (laws and regulations). This is different from the outflow of resources within the reach of IAS 12 Income Tax, and fines or other penalties imposed for breaches of the legislation. An entity shall apply these modifications retrospectively for annual periods beginning on

or after January 1, 2014. Earlier application permitted. If an entity applies this Interpretation for prior periods shall disclose this fact. Changes in accounting policies resulting from the application of this Interpretation shall be accounted for retrospectively in accordance with IAS 8 - Accounting policies, changes in accounting estimates and errors. *The Bank's management is assessing the potential impact of the adoption of these modifications.*

**Amendment IAS 36, Impairment of the Assets** – On May 29, 2013 the IASB issued Recoverable Amount Disclosures for Non-Financial Assets. The objective of this amendment is to harmonize the disclosure requirements about fair value without the disposal costs and value in use, when present value techniques are used to measure the recoverable amount of assets that are considered value impaired, requiring an entity to disclose the discount rates that have been used to determine the recoverable amount of assets that are considered value impaired. An entity shall apply these modifications retrospectively for annual periods beginning on or after January 1, 2014. In-advance enforcement is allowed. An entity shall not apply these modifications to periods (including comparative periods) in which IFRS 13 is not applied. *The Bank's management is assessing the potential impact of the adoption of these modifications.*

**Amendment IAS 39, Financial instruments: recognition and measurement** – On June, 27, 2013 the IASB issued the amendment Novation of Derivatives and Continuation of Hedge Accounting, establishing that a derived contract novation with a central counterparty (clearing house) would generate a hedged interruption, derecognition of the original derivative and the recognition of the new derivative contract novated. While product novation laws or regulations do not qualify for derecognition and therefore hedge accounting will not be interrupted (if requirements are met). The effective date of application for annual periods beginning on January 1, 2014, may be applied in advance. An entity shall apply the amendment retrospectively in accordance with IAS 8 - Accounting policies, changes in accounting estimates and errors. *The Bank's management is assessing the potential impact of the adoption of these modifications.*

**IFRS 9 - Financial Instruments – Coverage and Amendments accounting for IFRS 9, IFRS 7 and IAS 39** – On November 19, 2013 the IASB issued this amendment which includes a new coverage accounting general model. It is more closely aligned with risk management, providing more useful information to users of financial statements. Moreover, the requirements relating to the fair value option for financial liabilities were changed to address own credit risk. This improvement requires that the effects of changes in credit risk of liability should not affect the income of the period unless the liabilities are held for trading. Early adoption of this amendment is allowed without the application of the other requirements of IFRS 9. Additionally, it conditions the effective date of entry into force to the end of the draft IFRS 9, allowing equally to be adopted. *The Bank's management is assessing the potential impact of the adoption of these modifications regarding IFRS 7 and IAS 39.*

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**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 01**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Amendment IAS 19 – Defined benefit plans: employee contributions** – On November 21, 2013 the IASB issued these modifications establishing the treatment for employee or third party contributions when accounting for the defined benefit plans. Therefore, if the amount of the contributions is independent of the number of years of service, it allows an entity to recognize these contributions as a reduction in service costs in the period in which the related service is rendered, instead of attributing contributions to periods of service, and if the amount of the contribution depends on the number of years of service, an entity to attribute these contributions to periods of service is required, using the same method of allocation required by paragraph 70 of the IAS 19, for gross proceeds (that is, using the contribution plan formula or a linear basis). These modifications apply for annual periods starting as of July 1, 2014 retroactively, as stated by *IAS 8 - Accounting policies changes in accounting estimates and errors*. Earlier application permitted. *The Bank's management is assessing the potential impact of the adoption of these modifications.*

**Annual modifications, cycle 2010-2012** – On December 12, 2013 this document covering seven standards was issued:

**IFRS 2 - Share-based Payments:** It modifies the definition of 'concession consolidation condition (irrevocability)' y '-market conditions' and adds the definition of 'execution conditions' and 'service condition' (which was a part of the definition of the concession consolidation condition).

**IFRS 3 - Business Combinations:** it states that the contingent considerations classified as assets or liabilities must be measure to fair value on each report date.

**IFRS 8 - Operating Segments:** it required that and entity reveals the judgments made by the administration regarding the implementations of the criteria for the operating segments aggregation and it states that the entity must only provide reconciliation between all the assets of the reportable segment and the entity's assets if the previous ones are reported regularly.

**IFRS 13 - Fair value measurement:** it states that the issuing of IFRS 13 and the modification of IFRS 9 and IAS 39 -did not eliminate the possibility of measuring the accounts receivable and pay in the short term those that lack an established interest rate on the invoice amount without discounting if the effect of such action is intangible.

**IAS 16 - Property, plant and equipment:** it states that when a property, plant and equipment element is revaluated, the gross carrying value is adjusted consistently with the revaluation of the carrying value.

**IAS 24 - Related party disclosures:** it states that an entity providing administration personnel services key to the informing entity or to the parent of the reporting entity, this is a related party of the reporting entity.

**IAS 38 - Intangibles:** it states that when an intangible element is revaluated, the gross carrying value is adjusted consistently with the revaluation of the carrying value.

IFRS annual modifications, 2010-2012 cycle, must be implemented for annual periods starting on or after July 1, 2014. Early application permitted. *The Bank's management is assessing the potential impact of the adoption of these modifications.*

**Annual modifications, cycle 2011-2013** – On December 12, 2013 this document covering four standards was issued:

***IFRS 1 - First-time Adoption:*** It states that an entity, on its first financial statements under IFRS, has the possibility of choosing between applying an existing and currently effective IFRS, and applying a new or revised IFRS which is not currently mandatory, provided earlier application is permitted. It is required that the entity applies the same version of the IFRS throughout the periods covered by the first financial statements according to IFRS.

***IFRS 3 - Business Combinations:*** It states that the IFRS 3 excludes from its scope the accounting for the formation of a joint agreement on the financial statements of the joint arrangement itself.

***IFRS 13 - Fair Value Measurement:*** It states that the scope of the exception of portfolio defined in paragraph 52 of IFRS 13, includes all contracts included under the scope of '*IAS 39 - Financial Instruments: Recognition and measurement*' and '*IFRS 9 - Financial Instruments*', regardless of whether they conform to the definition of financial assets or financial liabilities as set out in '*IAS 32 - Financial Instruments: Presentation*'.

***IAS 40 - Investment Property:*** It states that if a certain transaction complies with the definition of a business combination -as defined by IFRS 3 -Business Combinations- and of investment properties -as defined by IAS 40 Investment Property-, it needs to implement both norms independently and separately.

IFRS annual modifications, 2011-2013 cycle, must be implemented for annual periods beginning on or after July 1, 2014. Earlier application permitted. *The Bank's management is assessing the potential impact of the adoption of these modifications.*

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 02****ACCOUNTING CHANGES**

IAS 19 – “Employee Benefits Revised” was implemented as of January 1, 2013. Regarding the Pension Plan (Defined benefits), the main change of the new version of the IAS 19 is the inability to defer the costs of 'past services' of the defined benefit plans, they have to be recognized within income at the moment of formalizing the plan and when it is modified. The amendments require an accounting change that must be applied retroactively following IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. Management of the Bank has determined that the effect of such retrospective application is not material as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011.

The required adjustments to comply with the IAS 19 - Employee Benefits amendments within the Consolidated Financial Statements as of December 31, 2012 are as follows:

| <b>Consolidated Statement of Financial Position</b> | <b>Closing balance as of December 31,</b> |                    | <b>Adjusted balance as of December 31,</b> |
|---|---|--------------------|--|
|   | <b>2012</b>                               | <b>Adjustments</b> | <b>2012</b>                                |
|   | <b>MCh\$</b>                              | <b>MCh\$</b>       | <b>MCh\$</b>                               |
| Assets  |   |                    |  |
| Deferred taxes                                      | 181,678                                   | 197                | 181,875                                    |
| Other assets  | 658,873                                   | (983)              | (*) 657,890                                |
| <b>Total Assets</b>                                 | <b>840,551</b>                            | <b>(786)</b>       | <b>839,765</b>                             |
| Liabilities   |   |                    |  |
| Provisions  | 191,796                                   | 96                 | 191,892                                    |
| <b>Total Liabilities</b>                            | <b>191,796</b>                            | <b>96</b>          | <b>191,892</b>                             |
| Equity  |   |                    |  |
| Reserves  | 976,561                                   | (1,101)            | (**) 975,460                               |
| Income for the year                                 | 356,493                                   | 315                | (***) 356,808                              |
| Minus: Provision for mandatory dividends            | (106,948)                                 | (96)               | (107,044)                                  |
| <b>Total Equity</b>                                 | <b>1,226,106</b>                          | <b>(882)</b>       | <b>1,225,224</b>                           |

(\*) Corresponds to decrease in deferred past service costs

(\*\*) Corresponds to the effect, net of taxes, on pension plans that was deferred as of December 31, 2011

(\*\*\*) Corresponds to an effect on income for the period

The adjustments required by the IAS 19 modifications as of January 1, 2012 are as follows:

| <b>Consolidated Statement of Financial Position</b> | <b>Opening balance</b> |                    | <b>Adjusted balance</b> |
|---|------------------------|--------------------|-------------------------|
|   | <b>as of</b>           |                    | <b>as of</b>            |
|   | <b>January 1,</b>      |                    | <b>January 1,</b>       |
|   | <b>2012</b>            | <b>Adjustments</b> | <b>2012</b>             |
|   | <b>MCh\$</b>           | <b>MCh\$</b>       | <b>MCh\$</b>            |
| Assets  |                        |                    |                         |
| Deferred taxes                                      | 136,521                | 276                | 136,797                 |
| Other assets  | 550,326                | (1,377)            | (*) 548,949             |
| <b>Total Assets</b>                                 | <b>686,847</b>         | <b>(1,101)</b>     | <b>685,746</b>          |
| Equity  |                        |                    |                         |
| Reserves  | 802,528                | (1,101)            | (**) 801,427            |
| <b>Total Equity</b>                                 | <b>802,528</b>         | <b>(1,101)</b>     | <b>801,427</b>          |

(\*) Corresponds to decrease in pension plan for deferred pension plan

(\*\*) Corresponds to pension plans amount pending of deferral as of December 31, 2011 (net of income tax)

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 02

ACCOUNTING CHANGES, continued

The adjusted Consolidated Statements with modifications required by IAS 19 - Employee Benefits are as follows:

|   | Closing balance<br>as of<br>December 31,<br>2012<br>MCh\$ | IAS 19<br>adjustments<br>MCh\$ | Adjusted balance<br>as of<br>December 31,<br>2012<br>MCh\$ |
|---|---|--------------------------------|--|
| <b>ASSETS</b>                                     |   |                                |  |
| Cash and deposits in banks                        | 1,250,414   | -                              | 1,250,414  |
| Cash items in process of collection               | 520,267   | -                              | 520,267  |
| Trading investments                               | 338,287   | -                              | 338,287  |
| Investments under resale agreements               | 6,993   | -                              | 6,993  |
| Financial derivative contracts                    | 1,293,212   | -                              | 1,293,212  |
| Interbank loans, net                              | 90,414  | -                              | 90,414   |
| Loans and accounts receivable from customers, net | 18,326,190  | -                              | 18,326,190   |
| Available for sale investments                    | 1,826,158   | -                              | 1,826,158  |
| Held to maturity investments                      | -   | -                              | -  |
| Investments in associates and other companies     | 7,614   | -                              | 7,614  |
| Intangible assets                                 | 87,347  | -                              | 87,347   |
| Property, plant, and equipment                    | 162,214   | -                              | 162,214  |
| Current taxes                                     | 10,227  | -                              | 10,227   |
| Deferred taxes                                    | 181,678   | 197                            | 181,875  |
| Other assets                                      | 658,873   | (983)                          | 657,890  |
| <b>TOTAL ASSETS</b>                               | <b>24,759,888</b>   | <b>(786)</b>                   | <b>24,759,102</b>  |
| <b>LIABILITIES</b>                                |   |                                |  |
| Deposits and other demand liabilities             | 4,970,019   | -                              | 4,970,019  |
| Cash items in process of being cleared            | 284,953   | -                              | 284,953  |
| Obligations under repurchase agreements           | 304,117   | -                              | 304,117  |
| Time deposits and other time liabilities          | 9,112,213   | -                              | 9,112,213  |
| Financial derivative contracts                    | 1,146,161   | -                              | 1,146,161  |
| Interbank borrowings                              | 1,438,003   | -                              | 1,438,003  |
| Issued debt instruments                           | 4,571,289   | -                              | 4,571,289  |
| Other financial liabilities                       | 192,611   | -                              | 192,611  |
| Current taxes                                     | 525   | -                              | 525  |
| Deferred taxes                                    | 9,544   | -                              | 9,544  |

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|   |                   |              |                   |
|---|-------------------|--------------|-------------------|
| Provisions                                      | 191,796           | 96           | 191,892           |
| Other liabilities                               | 341,274           | -            | 341,274           |
| <b>TOTAL LIABILITIES</b>                        | <b>22,562,505</b> | <b>96</b>    | <b>22,562,601</b> |
| <b>EQUITY</b>                                   |                   |              |                   |
| <b>Attributable to the Bank's shareholders:</b> | <b>2,163,118</b>  | <b>(882)</b> | <b>2,162,236</b>  |
| Capital   | 891,303           | -            | 891,303           |
| Reserves  | 976,561           | (1,101)      | 975,460           |
| Valuation adjustments                           | (3,781)           | -            | (3,781)           |
| <b>Retained earnings</b>                        | <b>299,035</b>    | <b>219</b>   | <b>299,254</b>    |
| Retained earnings of prior years                | 49,490            | -            | 49,490            |
| Income for the period                           | 356,493           | 315          | 356,808           |
| Minus: Provision for mandatory dividends        | (106,948)         | (96)         | (107,044)         |
| <b>Non-controlling interest</b>                 | <b>34,265</b>     | <b>-</b>     | <b>34,265</b>     |
| <b>TOTAL EQUITY</b>                             | <b>2,197,383</b>  | <b>(882)</b> | <b>2,196,501</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>             | <b>24,759,888</b> | <b>(786)</b> | <b>24,759,102</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 02

ACCOUNTING CHANGES, continued

The adjustments required by IAS 19 as of December 31, 2012 are detailed below:

|  | Closing balance as<br>of<br>December 31, 2012 | IAS 19<br>adjustments | Adjusted balance<br>as of<br>December 31,<br>2012 |
|--|---|-----------------------|---|
|  | MCh\$   | MCh\$                 | MCh\$   |
| <b>OPERATING INCOME</b>                                      |   |                       |   |
| Interest income  | 1,890,953                                     | -                     | 1,890,953   |
| Interest expense   | (848,219)                                     | -                     | (848,219)   |
| <b>Net interest income</b>                                   | <b>1,042,734</b>                              | <b>-</b>              | <b>1,042,734</b>                                  |
| Fee and commission income                                    | 360,427                                       | -                     | 360,427   |
| Fees and commissions expense                                 | (89,855)                                      | -                     | (89,855)  |
| <b>Net fee and commission income</b>                         | <b>270,572</b>                                | <b>-</b>              | <b>270,572</b>                                    |
| Net income from financial operations                         | (64,079)                                      | -                     | (64,079)  |
| Foreign exchange profit (loss), net                          | 146,378                                       | -                     | 146,378   |
| Other operating income                                       | 13,105  | -                     | 13,105  |
| <b>Net operating profit before provision for loan losses</b> | <b>1,408,710</b>                              | <b>-</b>              | <b>1,408,710</b>                                  |
| Provisions for loan losses                                   | (403,692)                                     | -                     | (403,692)   |
| <b>NET OPERATING PROFIT</b>                                  | <b>1,005,018</b>                              | <b>-</b>              | <b>1,005,018</b>                                  |
| Personnel salaries and expenses                              | (300,298)                                     | 394                   | (299,904)   |
| Administrative expenses                                      | (183,379)                                     | -                     | (183,379)   |
| Depreciation and amortization                                | (56,369)                                      | -                     | (56,369)  |
| Impairment   | (90)  | -                     | (90)  |
| Other operational expenses                                   | (59,637)                                      | -                     | (59,637)  |
| <b>TOTAL OPERATIONAL EXPENSES</b>                            | <b>(599,773)</b>                              | <b>394</b>            | <b>(599,379)</b>                                  |

|   |                |            |                |
|---|----------------|------------|----------------|
| <b>OPERATING INCOME</b>                                   | <b>405,245</b> | <b>394</b> | <b>405,639</b> |
| Income from investments in associates and other companies | 267            | -          | 267            |
| <b>Income before tax</b>                                  | <b>405,512</b> | <b>394</b> | <b>405,906</b> |
| Income tax expense  | (44,394)       | (79)       | (44,473)       |
| <b>NET INCOME FOR THE PERIOD</b>                          | <b>361,118</b> | <b>315</b> | <b>361,433</b> |
| <b>Attributable to:</b>                                   |                |            |                |
| Bank shareholders   | 356,493        | 315        | 356,808        |
| Non-controlling interest                                  | 4,625          | -          | 4,625          |
| Earnings per share attributable to Bank shareholders:     |                |            |                |
| (expressed in Chilean pesos)                              |                |            |                |
| Basic earnings  | 1.892          | 0.001      | 1.893          |
| Diluted earnings  | 1.892          | 0.001      | 1.893          |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 02

ACCOUNTING CHANGES, continued

The adjustments required by IAS 19 as of December 31, 2011 are detailed below:

|  | Closing balance as<br>of<br>December 31, 2011 | IAS 19<br>adjustments | Adjusted balance<br>as of<br>December 31,<br>2011 |
|--|---|-----------------------|---|
|  | MCh\$   | MCh\$                 | MCh\$   |
| <b>OPERATING INCOME</b>                                      |   |                       |   |
| Interest income  | 1,768,735                                     | -                     | 1,768,735   |
| Interest expense   | (796,435)                                     | -                     | (796,435)   |
| <b>Net interest income</b>                                   | <b>972,300</b>                                | <b>-</b>              | <b>972,300</b>                                    |
| Fee and commission income                                    | 363,041                                       | -                     | 363,041   |
| Fees and commissions expense                                 | (85,205)                                      | -                     | (85,205)  |
| <b>Net fee and commission income</b>                         | <b>277,836</b>                                | <b>-</b>              | <b>277,836</b>                                    |
| Net income from financial operations                         | 170,857                                       | -                     | 170,857   |
| Foreign exchange profit (loss), net                          | (76,660)                                      | -                     | (76,660)  |
| Other operating income                                       | 18,749  | -                     | 18,749  |
| <b>Net operating profit before provision for loan losses</b> | <b>1,363,082</b>                              | <b>-</b>              | <b>1,363,082</b>                                  |
| Provisions for loan losses                                   | (316,137)                                     | -                     | (316,137)   |
| <b>NET OPERATING PROFIT</b>                                  | <b>1,046,945</b>                              | <b>-</b>              | <b>1,046,945</b>                                  |
| Personnel salaries and expenses                              | (280,613)                                     | 573                   | (280,040)   |
| Administrative expenses                                      | (166,825)                                     | -                     | (166,825)   |
| Depreciation and amortization                                | (53,466)                                      | -                     | (53,466)  |
| Impairment   | (116)   | -                     | (116)   |
| Other operational expenses                                   | (64,208)                                      | -                     | (64,208)  |
| <b>TOTAL OPERATIONAL EXPENSES</b>                            | <b>(565,228)</b>                              | <b>573</b>            | <b>(564,655)</b>                                  |

|   |                |            |                |
|---|----------------|------------|----------------|
| <b>OPERATING INCOME</b>                                   | <b>481,717</b> | <b>-</b>   | <b>482,290</b> |
| Income from investments in associates and other companies | 2,140          | -          | 2,140          |
| <b>Income before tax</b>                                  | <b>483,857</b> | <b>573</b> | <b>484,430</b> |
| Income tax expense  | (77,193)       | (115)      | (77,308)       |
| <b>NET INCOME FOR THE PERIOD</b>                          | <b>406,664</b> | <b>458</b> | <b>407,122</b> |
| <b>Attributable to:</b>                                   |                |            |                |
| Bank shareholders   | 401,733        | 458        | 402,191        |
| Non-controlling interest                                  | 4,931          | -          | 4,931          |
| Earnings per share attributable to Bank shareholders:     |                |            |                |
| (expressed in Chilean pesos)                              |                |            |                |
| Basic earnings  | 2.132          | 0.002      | 2.134          |
| Diluted earnings  | 2.132          | 0.002      | 2.134          |

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**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 03**

**SIGNIFICANT EVENTS**

As of December 31, 2013, the following significant events have occurred and had an impact on the Bank's operations on the Consolidated Financial Statements.

**a) The Board**

At the Ordinary Board Meeting No. 446 on August 20, 2013, Mr. Jesús María Zabalza Lotina presented his resignation as First Vice-president. During this session, the Board appointed Mr. Oscar von Chrismar Carvajal as Vice-president and Mr. Juan Pedro Santa María Pérez as Regular Director of the Bank.

**Use of profit and distribution of dividends**

The Ordinary Shareholders' Meeting of Banco Santander Chile was held on April 29, 2013, chaired by Mr. Mauricio Larraín Garcés (Chairman), and attended by Jesús María Zabalza Lotina (First Vice President), Oscar von Chrismar Carvajal (Second Vice President), Víctor Arbulú Crousillat, Lisandro Serrano Spoerer, Marco Colodro Hadjes, Vittorio Corbo Lioi, Carlos Olivos Marchant, Roberto Méndez Torres, Lucía Santa Cruz Sutil, Roberto Zahler Mayanz, Juan Pedro Santa María Pérez, and Raimundo Monge Zegers (Alternate Director). Also, the CEO Claudio Melandri Hinojosa and CAO Felipe Contreras Fajardo attended the meeting.

According to the information presented during said meeting, the net profit of the 2012 period (named as Profit attributable to Bank shareholders in the financial statements) was Ch\$387,967 million. The distribution of 60% of such profit was approved. Such percentage divided by the number of shares issued is equivalent to a dividend of Ch\$1,235 pesos per share, payable as of April 30, 2013.

**b) Selling of the subsidiary Santander Asset Management S.A. Administradora General de Fondos**

In December 2013, our subsidiary Santander Asset Management S.A. Administradora General de Fondos was sold through a formal offer of purchase received in May 2013. The sale price was Ch\$90,281 million for 100% of the shares. 99.99% were acquired by SAM Investment Holdings Limited and the remaining 0.01% by Santander Asset Management UK Holdings Limited. This operation generated Ch\$78,122 million profit recorded within other operating income. Additionally, the entities entered into a management service agreement for a 10-year period.

This transaction was reviewed by independent external evaluators who were of the opinion that the price for the offer was reasonable in consideration of their fair value appraisals. The Audit Committee and the Board of Directors ratified the appraiser's opinion. On December 5, 2013 an Extraordinary Shareholders' meeting was held. The offer was accepted and thus, on December 6, 2013 the SBIF was informed of this transaction.

**c) Merger by absorption of Santander Servicios de Recaudación y Pagos Limitada**

On December 17, 2013, at an Extraordinary Board of Directors meeting, a proposal for consultation was made to merge the subsidiary Santander Servicios de Recaudación y Pagos Ltda. during 2014. The Board approved the merger and commissioned the CEO to present the merger to the SBIF for authorization and for legal procedures to formalize properly.

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**NOTE 04**

**OPERATING SEGMENTS**

The Bank manages and measures the performance of its operations by operating segment which function under three divisions. The information disclosed in this note is not necessarily comparable to that of other financial institutions, since it is based on management's internal information system by segment.

Inter-segment transactions are conducted under normal arm's length commercial terms and conditions. Each segment's assets, liabilities, and income include items directly attributable to the segment to which they can be allocated on a reasonable basis.

To achieve the strategic objectives adopted by 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. Hence, this disclosure furnishes information on how the Bank is managed as of December 31, 2013.

During the second half of 2013, the Institutional segment was moved from the Individuals and SME Division to the Companies and Institutional Division. All prior years' segment information has been presented under the revised Division definitions.

The Bank has the following operating segment falling under each Division header noted below:

Individuals and SMEs

**a.**

**Santander Banefe**

Serves individuals with monthly incomes from Ch\$150,000 pesos to Ch\$400,000 pesos, who receive services through Santander Banefe. This segment gives customers a variety of services, including consumer loans, credit cards, auto loans, mortgage loans, debit cards, savings products, mutual funds, and insurance brokerage.

**b. Commercial banking**

Serves individuals with monthly incomes over Ch\$400,000 pesos. This segment gives customers a variety of services, including consumer loans, credit cards, auto loans, commercial loans, foreign exchange, mortgage loans, debit cards, checking accounts, savings products, mutual funds, stockbrokerage, and insurance brokerage.

**c. Small and mid-sized companies (SMEs)**

Considers small companies with annual sales lower than Ch\$1,200 million. This segment gives customers a variety of products, including commercial loans, government-guaranteed loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, savings products, mutual funds, and insurance brokerage.

**Companies and institutional**

**a. Companies**

Considers companies with annual sales over Ch\$1,200 million up to Ch\$10,000 million. This segment provides a wide variety of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, savings products, mutual funds, and insurance brokerage.

**b. Real estate**

This segment includes all the companies engaged in the real estate industry who carry out projects to sell properties to third parties and all builders with annual sales exceeding Ch\$800 million with no ceiling. These clients are offered not only the traditional banking services but also specialized services to finance projects, chiefly residential, with the aim of expanding sales of mortgage loans.

**c. Large Corporations**

Considers companies with annual sales exceeding Ch\$10.000 million. This segment provides a wide variety of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, investment, savings products, mutual funds, and insurance.

**d. Institutional**

Serves institutions such as universities, government entities, local and regional governments. This segment provides a wide variety of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, savings products, mutual funds, and insurance.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 04**

**OPERATING SEGMENTS, continued**

**Global Banking and Markets**

**a.**

**Corporate**

Foreign and domestic multinational companies with sales over MCh\$10.000. This segment provides a wide variety of products, including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, investments, savings products, mutual funds, and insurance brokerage.

**b.**

**Treasury**

The Treasury Division provides sophisticated financial products, mainly to companies in the Wholesale Banking area and the Companies segment. These include products such as short-term financing and fund raising, brokerage services, derivatives, securitization, and other tailor-made products. The Treasury area may act as brokers to transactions and also manages the Bank's investment portfolio.

**Corporate Activities ("Other")**

This segment includes Financial Management, which develops global management functions, involving the parent company's structural interest risk and liquidity risk. Liquidity risk is managed mainly through debt issuances. This segment also manages the Bank's personal funds, capital allocation by unit, and the financing of investments made. The foregoing usually results in a negative contribution to income.

In addition, this segment encompasses all the intra-segment income and all the activities not assigned to a given segment or product with customers.

The segments' accounting policies are the same as those described in the summary of accounting policies. 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 and make decisions regarding the resources to be assigned

to segments, the Chief Operating Decision Maker (CODM) bases his assessment on the segment's interest income, fee and commission income, and expenses.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 04****OPERATING SEGMENTS, continued**

Below are the tables showing the Bank's results by operating segment, for the years ended December 31, 2013 and 2012 in addition to the corresponding balances of loans and accounts receivable from customers:

**As of December 31, 2013**

|   | <b>Loans and<br/>accounts<br/>receivable<br/>from customers<br/>(1)</b> | <b>Net interest<br/>income</b> | <b>Net<br/>fee and<br/>commission<br/>income</b> | <b>Financial<br/>transactions,<br/>net<br/>(2)</b> | <b>Provision<br/>for loan<br/>losses</b> | <b>Support<br/>expenses<br/>(3)</b> | <b>Segment's<br/>net<br/>contribution</b> |
|---|---|--------------------------------|--|--|--|-------------------------------------|---|
|   | <b>MCh\$</b>  | <b>MCh\$</b>                   | <b>MCh\$</b>                                     | <b>MCh\$</b>                                       | <b>MCh\$</b>                             | <b>MCh\$</b>                        | <b>MCh\$</b>                              |
| <b>Segments</b>                         |   |                                |  |  |  |                                     |   |
| <b>Individuals+ SMEs</b>                |   |                                |  |  |  |                                     |   |
| Santander Banefe                        | 727,452   | 99,182                         | 25,648   | 1,614  | (56,309)                                 | (52,370)                            | 17,765                                    |
| Commercial Banking                      | 9,710,249   | 506,192                        | 123,496  | 7,118  | (157,697)                                | (298,173)                           | 180,936                                   |
| Small and mid-sized<br>companies (SMEs) | 3,223,215   | 260,856                        | 37,641   | 4,798  | (101,611)                                | (79,633)                            | 122,051                                   |
| <b>Subtotal</b>                         | <b>13,660,916</b>   | <b>866,230</b>                 | <b>186,785</b>                                   | <b>13,530</b>                                      | <b>(315,617)</b>                         | <b>(430,176)</b>                    | <b>320,752</b>                            |
| <b>Companies and institutional</b>      |   |                                |  |  |  |                                     |   |
| Companies                               | 1,757,586   | 73,906                         | 14,020   | 7,457  | (21,364)                                 | (27,947)                            | 46,072                                    |
| Large Corporations                      | 1,923,810   | 62,953                         | 9,026  | 5,930  | (15,296)                                 | (19,937)                            | 42,676                                    |
| Real estate                             | 996,847   | 26,607                         | 3,588  | 287  | (5,098)                                  | (6,055)                             | 19,329                                    |
| Institutional                           | 353,509   | 30,283                         | 2,615  | 562  | 261                                      | (15,889)                            | 17,832                                    |
| <b>Subtotal</b>                         | <b>5,031,752</b>  | <b>193,749</b>                 | <b>29,249</b>                                    | <b>14,236</b>                                      | <b>(41,497)</b>                          | <b>(69,828)</b>                     | <b>125,909</b>                            |
| <b>Subtotal Commercial<br/>Banking</b>  | <b>18,692,668</b>   | <b>1,059,979</b>               | <b>216,034</b>                                   | <b>27,766</b>                                      | <b>(357,114)</b>                         | <b>(500,004)</b>                    | <b>446,661</b>                            |
| <b>Global Banking and Markets</b>       |   |                                |  |  |  |                                     |   |
| Corporate                               | 2,219,045   | 63,036                         | 16,295   | 9,011  | (14,739)                                 | (19,802)                            | 53,801                                    |
| Treasury                                | -   | 9,896                          | 1,727  | 41,706   | -  | (17,926)                            | 35,403                                    |
| <b>Subtotal</b>                         | <b>2,219,045</b>  | <b>72,932</b>                  | <b>18,022</b>                                    | <b>50,717</b>                                      | <b>(14,739)</b>                          | <b>(37,728)</b>                     | <b>89,204</b>                             |

|   |                   |                  |                |                |                  |                  |                 |
|---|-------------------|------------------|----------------|----------------|------------------|------------------|-----------------|
| <b>Other</b>  | <b>149,048</b>    | <b>(56,149)</b>  | <b>(4,220)</b> | <b>45,954</b>  | <b>391</b>       | <b>(20,121)</b>  | <b>(34,145)</b> |
| <b>Total</b>  | <b>21,060,761</b> | <b>1,076,762</b> | <b>229,836</b> | <b>124,437</b> | <b>(371,462)</b> | <b>(557,853)</b> | <b>501,720</b>  |
| Other operating income                                    |                   |                  |                |                |                  |                  | 88,155          |
| Other operating expenses                                  |                   |                  |                |                |                  |                  | (52,338)        |
| Income from investments in associates and other companies |                   |                  |                |                |                  |                  | 1,422           |
| Income tax expense  |                   |                  |                |                |                  |                  | (94,530)        |
| <b>Net income for the year</b>                            |                   |                  |                |                |                  |                  | <b>444,429</b>  |

(1) Corresponds to loans and accounts receivable from customers, net, without deducting their allowances for loan losses.

(2) Corresponds to the sum of the net income from financial operations and the foreign exchange profit.

(3) Corresponds to the sum of personnel salaries and expenses, administrative expenses, depreciation, amortization, and impairment.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 04****OPERATING SEGMENTS, continued**

Operating segments according to the new segmentation criteria are as follows:

|   | As of December 31, 2012 (*)                                     |                           |  |  |                                 |                            |                                  |
|---|---|---------------------------|--|--|---------------------------------|----------------------------|----------------------------------|
|   | Loans and<br>accounts<br>receivable<br>from<br>customers<br>(1) | Net<br>interest<br>income | Net<br>fee and<br>commission<br>income | Financial<br>transactions,<br>net<br>(2) | Provision<br>for loan<br>losses | Support<br>expenses<br>(3) | Segment's<br>net<br>contribution |
|   | MCh\$   | MCh\$                     | MCh\$                                  | MCh\$                                    | MCh\$                           | MCh\$                      | MCh\$                            |
| <b>Segments</b>                         |   |                           |  |  |                                 |                            |                                  |
| <b>Individuals +SMEs</b>                |   |                           |  |  |                                 |                            |                                  |
| Santander Banefe                        | 730,362   | 123,043                   | 33,853                                 | 1,288                                    | (73,882)                        | (51,797)                   | 32,505                           |
| Commercial Banking                      | 8,941,860   | 499,422                   | 141,946                                | 8,613                                    | (229,958)                       | (291,562)                  | 128,461                          |
| Small and mid-sized<br>companies (SMEs) | 2,890,251   | 233,622                   | 38,115                                 | 5,009                                    | (80,144)                        | (76,560)                   | 120,042                          |
| <b>Subtotal</b>                         | <b>12,562,473</b>   | <b>856,087</b>            | <b>213,914</b>                         | <b>14,910</b>                            | <b>(383,984)</b>                | <b>(419,919)</b>           | <b>281,008</b>                   |
| <b>Companies and institutional</b>      |   |                           |  |  |                                 |                            |                                  |
| Companies                               | 1,626,606   | 70,747                    | 13,885                                 | 5,118                                    | (21,531)                        | (26,672)                   | 41,547                           |
| Large Corporations                      | 1,661,837   | 56,086                    | 8,722                                  | 5,623                                    | (3,361)                         | (17,958)                   | 49,112                           |
| Real estate                             | 770,250   | 21,344                    | 3,296                                  | 321                                      | 706                             | (5,745)                    | 19,922                           |
| Institutional                           | 355,518   | 28,472                    | 2,470                                  | 615                                      | (346)                           | (15,297)                   | 15,914                           |
| <b>Subtotal</b>                         | <b>4,414,211</b>  | <b>176,649</b>            | <b>28,373</b>                          | <b>11,677</b>                            | <b>(24,532)</b>                 | <b>(65,672)</b>            | <b>126,495</b>                   |
| <b>Subtotal Commercial<br/>Banking</b>  | <b>16,976,684</b>   | <b>1,032,736</b>          | <b>242,287</b>                         | <b>26,587</b>                            | <b>(408,516)</b>                | <b>(485,591)</b>           | <b>407,503</b>                   |
| <b>Global Banking and Markets</b>       |   |                           |  |  |                                 |                            |                                  |
| Corporate                               | 1,863,595   | 57,822                    | 16,832                                 | 763                                      | 5,546                           | (17,564)                   | 63,399                           |
| Treasury                                | -   | (7,345)                   | 2,327                                  | 51,514                                   | -                               | (17,912)                   | 28,584                           |
| <b>Subtotal</b>                         | <b>1,863,595</b>  | <b>50,477</b>             | <b>19,159</b>                          | <b>52,277</b>                            | <b>5,546</b>                    | <b>(35,476)</b>            | <b>91,983</b>                    |
| <b>Other</b>                            | <b>126,373</b>  | <b>(40,479)</b>           | <b>9,126</b>                           | <b>3,435</b>                             | <b>(722)</b>                    | <b>(18,675)</b>            | <b>(47,315)</b>                  |

|   |                   |                  |                |               |                  |                  |                |
|---|-------------------|------------------|----------------|---------------|------------------|------------------|----------------|
| <b>Total</b>  | <b>18,966,652</b> | <b>1,042,734</b> | <b>270,572</b> | <b>82,299</b> | <b>(403,692)</b> | <b>(539,742)</b> | <b>452,171</b> |
| Other operating income                                    |                   |                  |                |               |                  |                  | 13,105         |
| Other operating expenses                                  |                   |                  |                |               |                  |                  | (59,637)       |
| Income from investments in associates and other companies |                   |                  |                |               |                  |                  | 267            |
| Income tax expense  |                   |                  |                |               |                  |                  | (44,473)       |
| <b>Net income for the year</b>                            |                   |                  |                |               |                  |                  | <b>361,433</b> |

(1) Corresponds to loans and accounts receivable from customers, net without deducting their allowances for loan losses.

(2) Corresponds to the sum of the net income from financial operations and the foreign exchange profit.

(3) Corresponds to the sum of personnel salaries and expenses, administrative expenses, depreciation, amortization, and impairment.

(\*) Adjusted for comparative purposes, as previously described in Note 02.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 04****OPERATING SEGMENTS, continued**

Operating segments according to the new segmentation criteria are as follows:

|   | As of December 31, 2011 (*)   |                                 |   |   |  |                                     |   |
|---|---|---------------------------------|---|---|--|-------------------------------------|---|
|   | Loans and<br>accounts<br>receivable<br>from customers<br>(1)<br>MCh\$ | Net interest<br>income<br>MCh\$ | Net<br>fee and<br>commission<br>income<br>MCh\$ | Financial<br>transactions,<br>net<br>(2)<br>MCh\$ | Provision<br>for loan<br>losses<br>MCh\$ | Support<br>expenses<br>(3)<br>MCh\$ | Segment's<br>net<br>contribution<br>MCh\$ |
| <b>Segments</b>                         |   |                                 |   |   |  |                                     |   |
| <b>Individuals + SMEs</b>               |   |                                 |   |   |  |                                     |   |
| 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                                   |
| Small and mid-sized<br>companies (SMEs) | 2,560,736   | 207,008                         | 38,274  | 9,577   | (65,028)                                 | (74,962)                            | 114,869                                   |
| <b>Subtotal</b>                         | <b>11,850,081</b>   | <b>777,301</b>                  | <b>225,450</b>                                  | <b>18,672</b>                                     | <b>(313,165)</b>                         | <b>397,235</b>                      | <b>311,023</b>                            |
| <b>Companies and institutional</b>      |   |                                 |   |   |  |                                     |   |
| Companies                               | 1,583,895   | 65,499                          | 12,785  | 7,134   | (10,080)                                 | (22,698)                            | 52,640                                    |
| Large Corporations                      | 1,470,447   | 56,467                          | 8,594   | 5,669   | (1,212)                                  | (13,496)                            | 56,022                                    |
| Real estate                             | 596,367   | 18,852                          | 2,931   | 624   | (300)                                    | (4,486)                             | 17,621                                    |
| Institutional                           | 355,199   | 26,856                          | 1,831   | 859   | 503                                      | (11,329)                            | 18,720                                    |
| <b>Subtotal</b>                         | <b>4,005,908</b>  | <b>167,674</b>                  | <b>26,141</b>                                   | <b>14,286</b>                                     | <b>(11,089)</b>                          | <b>(52,009)</b>                     | <b>145,003</b>                            |
| <b>Subtotal Commercial<br/>Banking</b>  | <b>15,855,989</b>   | <b>944,975</b>                  | <b>251,591</b>                                  | <b>32,958</b>                                     | <b>(324,254)</b>                         | <b>(449,244)</b>                    | <b>456,026</b>                            |
| <b>Global Banking and<br/>Markets</b>   |   |                                 |   |   |  |                                     |   |
| Corporate                               | 1,479,838   | 64,845                          | 30,745  | 1,368   | 7,614                                    | (13,790)                            | 90,782                                    |
| Treasury                                | 14,914  | (15,903)                        | 1,163   | 67,162  | -  | (21,512)                            | 30,910                                    |
| <b>Subtotal</b>                         | <b>1,494,752</b>  | <b>48,942</b>                   | <b>31,908</b>                                   | <b>68,530</b>                                     | <b>7,614</b>                             | <b>(35,302)</b>                     | <b>121,692</b>                            |

|   |                   |                 |                |                |                  |                  |                 |
|---|-------------------|-----------------|----------------|----------------|------------------|------------------|-----------------|
| <b>Other</b>  | <b>84,041</b>     | <b>(21,617)</b> | <b>(5,663)</b> | <b>(7,291)</b> | <b>503</b>       | <b>(15,901)</b>  | <b>(49,969)</b> |
| <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>(500,447)</b> | <b>527,749</b>  |
| Other operating income                                    |                   |                 |                |                |                  |                  | 18,749          |
| Other operating expenses                                  |                   |                 |                |                |                  |                  | (64,208)        |
| Income from investments in associates and other companies |                   |                 |                |                |                  |                  | 2,140           |
| Income tax expense  |                   |                 |                |                |                  |                  | (77,308)        |
| <b>Net income for the year</b>                            |                   |                 |                |                |                  |                  | <b>407,122</b>  |

(1) Corresponds to loans and accounts receivable from customers, net without deducting their allowances for loan losses.

(2) Corresponds to the sum of the net income from financial operations and the foreign exchange profit.

(3) Corresponds to the sum of personnel salaries and expenses, administrative expenses, depreciation, amortization, and impairment.

(\*) Adjusted for comparative purposes, as previously described in Note 02.

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**NOTE 05****CASH AND CASH EQUIVALENTS**

a) The detail of the balances included under cash and cash equivalents is as follows:

|   | <b>As of December 31,</b> |                  |
|---|---------------------------|------------------|
|   | <b>2013</b>               | <b>2012</b>      |
|   | <b>MCh\$</b>              | <b>MCh\$</b>     |
| <b>Cash and deposits in banks</b>             |                           |                  |
| Cash  | 551,136                   | 435,687          |
| Deposits in the Central Bank of Chile         | 797,363                   | 520,031          |
| Deposits in domestic banks                    | 81                        | 4,057            |
| Deposits in foreign banks                     | 223,230                   | 290,639          |
| <b>Subtotals – Cash and deposits in banks</b> | <b>1,571,810</b>          | <b>1,250,414</b> |
| Cash in process of collection, net            | 327,698                   | 235,314          |
| <b>Cash and cash equivalents</b>              | <b>1,899,508</b>          | <b>1,485,728</b> |

The level of funds in cash and at the Central Bank of Chile, which are included in the “Deposits in the Central Bank of Chile” line, reflects regulations governing the reserves that the Bank must maintain on average each month.

b) Cash in process of collection and in process of being cleared:

Cash items in process of collection and in process of being cleared represent domestic transactions in the process of transfer through a central domestic clearinghouse or international transactions which may be delayed in settlement due to time differences. These transactions are as follows:

| <b>As of December</b> |              |
|-----------------------|--------------|
| <b>31,</b>            |              |
| <b>2013</b>           | <b>2012</b>  |
| <b>MCh\$</b>          | <b>MCh\$</b> |

**Assets**

Documents held by other banks (documents to be cleared) 289,723 238,714

Funds receivable 314,354 281,553

**Subtotal 604,077 520,267**

**Liabilities**

Funds payable 276,379 284,953

**Subtotal 276,379 284,953**

**Cash in process of collection, net 327,698 235,314**

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 06

## TRADING INVESTMENTS

The detail of instruments deemed as financial trading investments is as follows:

|  | <b>As of December 31,</b> |                |
|--|---------------------------|----------------|
|  | <b>2013</b>               | <b>2012</b>    |
|  | <b>MCh\$</b>              | <b>MCh\$</b>   |
| <b>Chilean Central Bank and Government securities</b>    |                           |                |
| Chilean Central Bank Bonds                               | 75,577                    | 267,008        |
| Chilean Central Bank Notes                               | 100                       | 3,397          |
| Other Chilean Central Bank and Government securities     | 189,962                   | 48,160         |
|  | <b>Subtotal 265,639</b>   | <b>318,565</b> |
| <b>Other Chilean securities</b>                          |                           |                |
| Time deposits in Chilean financial institutions          | -                         | 3,531          |
| Mortgage finance bonds of Chilean financial institutions | -                         | -              |
| Chilean financial institution bonds                      | 10,042                    | -              |
| Chilean corporate bonds                                  | 2,229                     | -              |
| Other Chilean securities                                 | -                         | -              |
|  | <b>Subtotal 12,271</b>    | <b>3,531</b>   |
| <b>Foreign financial securities</b>                      |                           |                |
| Foreign Central Banks and Government securities          | -                         | -              |
| Other foreign financial instruments                      | -                         | -              |
|  | <b>Subtotal-</b>          | <b>-</b>       |
| <b>Investments in mutual funds</b>                       |                           |                |
| Funds managed by related entities                        | 9,657                     | 16,191         |
| Funds managed by others                                  | -                         | -              |
|  | <b>Subtotal 9,657</b>     | <b>16,191</b>  |
| <b>Total</b>   | <b>287,567</b>            | <b>338,287</b> |

As of December 31, 2013 and 2012, there were no securities sold under contracts to resell to clients and financial institutions.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

## NOTE 07

## INVESTMENTS UNDER RESALE AGREEMENTS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS

a) **Rights arising from resale agreements**

The Bank purchases financial instruments agreeing to resell them at a future date. As of December 31, 2013 and 2012, rights associated with instruments acquired under contracts to resell are as follows:

|  | As of December 31,<br>2013                          |   |                                 |                | 2012  |   |                                 |                |
|--|---|---|---------------------------------|----------------|---|---|---------------------------------|----------------|
|  | From 1 day<br>and less<br>than 3<br>months<br>MCh\$ | More than 3<br>months and<br>less than<br>1 year<br>MCh\$ | More<br>than 1<br>year<br>MCh\$ | Total<br>MCh\$ | From 1<br>day and<br>less than 3<br>months<br>MCh\$ | More than 3<br>months and<br>less than<br>1 year<br>MCh\$ | More<br>than 1<br>year<br>MCh\$ | Total<br>MCh\$ |
| <b>Securities from the Chilean Government and the Chilean Central Bank</b> |   |   |                                 |                |   |   |                                 |                |
| Chilean Central Bank Bonds   | -   | -   | -                               | -              | 6,993   | -   | -                               | 6,993          |
| Chilean Central Bank Notes   | -   | -   | -                               | -              | -   | -   | -                               | -              |
| Other securities from the Government and the Chilean Central Bank          | 17,469  | -   | -                               | 17,469         | -   | -   | -                               | -              |
| <b>Subtotal</b>  | <b>17,469</b>                                       | <b>-</b>  | <b>-</b>                        | <b>17,469</b>  | <b>6,993</b>  | <b>-</b>  | <b>-</b>                        | <b>6,993</b>   |
| <b>Instruments from other domestic institutions</b>                        |   |   |                                 |                |   |   |                                 |                |
| <b>domestic institutions:</b>  |   |   |                                 |                |   |   |                                 |                |
| Time deposits in Chilean financial institutions                            | -   | -   | -                               | -              | -   | -   | -                               | -              |
| Mortgage finance bonds of Chilean financial institutions                   | -   | -   | -                               | -              | -   | -   | -                               | -              |
| Chilean financial institution bonds  | -   | -   | -                               | -              | -   | -   | -                               | -              |
| Chilean corporate bonds  | -   | -   | -                               | -              | -   | -   | -                               | -              |
| Other Chilean securities   | -   | -   | -                               | -              | -   | -   | -                               | -              |
| <b>Subtotal</b>  | <b>-</b>  | <b>-</b>  | <b>-</b>                        | <b>-</b>       | <b>-</b>  | <b>-</b>  | <b>-</b>                        | <b>-</b>       |

**Foreign financial securities:**

|  |               |   |   |               |              |   |   |              |
|--|---------------|---|---|---------------|--------------|---|---|--------------|
| Foreign government or central banks securities | -             | - | - | -             | -            | - | - | -            |
| Other foreign financial instruments            | -             | - | - | -             | -            | - | - | -            |
| <b>Subtotal</b>                                | -             | - | - | -             | -            | - | - | -            |
| <b>Investments in mutual funds:</b>            |               |   |   |               |              |   |   |              |
| Funds managed by related entities              | -             | - | - | -             | -            | - | - | -            |
| Funds managed by others                        | -             | - | - | -             | -            | - | - | -            |
| <b>Subtotal</b>                                | -             | - | - | -             | -            | - | - | -            |
| <b>Total</b>                                   | <b>17,469</b> | - | - | <b>17,469</b> | <b>6,993</b> | - | - | <b>6,993</b> |

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Table of Contents**Banco Santander Chile and Subsidiaries****Notes to the Consolidated Financial Statements**

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 07****INVESTMENTS UNDER RESALE AGREEMENTS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS, continued****b) Obligations arising from repurchase agreements**

The Bank raises funds by selling financial instruments and committing itself to buy them back at future dates, plus interest at a predetermined rate. As of December 31, 2013 and 2012, obligations related to instruments sold under repurchase agreements are as follows:

|  | As of December 31,<br>2013                      |   |                                 |                | 2012  |   |                                 |                |
|--|---|---|---------------------------------|----------------|---|---|---------------------------------|----------------|
|  | From 1 day<br>to less than<br>3 months<br>MCh\$ | More than 3<br>months and<br>less than<br>1 year<br>MCh\$ | More<br>than<br>1 year<br>MCh\$ | Total<br>MCh\$ | From 1 day<br>to less than<br>3 months<br>MCh\$ | More than 3<br>months and<br>less than<br>1 year<br>MCh\$ | More<br>than<br>1 year<br>MCh\$ | Total<br>MCh\$ |
| <b>Securities from Chilean Government and the Chilean Central Bank</b> |   |   |                                 |                |   |   |                                 |                |
| Chilean Central Bank Bonds   | 66,937  | -   | -                               | 66,937         | 155,869   | -   | -                               | 155,869        |
| Chilean Central Bank Notes   | 22  | -   | -                               | 22             | 33  | -   | -                               | 33             |
| Other securities from the Government and the Chilean Central Bank      | 23,879  | -   | -                               | 23,879         | -   | -   | -                               | -              |
| <b>Subtotal</b>  | <b>90,838</b>                                   | <b>-</b>  | <b>-</b>                        | <b>90,838</b>  | <b>155,902</b>                                  | <b>-</b>  | <b>-</b>                        | <b>155,902</b> |
| <b>Instruments from other domestic institutions:</b>                   |   |   |                                 |                |   |   |                                 |                |
| Time deposits in Chilean financial institutions                        | 112,743   | 5,391   | -                               | 118,134        | 144,935   | 3,280   | -                               | 148,215        |
| Mortgage finance bonds of Chilean financial institutions               | -   | -   | -                               | -              | -   | -   | -                               | -              |
| Chilean financial institution bonds                                    | -   | -   | -                               | -              | -   | -   | -                               | -              |
| Chilean corporate bonds  | -   | -   | -                               | -              | -   | -   | -                               | -              |
| Other Chilean securities   | -   | -   | -                               | -              | -   | -   | -                               | -              |

|   |                |              |          |                |                |              |          |                |
|---|----------------|--------------|----------|----------------|----------------|--------------|----------|----------------|
| <b>Subtotal</b>                                   | <b>112,743</b> | <b>5,391</b> | <b>-</b> | <b>118,134</b> | <b>144,935</b> | <b>3,280</b> | <b>-</b> | <b>148,215</b> |
| <b>Foreign financial securities:</b>              |                |              |          |                |                |              |          |                |
| Foreign government or<br>central banks securities | -              | -            | -        | -              | -              | -            | -        | -              |
| Other foreign financial<br>instruments            | -              | -            | -        | -              | -              | -            | -        | -              |
| <b>Subtotal</b>                                   | <b>-</b>       | <b>-</b>     | <b>-</b> | <b>-</b>       | <b>-</b>       | <b>-</b>     | <b>-</b> | <b>-</b>       |
| <b>Investments in mutual<br/>funds:</b>           |                |              |          |                |                |              |          |                |
| Funds managed by related<br>entities              | -              | -            | -        | -              | -              | -            | -        | -              |
| Funds managed by others                           | -              | -            | -        | -              | -              | -            | -        | -              |
| <b>Subtotal</b>                                   | <b>-</b>       | <b>-</b>     | <b>-</b> | <b>-</b>       | <b>-</b>       | <b>-</b>     | <b>-</b> | <b>-</b>       |
| <b>Total</b>                                      | <b>203,581</b> | <b>5,391</b> | <b>-</b> | <b>208,972</b> | <b>300,837</b> | <b>3,280</b> | <b>-</b> | <b>304,117</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 07****INVESTMENTS UNDER RESALE AGREEMENTS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS, continued**

c) Below is the detail by portfolio of collateral associated with repurchase agreements as of December 31, 2013 and 2012, valued at fair value:

|   | As of December 31,<br>2013                  |                               |                | 2012  |                               |                |
|---|---|-------------------------------|----------------|---|-------------------------------|----------------|
|   | Available<br>for sale<br>portfolio<br>MCh\$ | Trading<br>portfolio<br>MCh\$ | Total<br>MCh\$ | Available<br>for sale<br>portfolio<br>MCh\$ | Trading<br>portfolio<br>MCh\$ | Total<br>MCh\$ |
| <b>Chilean Central Bank and Government securities:</b>            |   |                               |                |   |                               |                |
| Chilean Central Bank Bonds  | 66,933                                      | -                             | 66,933         | 156,307                                     | -                             | 156,307        |
| Chilean Central Bank Notes  | 22  | -                             | 22             | 33  | -                             | 33             |
| Other securities from the Government and the Chilean Central Bank | 23,863                                      | -                             | 23,863         | -   | -                             | -              |
| <b>Subtotal</b>   | <b>90,818</b>                               | <b>-</b>                      | <b>90,818</b>  | <b>156,340</b>                              | <b>-</b>                      | <b>156,340</b> |
| <b>Other Chilean securities:</b>                                  |   |                               |                |   |                               |                |
| Time deposits in Chilean financial institutions                   | 118,195                                     | -                             | 118,195        | 148,277                                     | -                             | 148,277        |
| Mortgage finance bonds of Chilean financial institutions          | -   | -                             | -              | -   | -                             | -              |
| Chilean financial institution bonds                               | -   | -                             | -              | -   | -                             | -              |
| Chilean corporate bonds   | -   | -                             | -              | -   | -                             | -              |
| Other Chilean securities  | -   | -                             | -              | -   | -                             | -              |
| <b>Subtotal</b>   | <b>118,195</b>                              | <b>-</b>                      | <b>118,195</b> | <b>148,277</b>                              | <b>-</b>                      | <b>148,277</b> |
| <b>Foreign financial securities:</b>                              |   |                               |                |   |                               |                |
| Foreign Central Banks and Government securities                   | -   | -                             | -              | -   | -                             | -              |
| Other foreign financial instruments                               | -   | -                             | -              | -   | -                             | -              |
| <b>Subtotal</b>   | <b>-</b>                                    | <b>-</b>                      | <b>-</b>       | <b>-</b>                                    | <b>-</b>                      | <b>-</b>       |
| <b>Investments in mutual funds:</b>                               |   |                               |                |   |                               |                |
| Funds managed by related entities                                 | -   | -                             | -              | -   | -                             | -              |
| Funds managed by others   | -   | -                             | -              | -   | -                             | -              |
| <b>Subtotal</b>   | <b>-</b>                                    | <b>-</b>                      | <b>-</b>       | <b>-</b>                                    | <b>-</b>                      | <b>-</b>       |
| <b>Total</b>  | <b>209,013</b>                              | <b>-</b>                      | <b>209,013</b> | <b>304,617</b>                              | <b>-</b>                      | <b>304,617</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

## NOTE 08

## DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

- a) As of December 31, 2013 and 2012 the Bank holds the following portfolio of derivative instruments:

|                                     | As of December 31, 2013 |                              |                  |                  | Fair value    |               |
|-------------------------------------|-------------------------|------------------------------|------------------|------------------|---------------|---------------|
|                                     | Notional amount         |                              |                  | Total            | Assets        | Liabilities   |
|                                     | Up to 3 months          | More than 3 months to 1 year | More than 1 year |                  |               |               |
|                                     | MCh\$                   | MCh\$                        | MCh\$            | MCh\$            | MCh\$         | MCh\$         |
| <b>Fair value hedge derivatives</b> |                         |                              |                  |                  |               |               |
| Currency forwards                   | -                       | -                            | -                | -                | -             | -             |
| Interest rate swaps                 | -                       | 55,000                       | 375,599          | 430,599          | 9,951         | 1,009         |
| Cross currency swaps                | -                       | 233,824                      | 899,293          | 1,133,117        | 63,528        | 1,736         |
| Call currency options               | -                       | -                            | -                | -                | -             | -             |
| Call interest rate options          | -                       | -                            | -                | -                | -             | -             |
| Put currency options                | -                       | -                            | -                | -                | -             | -             |
| Put interest rate options           | -                       | -                            | -                | -                | -             | -             |
| Interest rate futures               | -                       | -                            | -                | -                | -             | -             |
| Other derivatives                   | -                       | -                            | -                | -                | -             | -             |
| <b>Subtotal</b>                     | -                       | <b>288,824</b>               | <b>1,274,892</b> | <b>1,563,716</b> | <b>73,479</b> | <b>2,745</b>  |
| <b>Cash flow hedge derivatives</b>  |                         |                              |                  |                  |               |               |
| Currency forwards                   | -                       | -                            | -                | -                | -             | -             |
| Interest rate swaps                 | -                       | -                            | -                | -                | -             | -             |
| Cross currency swaps                | 522,451                 | 937,529                      | 661,676          | 2,121,656        | 60,453        | 13,908        |
| Call currency options               | -                       | -                            | -                | -                | -             | -             |
| Call interest rate options          | -                       | -                            | -                | -                | -             | -             |
| Put currency options                | -                       | -                            | -                | -                | -             | -             |
| Put interest rate options           | -                       | -                            | -                | -                | -             | -             |
| Interest rate futures               | -                       | -                            | -                | -                | -             | -             |
| Other derivatives                   | -                       | -                            | -                | -                | -             | -             |
| <b>Subtotal</b>                     | <b>522,451</b>          | <b>937,529</b>               | <b>661,676</b>   | <b>2,121,656</b> | <b>60,453</b> | <b>13,908</b> |
| <b>Trading derivatives</b>          |                         |                              |                  |                  |               |               |
| Currency forwards                   | 14,972,304              | 9,801,554                    | 1,749,378        | 26,523,236       | 198,130       | 188,340       |
| Interest rate swaps                 | 4,526,349               | 11,332,697                   | 25,005,852       | 40,864,898       | 241,528       | 242,563       |

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|                            |                   |                   |                   |                   |                  |                  |
|----------------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|
| Cross currency swaps       | 1,634,855         | 3,927,402         | 14,246,746        | 19,809,003        | 915,099          | 840,718          |
| Call currency options      | 443,944           | 42,805            | 5,557             | 492,306           | 1,327            | 2,398            |
| Call interest rate options | -                 | 7,031             | -                 | 7,031             | -                | -                |
| Put currency options       | 428,638           | 38,450            | 2,936             | 470,024           | 3,831            | 1,108            |
| Put interest rate options  | -                 | -                 | -                 | -                 | -                | -                |
| Interest rate futures      | -                 | -                 | -                 | -                 | -                | -                |
| Other derivatives          | 54,777            | -                 | -                 | 54,777            | 171              | 5                |
| <b>Subtotal</b>            | <b>22,060,867</b> | <b>25,149,939</b> | <b>41,010,469</b> | <b>88,221,275</b> | <b>1,360,086</b> | <b>1,275,132</b> |
| <b>Total</b>               | <b>22,583,318</b> | <b>26,376,292</b> | <b>42,947,037</b> | <b>91,906,647</b> | <b>1,494,018</b> | <b>1,291,785</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 08****DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

|                                     | As of December 31, 2012 |                |                  |                  | Fair value    |               |
|-------------------------------------|-------------------------|----------------|------------------|------------------|---------------|---------------|
|                                     | Notional amount         |                |                  | Total            | Assets        | Liabilities   |
|                                     | Up to 3                 | More than 3    | More than        |                  |               |               |
|                                     | months                  | months to      | 1 year           | MCh\$            | MCh\$         | MCh\$         |
| MCh\$                               | MCh\$                   | MCh\$          | MCh\$            | MCh\$            | MCh\$         |               |
| <b>Fair value hedge derivatives</b> |                         |                |                  |                  |               |               |
| Currency forwards                   | -                       | -              | -                | -                | -             | -             |
| Interest rate swaps                 | 95,200                  | 397,092        | 395,471          | 887,763          | 12,647        | 4,054         |
| Cross currency swaps                | 25,396                  | 14,975         | 671,942          | 712,313          | 12,716        | 4,361         |
| Call currency options               | -                       | -              | -                | -                | -             | -             |
| Call interest rate options          | -                       | -              | -                | -                | -             | -             |
| Put currency options                | -                       | -              | -                | -                | -             | -             |
| Put interest rate options           | -                       | -              | -                | -                | -             | -             |
| Interest rate futures               | -                       | -              | -                | -                | -             | -             |
| Other derivatives                   | -                       | -              | -                | -                | -             | -             |
| <b>Subtotal</b>                     | <b>120,596</b>          | <b>412,067</b> | <b>1,067,413</b> | <b>1,600,076</b> | <b>25,363</b> | <b>8,415</b>  |
| <b>Cash flow hedge derivatives</b>  |                         |                |                  |                  |               |               |
| Currency forwards                   | 13,704                  | -              | -                | 13,704           | -             | 298           |
| Interest rate swaps                 | -                       | -              | -                | -                | -             | -             |
| Cross currency swaps                | 268,693                 | 666,668        | 689,045          | 1,624,406        | 1,851         | 52,589        |
| Call currency options               | -                       | -              | -                | -                | -             | -             |
| Call interest rate options          | -                       | -              | -                | -                | -             | -             |
| Put currency options                | -                       | -              | -                | -                | -             | -             |
| Put interest rate options           | -                       | -              | -                | -                | -             | -             |
| Interest rate futures               | -                       | -              | -                | -                | -             | -             |
| Other derivatives                   | -                       | -              | -                | -                | -             | -             |
| <b>Subtotal</b>                     | <b>282,397</b>          | <b>666,668</b> | <b>689,045</b>   | <b>1,638,110</b> | <b>1,851</b>  | <b>52,887</b> |
| <b>Trading derivatives</b>          |                         |                |                  |                  |               |               |
| Currency forwards                   | 17,560,012              | 7,109,216      | 563,301          | 25,232,529       | 159,624       | 187,304       |
| Interest rate swaps                 | 4,578,678               | 9,882,478      | 13,752,690       | 28,213,846       | 204,800       | 230,380       |
| Cross currency swaps                | 1,126,961               | 3,215,654      | 11,639,636       | 15,982,251       | 899,174       | 665,100       |

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|                            |                   |                   |                   |                   |                  |                  |
|----------------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|
| Call currency options      | 413,452           | 8,032             | -                 | 421,484           | 567              | 1,485            |
| Call interest rate options | 3,917             | 14,458            | 12,481            | 30,856            | 24               | 20               |
| Put currency options       | 402,234           | 1,928             | -                 | 404,162           | 1,777            | 516              |
| Put interest rate options  | -                 | -                 | -                 | -                 | -                | -                |
| Interest rate futures      | -                 | -                 | -                 | -                 | -                | -                |
| Other derivatives          | 19,415            | -                 | -                 | 19,415            | 32               | 54               |
| <b>Subtotal</b>            | <b>24,104,669</b> | <b>20,231,766</b> | <b>25,968,108</b> | <b>70,304,543</b> | <b>1,265,998</b> | <b>1,084,859</b> |
| <b>Total</b>               | <b>24,507,662</b> | <b>21,310,501</b> | <b>27,724,566</b> | <b>73,542,729</b> | <b>1,293,212</b> | <b>1,146,161</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 08****DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued****b) Hedge accounting****Fair value hedge:**

The Bank uses cross-currency swaps, interest rate swaps, and call money swaps to hedge its exposure to changes in fair value of hedged items attributable to interest rates. The aforementioned hedging instruments change the effective cost of long-term issuances from a fixed interest rate to a variable interest rate.

Below is a detail of the hedged elements and hedge instruments under fair value hedges as of December 31, 2013 and 2012, classified by term to maturity:

|  | As of December 31, 2013 |                          |                             |                 | Total            |
|--|-------------------------|--------------------------|-----------------------------|-----------------|------------------|
|  | Within 1 year           | Between 1<br>and 3 years | Between 3<br>and 6<br>years | Over<br>6 years |                  |
|  | MCh\$                   | MCh\$                    | MCh\$                       | MCh\$           |                  |
| <b>Hedged item</b>                                   |                         |                          |                             |                 |                  |
| <b>Loans and accounts receivables from customers</b> |                         |                          |                             |                 |                  |
| Mortgage loan  | 12,213                  | -                        | -                           | -               | 12,213           |
| <b>Available for sale investments</b>                |                         |                          |                             |                 |                  |
| Yankee bond  | -                       | -                        | -                           | 28,308          | 28,308           |
| Mortgage finance bonds                               | -                       | -                        | -                           | 3,652           | 3,652            |
| <b>Time deposits and other demand liabilities</b>    |                         |                          |                             |                 |                  |
| Time deposits  | 55,000                  | -                        | -                           | 27,971          | 82,971           |
| <b>Issued debt instruments</b>                       |                         |                          |                             |                 |                  |
| Senior bonds   | -                       | 335,805                  | 109,497                     | 769,659         | 1,214,961        |
| Subordinated bonds                                   | 104,840                 | -                        | -                           | -               | 104,840          |
| <b>Interbank borrowings</b>                          |                         |                          |                             |                 |                  |
| Interbank loans                                      | 116,771                 | -                        | -                           | -               | 116,771          |
| <b>Total</b>   | <b>288,824</b>          | <b>335,805</b>           | <b>109,497</b>              | <b>829,590</b>  | <b>1,563,716</b> |

**Hedging instrument**

|                      |                |                |                |                |                  |
|----------------------|----------------|----------------|----------------|----------------|------------------|
| Cross currency swaps | 233,824        | 178,545        | 109,497        | 611,251        | 1,133,117        |
| Interest rate swaps  | 55,000         | 157,260        | -              | 218,339        | 430,599          |
| <b>Total</b>         | <b>288,824</b> | <b>335,805</b> | <b>109,497</b> | <b>829,590</b> | <b>1,563,716</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 08****DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

|   | As of December 31, 2012 |                         |                         |                  | Total<br>MCh\$   |
|---|-------------------------|-------------------------|-------------------------|------------------|------------------|
|   | Within 1 year           | Between 1               | Between 3               | Over             |                  |
|   | and 3<br>years<br>MCh\$ | and 3<br>years<br>MCh\$ | and 6<br>years<br>MCh\$ | 6 years<br>MCh\$ |                  |
| <b>Hedged item</b>                                |                         |                         |                         |                  |                  |
| <b>Available for sale investments</b>             |                         |                         |                         |                  |                  |
| Senior bonds                                      | 10,295                  | -                       | -                       | 25,000           | 35,295           |
| Yankee bond                                       | -                       | -                       | -                       | 4,791            | 4,791            |
| Mortgage finance bonds                            | -                       | -                       | -                       | 3,995            | 3,995            |
| <b>Time deposits and other demand liabilities</b> |                         |                         |                         |                  |                  |
| Time deposits                                     | 497,368                 | -                       | -                       | 27,409           | 524,777          |
| <b>Issued debt instruments</b>                    |                         |                         |                         |                  |                  |
| Senior bonds                                      | -                       | 300,769                 | 4,568                   | 557,226          | 862,563          |
| Subordinated bonds                                | -                       | 143,655                 | -                       | -                | 143,655          |
| <b>Other financial liabilities</b>                |                         |                         |                         |                  |                  |
| Short-term loans                                  | 25,000                  | -                       | -                       | -                | 25,000           |
| <b>Total</b>                                      | <b>532,663</b>          | <b>444,424</b>          | <b>4,568</b>            | <b>618,421</b>   | <b>1,600,076</b> |
| <b>Hedging instrument</b>                         |                         |                         |                         |                  |                  |
| Cross currency swaps                              | 40,371                  | 300,769                 | 4,568                   | 366,605          | 712,313          |
| Interest rate swaps                               | 492,292                 | 143,655                 | -                       | 251,816          | 887,763          |
| <b>Total</b>                                      | <b>532,663</b>          | <b>444,424</b>          | <b>4,568</b>            | <b>618,421</b>   | <b>1,600,076</b> |

**Cash flow hedges**

The Bank uses cross currency swaps to hedge the risk from variability of cash flows attributable to changes in the interest rates of bonds and interbank loans at a variable rate. To cover the inflation risk in some items, both forwards as well as currency swaps are used.

Below is the notional amount of the hedged items as of December 31, 2013 and 2012, and the period when the cash flows will be generated:

|  | As of December 31, 2013 |                |                |                |                  |
|--|-------------------------|----------------|----------------|----------------|------------------|
|  | Within 1                | Between 1      | Between 3      | Over 6         | Total            |
|  | year                    | and 3          | and 6          | years          |                  |
|  | MCh\$                   | years          | years          | years          | MCh\$            |
|  |                         | MCh\$          | MCh\$          | MCh\$          | MCh\$            |
| <b>Hedged item</b>                                   |                         |                |                |                |                  |
| <b>Loans and accounts receivables from customers</b> |                         |                |                |                |                  |
| Mortgage loan  | 21,623                  | 69,502         | -              | -              | 91,125           |
| <b>Available for sale investments</b>                |                         |                |                |                |                  |
| Yankee bond  | -                       | -              | -              | 118,577        | 118,577          |
| Chilean Central Bank bonds                           | -                       | 22,958         | -              | 18,084         | 41,042           |
| Time deposits  | 379,331                 | 11,328         | -              | -              | 390,659          |
| <b>Issued debt instruments</b>                       |                         |                |                |                |                  |
| Senior bonds (variable rate)                         | 288,310                 | 102,062        | 219,567        | -              | 609,939          |
| Senior bonds (fixed rate)                            | 43,189                  | -              | -              | -              | 43,189           |
| <b>Interbank borrowings</b>                          |                         |                |                |                |                  |
| Interbank loans                                      | 727,527                 | 99,598         | -              | -              | 827,125          |
| <b>Total</b>   | <b>1,459,980</b>        | <b>305,448</b> | <b>219,567</b> | <b>136,661</b> | <b>2,121,656</b> |
| <b>Hedging instrument</b>                            |                         |                |                |                |                  |
| Cross currency swaps                                 | 1,459,980               | 305,448        | 219,567        | 136,661        | 2,121,656        |
| <b>Total</b>   | <b>1,459,980</b>        | <b>305,448</b> | <b>219,567</b> | <b>136,661</b> | <b>2,121,656</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 08****DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

|  | As of December 31, 2012 |                             |                             |                 | Total            |
|--|-------------------------|-----------------------------|-----------------------------|-----------------|------------------|
|  | Within 1<br>year        | Between 1<br>and 3<br>years | Between 3<br>and 6<br>years | Over<br>6 years |                  |
|  | MCh\$                   | MCh\$                       | MCh\$                       | MCh\$           | MCh\$            |
| <b>Hedged item</b>                                   |                         |                             |                             |                 |                  |
| <b>Loans and accounts receivables from customers</b> |                         |                             |                             |                 |                  |
| Mortgage loans                                       | -                       | 44,649                      | -                           | -               | 44,649           |
| <b>Available for sale investment</b>                 |                         |                             |                             |                 |                  |
| Senior bonds   | -                       | -                           | -                           | 28,265          | 28,265           |
| Time deposits  | 33,502                  | 11,328                      | -                           | -               | 44,830           |
| <b>Time deposits and other demand liabilities</b>    |                         |                             |                             |                 |                  |
| Time deposits  | 51,008                  | -                           | -                           | -               | 51,008           |
| <b>Issued debt instruments</b>                       |                         |                             |                             |                 |                  |
| Senior bonds (variable rate)                         | 52,780                  | 239,425                     | 93,232                      | -               | 385,437          |
| Senior bonds (fixed rate)                            | 57,102                  | 106,942                     | -                           | -               | 164,044          |
| <b>Interbank borrowings</b>                          |                         |                             |                             |                 |                  |
| Interbank loans                                      | 754,673                 | 165,204                     | -                           | -               | 919,877          |
| <b>Total</b>   | <b>949,065</b>          | <b>567,548</b>              | <b>93,232</b>               | <b>28,265</b>   | <b>1,638,110</b> |
| <b>Hedging instrument</b>                            |                         |                             |                             |                 |                  |
| Cross currency swaps                                 | 935,361                 | 567,548                     | 93,232                      | 28,265          | 1,624,406        |
| Currency forwards                                    | 13,704                  | -                           | -                           | -               | 13,704           |
| <b>Total</b>   | <b>949,065</b>          | <b>567,548</b>              | <b>93,232</b>               | <b>28,265</b>   | <b>1,638,110</b> |

Below is an estimate of the periods in which flows are expected to be produced:

b.1) Forecasted cash flows for interest rate risk:

As of December 31, 2013  
Within 1

Total

| <b>year</b>               | <b>Between 1<br/>and<br/>3 years</b> | <b>Between 3<br/>and<br/>6 years</b> | <b>Over<br/>6 years</b> |                |                |
|---------------------------|--------------------------------------|--------------------------------------|-------------------------|----------------|----------------|
| <b>MCh\$</b>              | <b>MCh\$</b>                         | <b>MCh\$</b>                         | <b>MCh\$</b>            | <b>MCh\$</b>   | <b>MCh\$</b>   |
| <b>Hedged item</b>        |                                      |                                      |                         |                |                |
| Inflows                   | 21,532                               | 10,870                               | 4,102                   | 1,614          | 38,118         |
| Outflows                  | (12,180)                             | (10,667)                             | (6,107)                 | -              | (28,954)       |
| <b>Net flows</b>          | <b>9,352</b>                         | <b>203</b>                           | <b>(2,005)</b>          | <b>1,614</b>   | <b>9,164</b>   |
| <b>Hedging instrument</b> |                                      |                                      |                         |                |                |
| Inflows                   | 12,180                               | 10,667                               | 6,107                   | -              | 28,954         |
| Outflows (*)              | (21,532)                             | (10,870)                             | (4,102)                 | (1,614)        | (38,118)       |
| <b>Net flows</b>          | <b>(9,352)</b>                       | <b>(203)</b>                         | <b>2,005</b>            | <b>(1,614)</b> | <b>(9,164)</b> |

(\*)Only includes cash flow forecast portion of the hedge instruments used to cover interest rate risk.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 08****DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

|                           | As of December 31, 2012 |                |                |          |                 |
|---------------------------|-------------------------|----------------|----------------|----------|-----------------|
|                           | Within 1                | Between 1      | Between 3      | Over     | Total           |
|                           | year                    | and 3 years    | and 6          | 6 years  |                 |
|                           | MCh\$                   | MCh\$          | years<br>MCh\$ | MCh\$    | MCh\$           |
| <b>Hedged item</b>        |                         |                |                |          |                 |
| Inflows                   | 3,084                   | -              | -              | -        | 3,084           |
| Outflows                  | (16,759)                | (6,515)        | (577)          | -        | (23,851)        |
| <b>Net flows</b>          | <b>(13,675)</b>         | <b>(6,515)</b> | <b>(577)</b>   | <b>-</b> | <b>(20,767)</b> |
| <b>Hedging instrument</b> |                         |                |                |          |                 |
| Inflows                   | 16,759                  | 6,515          | 577            | -        | 23,851          |
| Outflows                  | (3,084)                 | -              | -              | -        | (3,084)         |
| <b>Net flows</b>          | <b>13,675</b>           | <b>6,515</b>   | <b>577</b>     | <b>-</b> | <b>20,767</b>   |

(\*)Only includes cash flow forecast portion of the hedge instruments used to cover interest rate risk.

b.2) Forecasted cash flows for inflation risk:

|                           | As of December 31, 2013 |              |                |                |                |
|---------------------------|-------------------------|--------------|----------------|----------------|----------------|
|                           | Within                  | Between 1    | Between 3      | Over 6         | Total          |
|                           | 1 year                  | and 3 years  | and 6 years    | years          |                |
|                           | MCh\$                   | MCh\$        | MCh\$          | MCh\$          | MCh\$          |
| <b>Hedged item</b>        |                         |              |                |                |                |
| Inflows                   | 104,730                 | 10,861       | -              | -              | 115,591        |
| Outflows                  | (425)                   | (927)        | (1,783)        | (1,709)        | (4,844)        |
| <b>Net flows</b>          | <b>104,305</b>          | <b>9,934</b> | <b>(1,783)</b> | <b>(1,709)</b> | <b>110,747</b> |
| <b>Hedging instrument</b> |                         |              |                |                |                |

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|                  |                  |                |              |              |                  |
|------------------|------------------|----------------|--------------|--------------|------------------|
| Inflows          | 425              | 927            | 1,783        | 1,709        | 4,844            |
| Outflows         | (104,730)        | (10,861)       | -            | -            | (115,591)        |
| <b>Net flows</b> | <b>(104,305)</b> | <b>(9,934)</b> | <b>1,783</b> | <b>1,709</b> | <b>(110,747)</b> |

**As of December 31, 2012**

|                           | <b>Within<br/>1 year<br/>MCh\$</b> | <b>Between 1<br/>and 3 years<br/>MCh\$</b> | <b>Between 3<br/>and 6 years<br/>MCh\$</b> | <b>Over<br/>6 years<br/>MCh\$</b> | <b>Total<br/>MCh\$</b> |
|---------------------------|------------------------------------|--|--|-----------------------------------|------------------------|
| <b>Hedged item</b>        |                                    |  |  |                                   |                        |
| Inflows                   | 24,089                             | 20,802                                     | -  | -                                 | 44,891                 |
| Outflows                  | (2,938)                            | (2,658)                                    | (2,301)                                    | (2,991)                           | (10,888)               |
| <b>Net flows</b>          | <b>21,151</b>                      | <b>18,144</b>                              | <b>(2,301)</b>                             | <b>(2,991)</b>                    | <b>34,003</b>          |
| <b>Hedging instrument</b> |                                    |  |  |                                   |                        |
| Inflows                   | 2,938                              | 2,658                                      | 2,301                                      | 2,991                             | 10,888                 |
| Outflows                  | (24,089)                           | (20,802)                                   | -  | -                                 | (44,891)               |
| <b>Net flows</b>          | <b>(21,151)</b>                    | <b>(18,144)</b>                            | <b>2,301</b>                               | <b>2,991</b>                      | <b>(34,003)</b>        |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 08****DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

b.3) Forecasted cash flows for interest rate risk:

|                           | As of December 31, 2013 |             |             |       |                 |
|---------------------------|-------------------------|-------------|-------------|-------|-----------------|
|                           | Within                  | Between 1   | Between 3   | Over  | Total           |
|                           | 1 year                  | and 3 years | and 6 years | 6     |                 |
|                           | MCh\$                   | MCh\$       | MCh\$       | years | MCh\$           |
|                           | MCh\$                   |             |             | MCh\$ | MCh\$           |
| <b>Hedged item</b>        |                         |             |             |       |                 |
| Inflows                   | -                       | -           | -           | -     | -               |
| Outflows                  | (64,772)                | -           | -           | -     | (64,772)        |
| <b>Net flows</b>          | <b>(64,772)</b>         | -           | -           | -     | <b>(64,772)</b> |
| <b>Hedging instrument</b> |                         |             |             |       |                 |
| Inflows                   | 64,772                  | -           | -           | -     | 64,772          |
| Outflows                  | -                       | -           | -           | -     | -               |
| <b>Net flows</b>          | <b>64,772</b>           | -           | -           | -     | <b>64,772</b>   |

|                           | As of December 31, 2012 |                 |             |       |                 |
|---------------------------|-------------------------|-----------------|-------------|-------|-----------------|
|                           | Within                  | Between 1       | Between 3   | Over  | Total           |
|                           | 1 year                  | and 3 years     | and 6 years | 6     |                 |
|                           | MCh\$                   | MCh\$           | MCh\$       | years | MCh\$           |
|                           | MCh\$                   |                 |             | MCh\$ | MCh\$           |
| <b>Hedged item</b>        |                         |                 |             |       |                 |
| Inflows                   | -                       | -               | -           | -     | -               |
| Outflows                  | (1,825)                 | (64,772)        | -           | -     | (66,597)        |
| <b>Net flows</b>          | <b>(1,825)</b>          | <b>(64,772)</b> | -           | -     | <b>(66,597)</b> |
| <b>Hedging instrument</b> |                         |                 |             |       |                 |
| Inflows                   | 1,825                   | 64,772          | -           | -     | 66,597          |
| Outflows                  | -                       | -               | -           | -     | -               |
| <b>Net flows</b>          | <b>1,825</b>            | <b>64,772</b>   | -           | -     | <b>66,597</b>   |

c) The accumulated effect of the mark to market adjustment of cash flow hedges validation produced by hedge instruments used in hedged cash flow was recorded in the Consolidated Statement of Changes in Equity,

specifically within Other comprehensive income, as of December 31, 2013 and 2012, and is as follows:

| Hedged item                                  | As of                |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2013 | December 31,<br>2012 |
|  | MCh\$                | MCh\$                |
| Interbank loans                              | (3,809)              | 2,943                |
| Time deposits and other time liabilities     | -                    | (551)                |
| Issued debt instruments                      | (723)                | 3,349                |
| Available for sale investments               | (3,744)              | (560)                |
| Loans and accounts receivable from customers | 19                   | 134                  |
| <b>Net flows</b>                             | <b>(8,257)</b>       | <b>5,315</b>         |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 08****DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING, continued**

Since the inflows and outflows for both the hedged element and the hedging instrument mirror each other, the hedges are nearly 100% effective, which means that the fluctuations of fair value attributable to risk components are almost completely offset.

During the year, the Bank did not have any cash flow hedges of forecast transactions.

d) Below is a presentation of income generated by cash flow hedges amount that were reclassified from other comprehensive income to income for the year:

|                                     | <b>For the years ended</b> |              |              |
|-------------------------------------|----------------------------|--------------|--------------|
|                                     | <b>December 31,</b>        |              |              |
|                                     | <b>2013</b>                | <b>2012</b>  | <b>2011</b>  |
|                                     | <b>MCh\$</b>               | <b>MCh\$</b> | <b>MCh\$</b> |
| Bond hedging derivatives            | (33)                       | (863)        | 121          |
| Interbank loans hedging derivatives | 1,550                      | 1,458        | 346          |
| <b>Cash flow hedge net income</b>   | <b>1,517</b>               | <b>595</b>   | <b>467</b>   |
| See Note 24 - Equity, letter e)     |                            |              |              |

e) Net investment hedges in foreign operations:

As of December 31, 2013 and 2012, the Bank does not have any foreign net investment hedges in its hedge accounting portfolio.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 09

## INTERBANK LOANS

a) As of December 31, 2013 and 2012, balances of "Interbank loans" are as follows:

|   | <b>As of</b>        |               |
|---|---------------------|---------------|
|   | <b>December 31,</b> |               |
|   | <b>2013</b>         | <b>2012</b>   |
|   | <b>MCh\$</b>        | <b>MCh\$</b>  |
| <b>Domestic banks</b>                                 |                     |               |
| Loans and advances to banks                           | -                   | -             |
| Deposits in the Central Bank of Chile - not available | -                   | -             |
| Non-transferable Chilean Central Bank Bonds           | -                   | -             |
| Other Central Bank of Chile loans                     | -                   | -             |
| Interbank loans                                       | 66                  | 27            |
| Overdrafts in checking accounts                       | -                   | -             |
| Non-transferable domestic bank loans                  | -                   | -             |
| Other domestic bank loans                             | -                   | -             |
| Allowances and impairment for domestic bank loans     | -                   | -             |
| <b>Foreign Interbank Loans</b>                        |                     |               |
| Interbank loans - Foreign                             | 125,383             | 90,546        |
| Overdrafts in checking accounts                       | -                   | -             |
| Non-transferable foreign bank deposits                | -                   | -             |
| Other foreign bank loans                              | -                   | -             |
| Provisions and impairment for foreign bank loans      | (495)               | (159)         |
| <b>Total</b>  | <b>124,954</b>      | <b>90,414</b> |

b) The amount in each period for provisions and impairment of interbank loans is shown below:

| <b>As of December 31,</b> |                |              |                 |                |              |
|---------------------------|----------------|--------------|-----------------|----------------|--------------|
| <b>2013</b>               |                |              | <b>2012</b>     |                |              |
| <b>Domestic</b>           | <b>Foreign</b> | <b>Total</b> | <b>Domestic</b> | <b>Foreign</b> | <b>Total</b> |
| <b>banks</b>              | <b>banks</b>   |              | <b>banks</b>    | <b>banks</b>   |              |
| <b>MCh\$</b>              | <b>MCh\$</b>   | <b>MCh\$</b> | <b>MCh\$</b>    | <b>MCh\$</b>   | <b>MCh\$</b> |

|                                   |            |            |          |            |            |
|-----------------------------------|------------|------------|----------|------------|------------|
| <b>Balance as of January 1, -</b> | <b>159</b> | <b>159</b> | <b>-</b> | <b>11</b>  | <b>11</b>  |
| Charge-offs                       | -          | -          | -        | -          | -          |
| Provisions established            | 455        | 455        | -        | 548        | 548        |
| Provisions release                | (119)      | (119)      | -        | (400)      | (400)      |
| <b>Total</b>                      | <b>495</b> | <b>495</b> | <b>-</b> | <b>159</b> | <b>159</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

## NOTE 10

## LOANS AND ACCOUNTS RECEIVABLE FROM CUSTOMERS

a) **Loans and accounts receivable from customers**

As of December 31, 2013 and 2012, the composition of the loan portfolio is as follows:

| As of December 31, 2013               | Assets before allowances |                       |                   | Allowances established   |                     |                | Assets<br>net balance |
|---------------------------------------|--------------------------|-----------------------|-------------------|--------------------------|---------------------|----------------|-----------------------|
|                                       | Normal<br>portfolio      | Impaired<br>portfolio | Total             | Individual<br>allowances | Group<br>allowances | Total          |                       |
|                                       | MCh\$                    | MCh\$                 | MCh\$             | MCh\$                    | MCh\$               | MCh\$          |                       |
| <b>Commercial loans</b>               |                          |                       |                   |                          |                     |                |                       |
| Commercial loans                      | 7,177,278                | 620,404               | 7,797,682         | 127,141                  | 81,478              | 208,619        | 7,589,063             |
| Foreign trade loans                   | 1,748,762                | 91,572                | 1,840,334         | 52,127                   | 878                 | 53,005         | 1,787,329             |
| Checking accounts debtors             | 267,441                  | 12,216                | 279,657           | 3,621                    | 4,755               | 8,376          | 271,281               |
| Factoring transactions                | 312,818                  | 3,296                 | 316,114           | 4,437                    | 617                 | 5,054          | 311,060               |
| Leasing transactions                  | 1,291,131                | 58,683                | 1,349,814         | 14,161                   | 5,016               | 19,177         | 1,330,637             |
| Other loans and account<br>receivable | 99,934                   | 18,717                | 118,651           | 4,890                    | 7,426               | 12,316         | 106,335               |
| <b>Subtotal</b>                       | <b>10,897,364</b>        | <b>804,888</b>        | <b>11,702,252</b> | <b>206,377</b>           | <b>100,170</b>      | <b>306,547</b> | <b>11,395,705</b>     |
| <b>Mortgage loans</b>                 |                          |                       |                   |                          |                     |                |                       |
| Loans with mortgage<br>finance bonds  | 69,273                   | 3,024                 | 72,297            | -                        | 470                 | 470            | 71,827                |
| Mortgage mutual loans                 | 69,742                   | 2,091                 | 71,833            | -                        | 380                 | 380            | 71,453                |
| Other mortgage mutual<br>loans        | 5,163,396                | 318,286               | 5,481,682         | -                        | 42,456              | 42,456         | 5,439,226             |
| <b>Subtotal</b>                       | <b>5,302,411</b>         | <b>323,401</b>        | <b>5,625,812</b>  | <b>-</b>                 | <b>43,306</b>       | <b>43,306</b>  | <b>5,582,506</b>      |
| <b>Consumer loans</b>                 |                          |                       |                   |                          |                     |                |                       |
| Installment consumer<br>loans         | 1,847,289                | 320,832               | 2,168,121         | -                        | 221,723             | 221,723        | 1,946,398             |
| Credit card balances                  | 1,212,134                | 23,747                | 1,235,881         | -                        | 37,300              | 37,300         | 1,198,581             |
| Leasing transactions                  | 3,383                    | 68                    | 3,451             | -                        | 68                  | 68             | 3,383                 |

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|                      |                   |                  |                   |                |                |                |                   |
|----------------------|-------------------|------------------|-------------------|----------------|----------------|----------------|-------------------|
| Other consumer loans | 195,030           | 4,765            | 199,795           | -              | 5,494          | 5,494          | 194,301           |
| <b>Subtotal</b>      | <b>3,257,836</b>  | <b>349,412</b>   | <b>3,607,248</b>  | <b>-</b>       | <b>264,585</b> | <b>264,585</b> | <b>3,342,663</b>  |
| <b>Total</b>         | <b>19,457,611</b> | <b>1,477,701</b> | <b>20,935,312</b> | <b>206,377</b> | <b>408,061</b> | <b>614,438</b> | <b>20,320,874</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 10****LOANS AND ACCOUNTS RECEIVABLES FROM CUSTOMERS, continued**

| As of December 31, 2012            | Assets before allowances |                    |                   | Allowances established |                  |                | Assets            |  |
|------------------------------------|--------------------------|--------------------|-------------------|------------------------|------------------|----------------|-------------------|--|
|                                    | Normal portfolio         | Impaired portfolio | Total             | Individual allowances  | Group allowances | Total          | Net balance       |  |
|                                    | MCh\$                    | MCh\$              | MCh\$             | MCh\$                  | MCh\$            | MCh\$          | MCh\$             |  |
| <b>Commercial loans</b>            |                          |                    |                   |                        |                  |                |                   |  |
| Commercial loans                   | 6,728,698                | 587,719            | 7,316,417         | 116,151                | 83,690           | 199,841        | 7,116,576         |  |
| Foreign trade loans                | 1,231,932                | 38,491             | 1,270,423         | 17,614                 | 921              | 18,535         | 1,251,888         |  |
| Checking accounts debtors          | 194,750                  | 10,605             | 205,355           | 514                    | 2,519            | 3,033          | 202,322           |  |
| Factoring transactions             | 318,651                  | 3,591              | 322,242           | 2,899                  | 784              | 3,683          | 318,559           |  |
| Leasing transactions               | 1,219,902                | 57,653             | 1,277,555         | 17,439                 | 5,987            | 23,426         | 1,254,129         |  |
| Other loans and account receivable | 78,966                   | 18,063             | 97,029            | 85                     | 2,037            | 2,122          | 94,907            |  |
| <b>Subtotal</b>                    | <b>9,772,899</b>         | <b>716,122</b>     | <b>10,489,021</b> | <b>154,702</b>         | <b>95,938</b>    | <b>250,640</b> | <b>10,238,381</b> |  |
| <b>Mortgage loans</b>              |                          |                    |                   |                        |                  |                |                   |  |
| Loans with mortgage finance bonds  | 88,643                   | 3,561              | 92,204            | -                      | 493              | 493            | 91,711            |  |
| Mortgage mutual loans              | 43,690                   | 2,415              | 46,105            | -                      | 936              | 936            | 45,169            |  |
| Other mortgage mutual loans        | 4,910,218                | 223,054            | 5,133,272         | -                      | 34,561           | 34,561         | 5,098,711         |  |
| <b>Subtotal</b>                    | <b>5,042,551</b>         | <b>229,030</b>     | <b>5,271,581</b>  | <b>-</b>               | <b>35,990</b>    | <b>35,990</b>  | <b>5,235,591</b>  |  |
| <b>Consumer loans</b>              |                          |                    |                   |                        |                  |                |                   |  |
| Installment consumer loans         | 1,502,346                | 355,311            | 1,857,657         | -                      | 218,474          | 218,474        | 1,639,183         |  |
| Credit card balances               | 1,023,776                | 30,697             | 1,054,473         | -                      | 38,719           | 38,719         | 1,015,754         |  |
| Leasing transactions               | 3,433                    | 255                | 3,688             | -                      | 160              | 160            | 3,528             |  |
| Other consumer loans               | 192,937                  | 6,722              | 199,659           | -                      | 5,906            | 5,906          | 193,753           |  |
| <b>Subtotal</b>                    | <b>2,722,492</b>         | <b>392,985</b>     | <b>3,115,477</b>  | <b>-</b>               | <b>263,259</b>   | <b>263,259</b> | <b>2,852,218</b>  |  |
| <b>Total</b>                       | <b>17,537,942</b>        | <b>1,338,137</b>   | <b>18,876,079</b> | <b>154,702</b>         | <b>395,187</b>   | <b>549,889</b> | <b>18,326,190</b> |  |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 10****LOANS AND ACCOUNTS RECEIVABLES FROM CUSTOMERS, continued****b) Portfolio characteristics:**

As of December 31, 2013 and 2012, the portfolio before allowances is as follows, by customer's economic activity:

|                             | Domestic loans (*) |                   | Foreign interbank loans (**) | Total loans        |                   | Distribution percentage |               |
|-----------------------------|--------------------|-------------------|------------------------------|--------------------|-------------------|-------------------------|---------------|
|                             | As of December 31  |                   |                              | As of December 31, |                   | As of December 31,      |               |
|                             | 2013               | 2012              |                              | 2013               | 2012              | 2013                    | 2012          |
|                             | MCh\$              | MCh\$             | MCh\$                        | MCh\$              | MCh\$             | %                       | %             |
| <b>Commercial loans</b>     |                    |                   |                              |                    |                   |                         |               |
| Manufacturing               | 1,216,914          | 1,014,777         | - -                          | 1,216,914          | 1,014,777         | 5.78                    | 5.35          |
| Mining                      | 464,865            | 292,217           | - -                          | 464,865            | 292,217           | 2.21                    | 1.54          |
| Electricity, gas, and water | 222,110            | 337,269           | - -                          | 222,110            | 337,269           | 1.05                    | 1.78          |
| Agriculture and livestock   | 806,092            | 770,558           | - -                          | 806,092            | 770,558           | 3.83                    | 4.06          |
| Forest                      | 183,716            | 120,002           | - -                          | 183,716            | 120,002           | 0.87                    | 0.63          |
| Fishing                     | 265,917            | 188,803           | - -                          | 265,917            | 188,803           | 1.26                    | 1.00          |
| Transport                   | 721,931            | 511,407           | - -                          | 721,931            | 511,407           | 3.43                    | 2.70          |
| Communications              | 249,499            | 179,544           | - -                          | 249,499            | 179,544           | 1.18                    | 0.95          |
| Construction                | 1,337,791          | 1,130,194         | - -                          | 1,337,791          | 1,130,194         | 6.35                    | 5.96          |
| Commerce                    | 2,578,979          | 2,396,428         | 129,036                      | 2,704,362          | 2,486,974         | 12.84                   | 13.11         |
| Services                    | 447,861            | 400,716           | - -                          | 447,861            | 400,716           | 2.13                    | 2.11          |
| Other                       | 3,206,643          | 3,147,133         | - -                          | 3,206,643          | 3,147,133         | 15.23                   | 16.59         |
| <b>Subtotal</b>             | <b>11,702,318</b>  | <b>10,489,048</b> | <b>129,036</b>               | <b>11,827,701</b>  | <b>10,579,594</b> | <b>56.16</b>            | <b>55.78</b>  |
| <b>Mortgage loans</b>       | <b>5,625,812</b>   | <b>5,271,581</b>  | <b>- -</b>                   | <b>5,625,812</b>   | <b>5,271,581</b>  | <b>26.71</b>            | <b>27.79</b>  |
| <b>Consumer loans</b>       | <b>3,607,248</b>   | <b>3,115,477</b>  | <b>- -</b>                   | <b>3,607,248</b>   | <b>3,115,477</b>  | <b>17.13</b>            | <b>16.43</b>  |
| <b>Total</b>                | <b>20,935,378</b>  | <b>18,876,106</b> | <b>129,036</b>               | <b>21,060,761</b>  | <b>18,966,652</b> | <b>100.00</b>           | <b>100.00</b> |

(\*\*) Includes domestic interbank loans for Ch\$66 million as of December 31, 2013 (Ch\$27 million as of December 31, 2012), see Note 9.

(\*\*) Includes foreign interbank loans for Ch\$125,383 million as of December 31, 2013 (Ch\$90,546 million as of December 31, 2012), see Note 9.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 10****LOANS AND ACCOUNTS RECEIVABLES FROM CUSTOMERS, continued****c) Impaired Portfolio**

i) As of December 31, 2013 and 2012, the impaired portfolio is as follows:

|                               | <b>As of December 31,<br/>2013</b> |                           |                           |                        | <b>2012</b>                 |                           |                           |                        |
|-------------------------------|------------------------------------|---------------------------|---------------------------|------------------------|-----------------------------|---------------------------|---------------------------|------------------------|
|                               | <b>Commercial<br/>MCh\$</b>        | <b>Mortgage<br/>MCh\$</b> | <b>Consumer<br/>MCh\$</b> | <b>Total<br/>MCh\$</b> | <b>Commercial<br/>MCh\$</b> | <b>Mortgage<br/>MCh\$</b> | <b>Consumer<br/>MCh\$</b> | <b>Total<br/>MCh\$</b> |
| Individual impaired portfolio | 317,534                            | -                         | -                         | 317,534                | 298,868                     | -                         | -                         | 298,868                |
| Non-performing loans          | 364,890                            | 155,688                   | 92,723                    | 613,301                | 320,461                     | 159,802                   | 117,504                   | 597,767                |
| Other impaired portfolio      | 122,464                            | 167,713                   | 256,689                   | 546,866                | 96,793                      | 69,228                    | 275,481                   | 441,502                |
| <b>Total</b>                  | <b>804,888</b>                     | <b>323,401</b>            | <b>349,412</b>            | <b>1,477,701</b>       | <b>716,122</b>              | <b>229,030</b>            | <b>392,985</b>            | <b>1,338,137</b>       |

ii) The impaired portfolio with or without guarantee as of December 31, 2013 and 2012 is as follows:

|                | <b>As of December 31,<br/>2013</b> |                           |                           |                        | <b>2012</b>                 |                           |                           |                        |
|----------------|------------------------------------|---------------------------|---------------------------|------------------------|-----------------------------|---------------------------|---------------------------|------------------------|
|                | <b>Commercial<br/>MCh\$</b>        | <b>Mortgage<br/>MCh\$</b> | <b>Consumer<br/>MCh\$</b> | <b>Total<br/>MCh\$</b> | <b>Commercial<br/>MCh\$</b> | <b>Mortgage<br/>MCh\$</b> | <b>Consumer<br/>MCh\$</b> | <b>Total<br/>MCh\$</b> |
| Secured debt   | 385,712                            | 302,219                   | 49,051                    | 736,982                | 377,169                     | 208,616                   | 51,549                    | 637,334                |
| Unsecured debt | 419,176                            | 21,182                    | 300,361                   | 740,719                | 338,953                     | 20,414                    | 341,436                   | 700,803                |
| <b>Total</b>   | <b>804,888</b>                     | <b>323,401</b>            | <b>349,412</b>            | <b>1,477,701</b>       | <b>716,122</b>              | <b>229,030</b>            | <b>392,985</b>            | <b>1,338,137</b>       |

iii) The portfolio of non-performing loans as of December 31, 2013 and 2012 is as follows:

|                | <b>As of December 31,</b> |                 |                 |                |                   |                 |                 |                |
|----------------|---------------------------|-----------------|-----------------|----------------|-------------------|-----------------|-----------------|----------------|
|                | <b>2013</b>               |                 |                 |                | <b>2012</b>       |                 |                 |                |
|                | <b>Commercial</b>         | <b>Mortgage</b> | <b>Consumer</b> | <b>Total</b>   | <b>Commercial</b> | <b>Mortgage</b> | <b>Consumer</b> | <b>Total</b>   |
|                | <b>MCh\$</b>              | <b>MCh\$</b>    | <b>MCh\$</b>    | <b>MCh\$</b>   | <b>MCh\$</b>      | <b>MCh\$</b>    | <b>MCh\$</b>    | <b>MCh\$</b>   |
| Secured debt   | 151,494                   | 136,768         | 7,241           | 295,503        | 154,675           | 143,814         | 8,293           | 306,782        |
| Unsecured debt | 213,396                   | 18,920          | 85,482          | 317,798        | 165,786           | 15,988          | 109,211         | 290,985        |
| <b>Total</b>   | <b>364,890</b>            | <b>155,688</b>  | <b>92,723</b>   | <b>613,301</b> | <b>320,461</b>    | <b>159,802</b>  | <b>117,504</b>  | <b>597,767</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 10****LOANS AND ACCOUNTS RECEIVABLES FROM CUSTOMERS, continued****d) Allowances**

The changes in allowance balances during 2013 and 2012 are as follows:

| Activity during 2013                      | Commercial     |                | Mortgage Consumer |                | Total          |
|---|----------------|----------------|-------------------|----------------|----------------|
|   | loans          |                | loans             | loans          |                |
|   | Individual     | Group          | Group             | Group          |                |
|   | MCh\$          | MCh\$          | MCh\$             | MCh\$          | MCh\$          |
| <b>Balance as of January 1, 2013</b>      | <b>154,702</b> | <b>95,938</b>  | <b>35,990</b>     | <b>263,259</b> | <b>549,889</b> |
| Allowances established (1)                | 92,008         | 36,724         | 21,314            | 155,921        | 305,967        |
| Allowances release (2)                    | (22,014)       | (11,151)       | (9,216)           | (35,482)       | (77,863)       |
| Allowances released due to charge-off (3) | (18,319)       | (21,341)       | (4,782)           | (119,113)      | (163,555)      |
| <b>Balances as of December 31, 2013</b>   | <b>206,377</b> | <b>100,170</b> | <b>43,306</b>     | <b>264,585</b> | <b>614,438</b> |

| Activity during 2012                      | Commercial     |               | Mortgage Consumer |                | Total          |
|---|----------------|---------------|-------------------|----------------|----------------|
|   | loans          |               | loans             | loans          |                |
|   | Individual     | Group         | Group             | Group          |                |
|   | MCh\$          | MCh\$         | MCh\$             | MCh\$          | MCh\$          |
| <b>Balances as of January 1, 2012</b>     | <b>112,687</b> | <b>97,115</b> | <b>35,633</b>     | <b>243,022</b> | <b>488,457</b> |
| Allowances established (1)                | 83,742         | 31,772        | 10,741            | 239,607        | 365,862        |
| Allowances release (2)                    | (20,716)       | (16,624)      | (7,449)           | (38,471)       | (83,260)       |
| Allowances released due to charge-off (3) | (21,011)       | (16,325)      | (2,935)           | (180,899)      | (221,170)      |
| <b>Balances as of December 31, 2012</b>   | <b>154,702</b> | <b>95,938</b> | <b>35,990</b>     | <b>263,259</b> | <b>549,889</b> |

| Activity during 2011 | Commercial |       | Mortgage Consumer |       | Total |
|----------------------|------------|-------|-------------------|-------|-------|
|                      | loans      |       | loans             | loans |       |
|                      | Individual | Group | Group             | Group |       |
|                      | MCh\$      | MCh\$ | MCh\$             | MCh\$ | MCh\$ |

|   | MCh\$          | MCh\$         | MCh\$         | MCh\$          | MCh\$          |
|---|----------------|---------------|---------------|----------------|----------------|
| <b>Balances as of January 1, 2011</b>     | <b>96,560</b>  | <b>85,942</b> | <b>17,332</b> | <b>225,559</b> | <b>425,393</b> |
| Allowances established (1)                | 72,927         | 72,601        | 27,406        | 184,488        | 357,422        |
| Allowances release (2)                    | (41,741)       | (26,582)      | (7,645)       | (25,185)       | (101,153)      |
| Allowances released due to charge-off (3) | (15,059)       | (34,846)      | (1,460)       | (141,840)      | (193,205)      |
| <b>Balances as of December 31, 2011</b>   | <b>112,687</b> | <b>97,115</b> | <b>35,633</b> | <b>243,022</b> | <b>488,457</b> |

(1) Represents gross allowances made in respect of increased risk of loss during the period and loan growth.

Represents the gross amount of loan loss allowances released during the year as a consequence of reduction in the (2) level of risk existing in the loan portfolio, including as a result of improvement in the credit risk classification of borrowers and loans paid.

(3) Represents the gross amount of loan loss allowances removed due to charge-off.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 10**

## LOANS AND ACCOUNTS RECEIVABLES FROM CUSTOMERS, continued

e) **Recoveries by type of loan**

|                            | <b>For de years ended</b> |               |               |
|----------------------------|---------------------------|---------------|---------------|
|                            | <b>December 31,</b>       |               |               |
|                            | <b>2013</b>               | <b>2012</b>   | <b>2011</b>   |
|                            | <b>MCh\$</b>              | <b>MCh\$</b>  | <b>MCh\$</b>  |
| Commercial loans           | 14,545                    | 8,695         | 7,216         |
| Consumer loans             | 36,004                    | 22,015        | 12,474        |
| Residential mortgage loans | 4,735                     | 2,305         | 16,135        |
| <b>Total</b>               | <b>55,284</b>             | <b>33,015</b> | <b>35,825</b> |

Recoveries of loans previously charged off are recognized as income in the line item "Provision for loans losses". We only recognize as a recovery interest and/or principal 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 as 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-balance sheet.

f) **Allowances established on customer and interbank loans**

The following chart shows the balance of allowances established, associated with credits granted to customers and banks:

|                 | <b>As of December 31,</b> |                |                |
|-----------------|---------------------------|----------------|----------------|
|                 | <b>2013</b>               | <b>2012</b>    | <b>2011</b>    |
|                 | <b>MCh\$</b>              | <b>MCh\$</b>   | <b>MCh\$</b>   |
| Customers loans | 305,967                   | 365,862        | 357,422        |
| Interbank loans | 455                       | 548            | 464            |
| <b>Total</b>    | <b>306,422</b>            | <b>366,410</b> | <b>357,886</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 10****LOANS AND ACCOUNTS RECEIVABLES FROM CUSTOMERS, continued****g) Portfolio by its Impaired and non-impaired status.****As of December 31, 2013****Non-impaired****Impaired****Portfolio total**

|                   |                  |                  | Total non         |                |                |                | Total            |                   |                  |                  | Total             |
|-------------------|------------------|------------------|-------------------|----------------|----------------|----------------|------------------|-------------------|------------------|------------------|-------------------|
| Commercial        | Mortgage         | Consumer         | impaired          | Commercial     | Mortgage       | Consumer       | impaired         | Commercial        | Mortgage         | Consumer         | Total             |
| MCh\$             | MCh\$            | MCh\$            | MCh\$             | MCh\$          | MCh\$          | MCh\$          | MCh\$            | MCh\$             | MCh\$            | MCh\$            | MCh\$             |
| 10,665,404        | 5,017,319        | 3,071,977        | 18,754,700        | 335,382        | 102,214        | 151,804        | 589,400          | 11,000,786        | 5,119,533        | 3,223,781        | 19,344,100        |
| 142,613           | 103,335          | 122,088          | 368,036           | 34,715         | 23,111         | 57,693         | 115,519          | 177,328           | 126,446          | 179,781          | 483,555           |
| 89,347            | 181,757          | 63,771           | 334,875           | 74,863         | 51,143         | 54,202         | 180,208          | 164,210           | 232,900          | 117,973          | 515,083           |
| -                 | -                | -                | -                 | 359,928        | 146,933        | 85,713         | 592,574          | 359,928           | 146,933          | 85,713           | 592,574           |
| <b>10,897,364</b> | <b>5,302,411</b> | <b>3,257,836</b> | <b>19,457,611</b> | <b>804,888</b> | <b>323,401</b> | <b>349,412</b> | <b>1,477,701</b> | <b>11,702,252</b> | <b>5,625,812</b> | <b>3,607,248</b> | <b>20,935,312</b> |
| 2.13%             | 5.38%            | 5.70%            | 3.61%             | 13.61%         | 22.96%         | 32.02%         | 20.01%           | 2.92%             | 6.39%            | 8.25%            | 4.13%             |
| -                 | -                | -                | -                 | 44.72%         | 45.43%         | 24.53%         | 40.10%           | 3.08%             | 2.61%            | 2.38%            | 2.82%             |

as

e.

**Reconciliation of overdue loans with non-performing loans**

|   | <b>As of December 31, 2013</b> |                 |                 |                |
|---|--------------------------------|-----------------|-----------------|----------------|
|   | <b>Commercial</b>              | <b>Mortgage</b> | <b>Consumer</b> | <b>Total</b>   |
|   | <b>MCh\$</b>                   | <b>MCh\$</b>    | <b>MCh\$</b>    |                |
| Overdue loans   | 359,928                        | 146,933         | 85,713          | 592,574        |
| Loans with not overdue but classified as non-performing loans | 4,962                          | 8,755           | 7,010           | 20,727         |
| <b>Total</b>  | <b>364,890</b>                 | <b>155,688</b>  | <b>92,723</b>   | <b>613,301</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 10****LOANS AND ACCOUNTS RECEIVABLES FROM CUSTOMERS, continued****h) Portfolio by its Impaired and non-impaired status, continued.**

|   | <b>As of December 31, 2012</b> |                  |                  |                       | <b>Impaired</b> |                |                | <b>Portfolio total</b> |                   |               |
|---|--------------------------------|------------------|------------------|-----------------------|-----------------|----------------|----------------|------------------------|-------------------|---------------|
|   | <b>Non-impaired</b>            |                  | Consumer         | Total non<br>impaired | Commercial      | Mortgage       | Consumer       | Total<br>impaired      | Commercial        | Mortgage      |
| MCh\$   | MCh\$                          | MCh\$            |                  |                       |                 |                |                |                        |                   |               |
| Current portfolio   | 9,500,231                      | 4,725,955        | 2,511,869        | 16,738,055            | 273,481         | 43,502         | 160,480        | 477,463                | 9,773,712         | 4,769,        |
| Overdue for 1-29 days   | 195,667                        | 202,142          | 132,475          | 530,284               | 63,868          | 18,391         | 60,055         | 142,314                | 259,535           | 220,53        |
| Overdue for 30-89 days  | 77,001                         | 114,454          | 78,148           | 269,603               | 75,659          | 34,240         | 68,316         | 178,215                | 152,660           | 148,69        |
| Overdue for 90 days or more   | -                              | -                | -                | -                     | 303,114         | 132,897        | 104,134        | 540,145                | 303,114           | 132,89        |
| <b>Total portfolio before allowances</b>                            | <b>9,772,899</b>               | <b>5,042,551</b> | <b>2,722,492</b> | <b>17,537,942</b>     | <b>716,122</b>  | <b>229,030</b> | <b>392,985</b> | <b>1,338,137</b>       | <b>10,489,021</b> | <b>5,271,</b> |
| Overdue loans (less than 90 days) presented as portfolio percentage | 2.79%                          | 6.28%            | 7.74%            | 4.56%                 | 19.48%          | 22.98%         | 32.67%         | 23.95%                 | 3.93%             | 7.00%         |
| Overdue loans (90   | -                              | -                | -                | -                     | 42.33%          | 58.03%         | 26.50%         | 40.37%                 | 2.89%             | 2.52%         |

days or  
more)  
presented as  
portfolio  
percentage

**Reconciliation of overdue loans with non-performing loans**

|   | <b>As of December 31, 2012</b> |                 |                 |                |
|---|--------------------------------|-----------------|-----------------|----------------|
|   | <b>Commercial</b>              | <b>Mortgage</b> | <b>Consumer</b> | <b>Total</b>   |
|   | <b>MCh\$</b>                   | <b>MCh\$</b>    | <b>MCh\$</b>    |                |
| Overdue loans   | 303,114                        | 132,897         | 104,134         | 540,145        |
| Loans with not overdue but classified as non-performing loans | 17,347                         | 26,905          | 13,370          | 57,622         |
| <b>Total</b>  | <b>320,461</b>                 | <b>159,802</b>  | <b>117,504</b>  | <b>597,767</b> |

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**NOTE 11**

## AVAILABLE FOR SALE INVESTMENTS

As of December 31, 2013 and 2012, detail of instruments deemed as available for sale investments is as follows:

|  | <b>As of December 31,</b> |                  |
|--|---------------------------|------------------|
|  | <b>2013</b>               | <b>2012</b>      |
|  | <b>MCh\$</b>              | <b>MCh\$</b>     |
| <b>Chilean Central Bank and Government securities</b>    |                           |                  |
| Chilean Central Bank Bonds                               | 364,821                   | 712,278          |
| Chilean Central Bank Notes                               | 1,078                     | 8,270            |
| Other Chilean Central Bank and Government securities     | 146,295                   | 296,010          |
| <b>Subtotal</b>  | <b>512,194</b>            | <b>1,016,558</b> |
| <b>Other Chilean securities</b>                          |                           |                  |
| Time deposits in Chilean financial institutions          | 1,011,354                 | 756,136          |
| Mortgage finance bonds of Chilean financial institutions | 33,856                    | 37,319           |
| Chilean financial institution bonds                      | -                         | -                |
| Chilean corporate bonds                                  | -                         | -                |
| Other Chilean securities                                 | -                         | 321              |
| <b>Subtotal</b>  | <b>1,045,210</b>          | <b>793,776</b>   |
| <b>Foreign financial securities</b>                      |                           |                  |
| Foreign Central Banks and Government securities          | 143,589                   | -                |
| Other foreign financial securities                       | -                         | 15,824           |
| <b>Subtotal</b>  | <b>143,589</b>            | <b>15,824</b>    |
| <b>Total</b>   | <b>1,700,993</b>          | <b>1,826,158</b> |

As of December 31, 2013 and 2012, the line item *Chilean Central Bank and Government securities* item includes securities sold under repurchase agreements to clients and financial institutions for Ch\$ 90,818 million and Ch\$ 156,340 million, respectively.

As of December 31, 2013 and 2012, the line item *Other National Institutions Securities* includes securities sold to customers and financial institutions under repurchase agreements totaling Ch\$ 118,195 million and Ch\$ 148,277 million, respectively.

As of December 31, 2013 available for sale investments included a net unrealized profit of Ch\$ 840 million, recorded as a “Valuation adjustment” in Equity, distributed between a profit of Ch\$ 802 million attributable to Bank shareholders and a profit of Ch\$ 38 million attributable to non-controlling interest.

As of December 31, 2012 available for sale investments included a net unrealized loss of Ch\$ 10,017 million, recorded as a “Valuation adjustment” in Equity, distributed between a loss of Ch\$ 10,041 million attributable to Bank shareholders and a profit of Ch\$ 24 million attributable to non-controlling interest.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 11**

## AVAILABLE FOR SALE INVESTMENTS, continued

Gross profits and losses realized on the sale of available for sale instruments as of December 31, 2013, 2012 and 2011, are as follows:

|  | <b>For the years ended</b> |             |             |
|--|----------------------------|-------------|-------------|
|  | <b>December 31,</b>        |             |             |
|  | <b>2013</b>                | <b>2012</b> | <b>2011</b> |
|  | MCh\$                      | MCh\$       | MCh\$       |
| Sale of available for sale investments generating realized profits | 3,826,358                  | 4,886,706   | 3,883,812   |
| Realized profits   | 9,326                      | 2,574       | 4,959       |
| Sale of available for sale investments generating realized losses  | 388,401                    | 665,779     | 1,359,177   |
| Realized losses  | 1,098                      | 503         | 7,922       |

The Bank evaluated those instruments with unrealized losses as of December 31, 2013 and 2012 and concluded they were only temporary impairments. This review consisted of evaluating the economic reasons for any declines, the credit ratings of the securities' issuers, and the Bank's intention and ability to hold the securities until the unrealized loss is recovered. Based on this analysis, the Bank believes that there were no other than temporary impairments in its investment portfolio, since most of the decline in fair value of these securities was caused by market conditions which the Bank considers to be temporary. All of the instruments that have unrealized losses as of December 31, 2013 and 2012, were in a continuous unrealized loss position for less than one year.



|  |                  |                  |              |                |   |   |   |   |                  |
|--|------------------|------------------|--------------|----------------|---|---|---|---|------------------|
| Time deposits<br>in Chilean<br>financial<br>institutions             |                  |                  |              |                |   |   |   |   |                  |
| Mortgage<br>finance bonds<br>of Chilean<br>financial<br>institutions | 34,154           | 33,856           | 108          | (406)          | - | - | - | - | 34,154           |
| Chilean<br>financial<br>institution<br>bonds                         | -                | -                | -            | -              | - | - | - | - | -                |
| Chilean<br>corporate<br>bonds  | -                | -                | -            | -              | - | - | - | - | -                |
| Other Chilean<br>securities  | -                | -                | -            | -              | - | - | - | - | -                |
| <b>Subtotals</b>   | <b>1,043,815</b> | <b>1,045,210</b> | <b>1,919</b> | <b>(524)</b>   |   |   |   |   | <b>1,043,815</b> |
| <b>Foreign<br/>financial<br/>securities</b>                          |                  |                  |              |                | - | - | - | - |                  |
| Foreign<br>Central Banks<br>and<br>Government<br>securities          | 145,672          | 143,589          | -            | (2,083)        | - | - | - | - | 145,672          |
| Other foreign<br>financial<br>securities                             |                  |                  |              |                | - | - | - | - |                  |
| <b>Subtotal</b>  | <b>145,672</b>   | <b>143,589</b>   | <b>-</b>     | <b>(2,083)</b> |   |   |   |   | <b>145,672</b>   |
| <b>Total</b>   | <b>1,700,153</b> | <b>1,700,993</b> | <b>4,223</b> | <b>(3,383)</b> | - | - | - | - | <b>1,700,153</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 11****AVAILABLE FOR SALE INVESTMENTS, continued**

As of December 31, 2012:

|   | Less than 12 months |                  | Unrealized<br>profit<br>MCh\$ | Unrealized<br>loss<br>MCh\$ | More than 12 months |            | Unrealized<br>profit<br>MCh\$ | Unrealized<br>loss<br>MCh\$ | Total             |
|---|---------------------|------------------|-------------------------------|-----------------------------|---------------------|------------|-------------------------------|-----------------------------|-------------------|
|   | Amortized<br>cost   | Fair value       |                               |                             | Amortized<br>cost   | Fair value |                               |                             | Amortized<br>cost |
|   | MCh\$               | MCh\$            |                               |                             | MCh\$               | MCh\$      |                               |                             | MCh\$             |
| <b>Chilean<br/>Central<br/>Bank and<br/>Government<br/>securities</b> |                     |                  |                               |                             |                     |            |                               |                             |                   |
| Chilean<br>Central Bank   | 720,198             | 712,278          | 362                           | (8,282)                     | -                   | -          | -                             | -                           | 720,198           |
| Bonds   |                     |                  |                               |                             |                     |            |                               |                             |                   |
| Chilean<br>Central Bank   | 8,408               | 8,270            | -                             | (138)                       | -                   | -          | -                             | -                           | 8,408             |
| Notes   |                     |                  |                               |                             |                     |            |                               |                             |                   |
| Other Chilean<br>Central Bank<br>and<br>Government<br>instruments     | 297,863             | 296,010          | 521                           | (2,374)                     | -                   | -          | -                             | -                           | 297,863           |
| <b>Subtotals</b>  | <b>1,026,469</b>    | <b>1,016,558</b> | <b>883</b>                    | <b>(10,794)</b>             | <b>-</b>            | <b>-</b>   | <b>-</b>                      | <b>-</b>                    | <b>1,026,469</b>  |
| <b>Other<br/>Chilean<br/>securities</b>                               |                     |                  |                               |                             |                     |            |                               |                             |                   |
| Time deposits<br>in Chilean<br>financial<br>institutions              | 755,903             | 756,136          | 498                           | (265)                       | -                   | -          | -                             | -                           | 755,903           |
| Mortgage<br>finance bonds<br>of Chilean                               | 37,925              | 37,319           | 71                            | (677)                       | -                   | -          | -                             | -                           | 37,925            |

|   |                  |                  |              |                 |   |   |   |   |                  |
|---|------------------|------------------|--------------|-----------------|---|---|---|---|------------------|
| financial institutions                          |                  |                  |              |                 |   |   |   |   |                  |
| Chilean financial institution                   | -                | -                | -            | -               | - | - | - | - | -                |
| bonds   |                  |                  |              |                 |   |   |   |   |                  |
| Chilean corporate bonds                         | -                | -                | -            | -               | - | - | - | - | -                |
| Other Chilean securities                        | 320              | 321              | 1            | -               | - | - | - | - | 320              |
| <b>Subtotals</b>                                | <b>794,148</b>   | <b>793,776</b>   | <b>570</b>   | <b>(942)</b>    | - | - | - | - | <b>794,148</b>   |
| <b>Foreign financial securities</b>             |                  |                  |              |                 |   |   |   |   |                  |
| Foreign Central Banks and Government securities | -                | -                | -            | -               | - | - | - | - | -                |
| Other foreign financial securities              | 15,558           | 15,824           | 266          | -               | - | - | - | - | 15,558           |
| <b>Subtotals</b>                                | <b>15,558</b>    | <b>15,824</b>    | <b>266</b>   | -               | - | - | - | - | <b>15,558</b>    |
| <b>Total</b>                                    | <b>1,836,175</b> | <b>1,826,158</b> | <b>1,719</b> | <b>(11,736)</b> | - | - | - | - | <b>1,836,175</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

## NOTE 12

## INVESTMENTS IN ASSOCIATES AND OTHER COMPANIES

The Consolidated Statements of Financial Position reflect investments in associates and other companies amounting a) to Ch\$ 9,681 million as of December 31, 2013, and Ch\$ 7,614 million, as of December 31, 2012, as shown in the following table:

| Company  | Ownership interest as of December 31 |       |       | Investment value as of December 31, |              |              | Profit and loss for the years ended December 31, |            |              |
|--|--------------------------------------|-------|-------|-------------------------------------|--------------|--------------|--|------------|--------------|
|  | 2013                                 | 2012  | 2011  | 2013                                | 2012         | 2011         | 2013   | 2012       | 2011         |
|  | %                                    | %     | %     | MCh\$                               | MCh\$        | MCh\$        | MCh\$  | MCh\$      | MCh\$        |
| Redbanc S.A. (1)                                     | 33.43                                | 33.43 | 33.43 | 1,513                               | 1,374        | 1,929        | 139  | (199)      | 323          |
| Transbank S.A. (2)                                   | 25.00                                | 25.00 | 32.71 | 1,309                               | 1,607        | 2,092        | 9  | 306        | 391          |
| Centro de Compensación Automatizado                  | 33.33                                | 33.33 | 33.33 | 673                                 | 548          | 432          | 125  | 116        | 105          |
| Sociedad Interbancaria de Depósito de Valores S.A.   | 29.28                                | 29.28 | 29.28 | 585                                 | 501          | 461          | 112  | 86         | 58           |
| Cámara de Compensación de Alto Valor S.A. (4)        | 14.14                                | 14.14 | 12.65 | 673                                 | 678          | 526          | 63   | 114        | 91           |
| Administrador Financiero del Transantiago S.A. (3)   | 20.00                                | 20.00 | 20.00 | 1,947                               | 1,215        | 1,742        | 732  | (527)      | 966          |
| Sociedad Nexus S.A.                                  | 12.90                                | 12.90 | 12.90 | 972                                 | 1,106        | 941          | 145  | 278        | 114          |
| Servicios de Infraestructura de Mercado OTC S.A. (5) | 11.11                                | -     | -     | 1,424                               | -            | -            | (16)   | -          | -            |
| <b>Subtotal</b>                                      |                                      |       |       | <b>9,096</b>                        | <b>7,029</b> | <b>8,123</b> | <b>1,309</b>                                     | <b>174</b> | <b>2,048</b> |
| <b>Shares or rights in other companies (*)</b>       |                                      |       |       |                                     |              |              |  |            |              |
| Bladex   |                                      |       |       | 136                                 | 136          | 136          | 16   | 13         | 10           |
| Stock Exchanges                                      |                                      |       |       | 417                                 | 417          | 417          | 97   | 80         | 82           |
| Others   |                                      |       |       | 32                                  | 32           | 52           | -  | -          | -            |
| <b>Subtotal</b>                                      |                                      |       |       | <b>9,681</b>                        | <b>7,614</b> | <b>8,728</b> | <b>1,422</b>                                     | <b>267</b> | <b>2,140</b> |

(\*) Investments in associates and other companies do not have market prices

(1) Losses arising from this investment were mainly due to the charge-off of accounts receivable from Banco Estado which had to make a payment for brand usage under arbitration procedures. On May 31, 2012, the arbitrating judge decided that the payment did not comply with the contract between Redbanc and Banco Estado, and Redbanc

charged-off that payment, generating an effect on income of Ch\$ 1,176 million.

In July 2012, Banco Santander Chile sold 3,628,154 shares from Transbank S.A., decreasing its share from 32.71% (2) to 25%. The transaction amount was Ch\$1,000 million and the book value of the investment was Ch\$401 million, generating a profit of Ch\$599 million recorded as other operating income. See Note 34.

Losses arising from this investment were mainly due to the end of the renegotiation process with the Ministry of Transport and Telecommunications of its current service contract. The Bank signed a complementary contract of (3) "Mutual Termination of Contract" for "Providing complementary financial administration services to the Santiago Public Transportation System resources". As a result, Administrador Financiero del Transantiago S.A. had to adjust its income, charging Ch\$ 7,177 million against 2012 income.

In August 2012, Banco Santander Chile bought 144 shares from Sociedad Operadora de la Cámara de (4) Compensación de pagos de Alto Valor S.A. through Banco Scotiabank Chile, increasing its ownership from 12.65% to 14.14%. The purchase of such shares was for Ch\$61 million.

On July 19, 2013, Banco Santander made a contribution of 1,439,574,238 pesos to participate in the company "Servicios de Infraestructura de Mercado OTC S.A.", equivalent to 1,111 shares and 1,295,746.3890 pesos each, (5) representing 11.11% ownership. This company's objective is to manage infrastructure for the financial market, providing registration, confirmation, storage, consolidation and conciliation services for financial derivatives transactions, as well as granting related or complementary services.

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**NOTE 12****INVESTMENTS IN ASSOCIATES AND OTHER COMPANIES, continued**

b) Summary of financial information of associates as of and for the years ended December 31, 2013, 2012 and 2011:

|   | As of December 31, |                |               |              | 2012           |                |               |              | 2011           |                |               |              |
|---|--------------------|----------------|---------------|--------------|----------------|----------------|---------------|--------------|----------------|----------------|---------------|--------------|
|   | 2013               |                | Net           |              | Assets         |                | Net           |              | Assets         |                | Net           |              |
|   | Assets             | Liabilities    | Equity        | income       | Assets         | Liabilities    | Equity        | income       | Assets         | Liabilities    | Equity        | income       |
| MCh\$   | MCh\$              | MCh\$          | MCh\$         | MCh\$        | MCh\$          | MCh\$          | MCh\$         | MCh\$        | MCh\$          | MCh\$          | MCh\$         | MCh\$        |
| Centro de<br>Compensación<br>Automatizado                   | 2,994              | 1,012          | 1,606         | 376          | 2,014          | 405            | 1,263         | 346          | 1,586          | 334            | 937           | 315          |
| Redbanc S.A.  | 18,023             | 13,622         | 3,984         | 417          | 15,973         | 11,863         | 4,706         | (596)        | 15,009         | 9,529          | 4,515         | 965          |
| Transbank S.A.  | 483,004            | 477,772        | 5,196         | 36           | 316,881        | 310,576        | 5,076         | 1,229        | 277,424        | 271,150        | 5,080         | 1,194        |
| Sociedad<br>Interbancaria<br>de Depósito de<br>Valores S.A. | 2,113              | 20             | 1,711         | 382          | 1,714          | 4              | 1,415         | 295          | 1,576          | 53             | 1,179         | 344          |
| Sociedad<br>Nexus S.A.                                      | 13,309             | 6,112          | 6,075         | 1,122        | 14,439         | 8,027          | 4,256         | 2,156        | 14,534         | 8,122          | 5,250         | 1,162        |
| Servicios de<br>Infraestructura<br>de Mercado<br>OTC S.A.   | 14,608             | 3,188          | 11,560        | (140)        | -              | -              | -             | -            | -              | -              | -             | -            |
| Administrador<br>Financiero del<br>Transantiago<br>S.A.     | 63,981             | 54,244         | 6,076         | 3,661        | 81,017         | 74,940         | 8,714         | (2,637)      | 70,023         | 61,309         | 3,883         | 4,831        |
| Cámara de<br>Compensación<br>de Alto Valor<br>S.A.          | 5,435              | 906            | 4,085         | 444          | 5,109          | 772            | 3,631         | 706          | 4,498          | 703            | 3,073         | 722          |
| <b>Total</b>  | <b>603,467</b>     | <b>556,876</b> | <b>40,293</b> | <b>6,298</b> | <b>437,147</b> | <b>406,587</b> | <b>29,061</b> | <b>1,499</b> | <b>384,650</b> | <b>351,200</b> | <b>23,917</b> | <b>9,533</b> |

d) Restrictions over the ability of associated companies to transfer funds to investors.

There are no significant restrictions regarding the capacity of associates to transfer funds, whether in cash dividends, refund of loans, or advance payments to the Bank.

e) Activity with respect to investments in other companies during 2013, 2012 and 2011, is as follows:

|   | <b>For the years ended</b> |              |              |
|---|----------------------------|--------------|--------------|
|   | <b>December 31,</b>        |              |              |
|   | <b>2013</b>                | <b>2012</b>  | <b>2011</b>  |
|   | <b>MCh\$</b>               | <b>MCh\$</b> | <b>MCh\$</b> |
| <b>Opening balance as of January 1,</b> | <b>7,614</b>               | <b>8,728</b> | <b>7,275</b> |
| Acquisition of investments (1)          | 1,440                      | 61           | -            |
| Sale of investments (2)                 | -                          | (401)        | -            |
| Participation in income                 | 1,422                      | 267          | 2,140        |
| Dividends received (3)                  | (663)                      | (690)        | (795)        |
| Other equity adjustments                | (132)                      | (351)        | 108          |
| <b>Balance as of December 31,</b>       | <b>9,681</b>               | <b>7,614</b> | <b>8,728</b> |

(1) See letter a), reference (4) and (5)

(2) See letter a), reference (2)

(3) As of December 31, 2013, 2012 and 2011 dividends from investments accounted for the cost method were Ch\$112 million, Ch\$206 million and Ch\$0 respectively, are not included.

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## NOTE 13

## INTANGIBLE ASSETS

a) As of December 31, 2013 and 2012, the composition of the item is as follows:

|                         | Years<br>of<br>useful<br>life | Average remaining<br>useful life | Net opening<br>balance as of<br>January 1,<br>2013<br>MCh\$ | As of December 31, 2013   |                                      |                         |
|-------------------------|-------------------------------|----------------------------------|---|---------------------------|--------------------------------------|-------------------------|
|                         |                               |                                  |   | Gross<br>balance<br>MCh\$ | Accumulated<br>amortization<br>MCh\$ | Net<br>balance<br>MCh\$ |
| Licenses                | 3                             | 2                                | 2,621   | 9,955                     | (7,758)                              | 2,197                   |
| Software<br>development | 3                             | 2                                | 84,726  | 242,023                   | (177,517)                            | 64,506                  |
| <b>Total</b>            |                               |                                  | <b>87,347</b>   | <b>251,978</b>            | <b>(185,275)</b>                     | <b>66,703</b>           |
|                         | Years<br>of<br>useful<br>life | Average remaining<br>useful life | Net opening<br>balance as of<br>January 1,<br>2012<br>MCh\$ | As of December 31, 2012   |                                      |                         |
|                         |                               |                                  |   | Gross<br>balance<br>MCh\$ | Accumulated<br>amortization<br>MCh\$ | Net<br>balance<br>MCh\$ |
| Licenses                | 3                             | 2                                | 2,496   | 9,329                     | (6,708)                              | 2,621                   |
| Software<br>development | 3                             | 2                                | 78,243  | 224,671                   | (139,945)                            | 84,726                  |
| <b>Total</b>            |                               |                                  | <b>80,739</b>   | <b>234,000</b>            | <b>(146,653)</b>                     | <b>87,347</b>           |

b) The activity in intangible assets during 2013 and 2012 is as follows:

## b.1) Gross balance

| Gross balances                          | Licenses Software development |                | Total          |
|---|-------------------------------|----------------|----------------|
|   | MCh\$                         | MCh\$          | MCh\$          |
| <b>Balances as of January 1, 2013</b>   | <b>9,329</b>                  | <b>224,671</b> | <b>234,000</b> |
| Acquisitions                            | 626                           | 17,774         | 18,400         |
| Disposals                               | -                             | -              | -              |
| Other                                   | -                             | (422)          | (422)          |
| <b>Balances as of December 31, 2013</b> | <b>9,955</b>                  | <b>242,023</b> | <b>251,978</b> |
| <b>Balances as of January 1, 2012</b>   | <b>8,085</b>                  | <b>184,133</b> | <b>192,218</b> |
| Acquisitions                            | 1,244                         | 41,018         | 42,262         |
| Disposals                               | -                             | (480)          | (480)          |
| Other                                   | -                             | -              | -              |
| <b>Balances as of December 31, 2012</b> | <b>9,329</b>                  | <b>224,671</b> | <b>234,000</b> |

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**NOTE 13****INTANGIBLE ASSETS, continued****b.2) Accumulated amortization**

| <b>Accumulated amortization</b>         | <b>Licenses Software development</b> |                  | <b>Total</b>     |
|---|--------------------------------------|------------------|------------------|
|   | <b>MCh\$</b>                         | <b>MCh\$</b>     | <b>MCh\$</b>     |
| <b>Balances as of January 1, 2013</b>   | <b>(6,708)</b>                       | <b>(139,945)</b> | <b>(146,653)</b> |
| Year's amortization                     | (1,050)                              | (37,572)         | (38,622)         |
| Other changes                           | -                                    | -                | -                |
| <b>Balances as of December 31, 2013</b> | <b>(7,758)</b>                       | <b>(177,517)</b> | <b>(185,275)</b> |
| <b>Balances as of January 1, 2012</b>   | <b>(5,589)</b>                       | <b>(105,890)</b> | <b>(111,479)</b> |
| Year's amortization                     | (1,119)                              | (34,055)         | (35,174)         |
| Other changes                           | -                                    | -                | -                |
| <b>Balances as of December 31, 2012</b> | <b>(6,708)</b>                       | <b>(139,945)</b> | <b>(146,653)</b> |

The Bank has no restriction on intangible assets as of December 31, 2013 and 2012. Additionally, the intangibles c) assets have not been pledged as guarantee for fulfillment of financial liabilities. Also, the Bank has no debt related to Property, plant, and equipment as of those dates.

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## NOTE 14

## PROPERTY, PLANT, AND EQUIPMENT

a) As of December 31, 2013 and 2012, the composition of property, plant, and equipment is as follows:

|                              | As of December 31, 2013                               |                  |                  | Net<br>balance<br>MCh\$ |
|------------------------------|---|------------------|------------------|-------------------------|
|                              | Net opening balance as of<br>January 1, 2012<br>MCh\$ | Gross<br>balance |                  |                         |
|                              |   | MCh\$            | MCh\$            |                         |
| Land and buildings           | 119,853   | 184,711          | (56,592)         | 128,119                 |
| Equipment                    | 28,625  | 85,857           | (47,016)         | 38,841                  |
| Ceded under operating leases | 4,507   | 4,888            | (559)            | 4,329                   |
| Other                        | 9,229   | 32,207           | (23,281)         | 8,926                   |
| <b>Total</b>                 | <b>162,214</b>  | <b>307,663</b>   | <b>(127,448)</b> | <b>180,215</b>          |

|                              | As of December 31, 2012                               |                  |                  | Net<br>balance<br>MCh\$ |
|------------------------------|---|------------------|------------------|-------------------------|
|                              | Net opening balance as of<br>January 1, 2012<br>MCh\$ | Gross<br>balance |                  |                         |
|                              |   | MCh\$            | MCh\$            |                         |
| Land and buildings           | 118,493   | 167,241          | (47,388)         | 119,853                 |
| Equipment                    | 22,570  | 66,170           | (37,545)         | 28,625                  |
| Ceded under operating leases | 4,071   | 4,996            | (489)            | 4,507                   |
| Other                        | 7,925   | 28,957           | (19,728)         | 9,229                   |
| <b>Total</b>                 | <b>153,059</b>  | <b>267,364</b>   | <b>(105,150)</b> | <b>162,214</b>          |

b) The activity in property, plant, and equipment during 2013 and 2012 is as follows:

## b.1) Gross balance

| <b>2013</b>                             | <b>Land and buildings</b> | <b>Equipment</b> | <b>Ceded under operating leases</b> | <b>Other</b>  | <b>Total</b>   |
|---|---------------------------|------------------|-------------------------------------|---------------|----------------|
|   | <b>MCh\$</b>              | <b>MCh\$</b>     | <b>MCh\$</b>                        | <b>MCh\$</b>  | <b>MCh\$</b>   |
| <b>Balances as of January 1, 2013</b>   | <b>167,241</b>            | <b>66,170</b>    | <b>4,996</b>                        | <b>28,957</b> | <b>267,364</b> |
| Additions                               | 17,470                    | 20,171           | -                                   | 3,148         | 40,789         |
| Disposals                               | -                         | (240)            | (108)                               | -             | (348)          |
| Impairment due to damage (i)            | -                         | (244)            | -                                   | -             | (244)          |
| Other                                   | -                         | -                | -                                   | 102           | 102            |
| <b>Balances as of December 31, 2013</b> | <b>184,711</b>            | <b>85,857</b>    | <b>4,888</b>                        | <b>32,207</b> | <b>307,663</b> |

Banco Santander Chile recognized on its financial statements as of December 31, 2013 Ch\$244 million impairment i) from damages to ATMs. Compensation received from insurance totaled Ch\$725 million, which is presented within Other operating income (see Note 34).

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 14****PROPERTY, PLANT, AND EQUIPMENT, continued**

| <b>2012</b>                             | <b>Land and buildings</b> | <b>Equipment</b> | <b>Ceded under operating leases</b> | <b>Other</b>  | <b>Total</b>   |
|---|---------------------------|------------------|-------------------------------------|---------------|----------------|
|   | <b>MCh\$</b>              | <b>MCh\$</b>     | <b>MCh\$</b>                        | <b>MCh\$</b>  | <b>MCh\$</b>   |
| <b>Balances as of January 1, 2012</b>   | <b>156,950</b>            | <b>51,781</b>    | <b>4,477</b>                        | <b>24,081</b> | <b>237,289</b> |
| Additions                               | 16,658                    | 14,570           | 519                                 | 4,991         | 36,738         |
| Disposals                               | (6,367)                   | (91)             | -                                   | (115)         | (6,573)        |
| Impairment due to damage (i)            | -                         | (90)             | -                                   | -             | (90)           |
| Transfers                               | -                         | -                | -                                   | -             | -              |
| Other                                   | -                         | -                | -                                   | -             | -              |
| <b>Balances as of December 31, 2012</b> | <b>167,241</b>            | <b>66,170</b>    | <b>4,996</b>                        | <b>28,957</b> | <b>267,364</b> |

Banco Santander Chile recognized on its financial statements as of December 31, 2012 Ch\$90 million impairment i) from damages to ATMs. Compensation received from insurance totaled Ch\$ 262 million, which is presented within Other operating income (see Note 34).

**b.2) Accumulated depreciation**

| <b>2013</b>                             | <b>Land and buildings</b> | <b>Equipment</b> | <b>Ceded under operating leases</b> | <b>Other</b>    | <b>Total</b>     |
|---|---------------------------|------------------|-------------------------------------|-----------------|------------------|
|   | <b>MCh\$</b>              | <b>MCh\$</b>     | <b>MCh\$</b>                        | <b>MCh\$</b>    | <b>MCh\$</b>     |
| <b>Balances as of January 1, 2013</b>   | <b>(47,388)</b>           | <b>(37,545)</b>  | <b>(489)</b>                        | <b>(19,728)</b> | <b>(105,150)</b> |
| Depreciation charges in the period      | (9,207)                   | (9,554)          | (89)                                | (3,602)         | (22,452)         |
| Sales and disposals in the period       | 3                         | 83               | 19                                  | 49              | 154              |
| Transfers                               | -                         | -                | -                                   | -               | -                |
| Other                                   | -                         | -                | -                                   | -               | -                |
| <b>Balances as of December 31, 2013</b> | <b>(56,592)</b>           | <b>(47,016)</b>  | <b>(559)</b>                        | <b>(23,281)</b> | <b>(127,448)</b> |

| <b>2012</b> | <b>Land and buildings</b> | <b>Equipment</b> | <b>Ceded under operating leases</b> | <b>Other</b> | <b>Total</b> |
|-------------|---------------------------|------------------|-------------------------------------|--------------|--------------|
|             | <b>MCh\$</b>              | <b>MCh\$</b>     | <b>MCh\$</b>                        | <b>MCh\$</b> | <b>MCh\$</b> |

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|   |                 |                 |              |                 |                  |
|---|-----------------|-----------------|--------------|-----------------|------------------|
| <b>Balances as of January 1, 2012</b>   | <b>(38,485)</b> | <b>(29,211)</b> | <b>(378)</b> | <b>(16,156)</b> | <b>(84,230)</b>  |
| Depreciation charges in the period      | (9,125)         | (8,351)         | (111)        | (3,608)         | (21,195)         |
| Sales and disposals in the period       | 222             | 17              | -            | 36              | 275              |
| Transfers                               | -               | -               | -            | -               | -                |
| Other                                   | -               | -               | -            | -               | -                |
| <b>Balances as of December 31, 2012</b> | <b>(47,388)</b> | <b>(37,545)</b> | <b>(489)</b> | <b>(19,728)</b> | <b>(105,150)</b> |

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**NOTE 14****PROPERTY, PLANT, AND EQUIPMENT, continued****c) Operational leases – Lessor**

As of December 31, 2013 and 2012, the future minimum lease cash inflows under non-cancellable operating leases are as follows:

|                                      | <b>As of<br/>December 31,<br/>2013 2012<br/>MCh\$ MCh\$</b> |              |
|--------------------------------------|---|--------------|
| Due within 1 year                    | 637   | 1,163        |
| Due after 1 year but within 2 years  | 508   | 626          |
| Due after 2 years but within 3 years | 300   | 502          |
| Due after 3 years but within 4 years | 263   | 294          |
| Due after 4 years but within 5 years | 263   | 258          |
| Due after 5 years                    | 2,148   | 2,148        |
| <b>Total</b>                         | <b>4,119</b>  | <b>4,991</b> |

**d) Operational leases – Lessee**

Certain Bank's premises and equipment are leased under various operating leases. Future minimum rental payments under non-cancellable leases are as follows:

|                   | <b>As of December<br/>31,<br/>2013 2012<br/>MCh\$ MCh\$</b> |        |
|-------------------|---|--------|
| Due within 1 year | 18,941  | 16,266 |

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|                                      |        |        |
|--------------------------------------|--------|--------|
| Due after 1 year but within 2 years  | 16,948 | 14,845 |
| Due after 2 year but within 3 years  | 15,161 | 12,960 |
| Due after 3 years but within 4 years | 14,083 | 11,443 |
| Due after 4 years but within 5 years | 12,902 | 10,465 |
| Due after 5 years                    | 61,730 | 63,035 |

**Total** **139,765** **129,014**

e) As of December 31, 2013 and 2012, the Bank has no financial leases which cannot be unilaterally rescinded.

The Bank has no restriction on intangible assets as of December 31, 2013 and 2012. Additionally, the property, f) plant, and equipment have not been surrendered as guarantees for the compliance of financial liabilities. Also, the Bank has no debt regarding Property, plant, and equipment as of those dates.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

## NOTE 15

## CURRENT AND DEFERRED TAXES

**a) Current taxes**

As of December 31, 2013 and 2012, the bank recognizes an income tax provision, which is determined based on the currently applicable tax legislation. This provision is recorded net of recoverable taxes, as shown as follows:

|  | <b>As of December 31,</b> |                |
|--|---------------------------|----------------|
|  | <b>2013</b>               | <b>2012</b>    |
|  | <b>MCh\$</b>              | <b>MCh\$</b>   |
| <b>Summary of current tax liabilities (assets)</b>     |                           |                |
| Current tax (assets)                                   | (1,643)                   | (10,227)       |
| Current tax liabilities                                | 50,242                    | 525            |
| <b>Total tax payable (recoverable)</b>                 | <b>48,599</b>             | <b>(9,702)</b> |
| <b>(Assets) liabilities current taxes detail (net)</b> |                           |                |
| Income tax, tax rate 20%                               | 117,095                   | 83,381         |
| Minus:   |                           |                |
| Provisional monthly payments (PPM)                     | (61,730)                  | (84,940)       |
| Credit for training expenses                           | (1,656)                   | (1,505)        |
| Land taxes leasing                                     | (2,987)                   | (2,939)        |
| Grant credits  | (1,892)                   | (2,534)        |
| Other  | (231)                     | (1,165)        |
| <b>Total tax payable (recoverable)</b>                 | <b>48,599</b>             | <b>(9,702)</b> |

**b) Effect on income**

The effect of tax expense on income for the years ended December 31, 2013 and 2012 is comprised of the following items:

|   | <b>As of December 31,</b> |               |
|---|---------------------------|---------------|
|   | <b>2013</b>               | <b>2012</b>   |
|   | <b>MCh\$</b>              | <b>MCh\$</b>  |
| <b>Income tax expense</b>                         |                           |               |
| Current tax                                       | 117,095                   | 83,381        |
| <b>Credits (debits) for deferred taxes</b>        |                           |               |
| Origination and reversal of temporary differences | (27,658)                  | (39,275)      |
| <b>Subtotals</b>                                  | <b>89,437</b>             | <b>44,106</b> |
| Tax for rejected expenses (Article No.21)         | 392                       | 70            |
| Other   | 4,701                     | 297           |
| <b>Net charges for income tax expense</b>         | <b>94,530</b>             | <b>44,473</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 15****CURRENT AND DEFERRED TAXES, continued****c) Effective tax rate reconciliation**

The reconciliation between the income tax rate and the effective rate applied in determining tax expenses as of December 31, 2013 and 2012, is as follows:

|  | As of December 31, |               |              |               |
|--|--------------------|---------------|--------------|---------------|
|  | 2013               | 2012          |              |               |
|  | Tax                | Tax           |              |               |
|  | Amount             | Amount        |              |               |
|  | rate               | rate          |              |               |
|  | %                  | %             |              |               |
|  | MCh\$              | MCh\$         |              |               |
| Tax calculated over profit before tax              | 20.00              | 107,792       | 20,00        | 81,181        |
| Permanent differences                              | (2.04)             | (11,012)      | (2.77)       | (11,227)      |
| Single penalty tax (rejected expenses)             | 0.07               | 392           | 0.23         | 936           |
| Rate change effect (*)                             | -                  | -             | (4.00)       | (16,221)      |
| Real estate taxes                                  | (0.55)             | (2,987)       | (2.05)       | (8,324)       |
| Other  | 0.06               | 345           | (0.45)       | (1,872)       |
| <b>Effective rates and expenses for income tax</b> | <b>17.54</b>       | <b>94,530</b> | <b>10.96</b> | <b>44,473</b> |

(\*)Law No. 20,455 from 2010 increased the first class tax rate to be applied to companies on the taxable income during 2011 and 2012, to 20% and 18.5% respectively. Nonetheless, law No. 20,630 published in the Official Newspaper on September 27, 2012 increased the First Class Rate from 18.5% to 20%, permanently, for transactions accounted from January 1, 2012 onwards. This created income for MCh\$ 16,221, corresponding to the fluctuation of the deferred tax expense/benefit.

**d) Effect of deferred taxes on comprehensive income**

Below is a summary of the separate effect of deferred tax on Equity, showing the asset and liability balances, for the years ended December 31, 2013 and 2012:

|  | <b>As of</b>        |                |
|--|---------------------|----------------|
|  | <b>December 31,</b> |                |
|  | <b>2013</b>         | <b>2012</b>    |
|  | <b>MCh\$</b>        | <b>MCh\$</b>   |
| <b>Deferred tax assets</b>   |                     |                |
| Available for sale investments   | 31                  | 2,004          |
| Cash flow hedges   | 1,651               | 389            |
| <b>Total deferred tax assets affecting other with effect in other comprehensive incomes</b>      | <b>1,682</b>        | <b>2,393</b>   |
| <b>Deferred tax liabilities</b>  |                     |                |
| Available for sale investments   | (199)               | (1)            |
| Cash flow hedges   | -                   | (1,452)        |
| <b>Total deferred tax liabilities affecting other with effect in other comprehensive incomes</b> | <b>(199)</b>        | <b>(1,453)</b> |
| <b>Net deferred tax balances in equity</b>   | <b>1,483</b>        | <b>940</b>     |
| Deferred taxes in equity attributable to Bank shareholders                                       | 1,491               | 945            |
| Deferred tax in equity attributable to non-controlling interests                                 | (8)                 | (5)            |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 15****CURRENT AND DEFERRED TAXES, continued****e) Effect of deferred taxes on income**

As of 2013 and 2012, the Bank has recorded deferred tax effects in its financial statements.

Below are the effects of deferred taxes on assets, liabilities and income as of December 31, 2013 and 2012:

|                                       | <b>As of December 31,</b> |                |
|---------------------------------------|---------------------------|----------------|
|                                       | <b>2013</b>               | <b>2012</b>    |
|                                       | <b>MCh\$</b>              | <b>MCh\$</b>   |
| <b>Deferred tax assets</b>            |                           |                |
| Interests and adjustments             | 7,203                     | 7,854          |
| Non-recurring charge-offs             | 9,787                     | 12,046         |
| Assets received in lieu of payment    | 707                       | 730            |
| Property, plant and equipment         | 3,579                     | 3,654          |
| Allowance for loan losses             | 89,600                    | 92,074         |
| Provision for expenses                | 19,130                    | 17,903         |
| Derivatives                           | 19                        | 54             |
| Leased assets                         | 52,447                    | 39,168         |
| Subsidiaries tax losses               | 5,716                     | 5,232          |
| Other                                 | 37,415                    | 767            |
| <b>Total deferred tax assets</b>      | <b>225,603</b>            | <b>179,482</b> |
| <b>Deferred tax liabilities</b>       |                           |                |
| Valuation of investments              | (13,258)                  | (6,555)        |
| Depreciation                          | (315)                     | (261)          |
| Other                                 | (12,981)                  | (1,275)        |
| <b>Total deferred tax liabilities</b> | <b>(26,554)</b>           | <b>(8,091)</b> |

**f) Summary of deferred tax assets and liabilities**

Below is a summary of the deferred taxes impact on equity and income.

|   | <b>As of December</b> |                |
|---|-----------------------|----------------|
|   | <b>31,</b>            |                |
|   | <b>2013</b>           | <b>2012</b>    |
|   | <b>MCh\$</b>          | <b>MCh\$</b>   |
| <b>Deferred tax assets</b>                    |                       |                |
| Recognized through other comprehensive income | 1,682                 | 2,393          |
| Recognized through profit or loss             | 225,603               | 179,482        |
| <b>Total deferred tax assets</b>              | <b>227,285</b>        | <b>181,875</b> |
| <b>Deferred tax liabilities</b>               |                       |                |
| Recognized through other comprehensive income | (199)                 | (1,453)        |
| Recognized through profit or loss             | (26,554)              | (8,091)        |
| <b>Total deferred tax liabilities</b>         | <b>(26,753)</b>       | <b>(9,544)</b> |

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**NOTE 16**

## OTHER ASSETS

Other assets item includes the following:

|  | <b>As of December 31,</b> |                |
|--|---------------------------|----------------|
|  | <b>2013</b>               | <b>2012</b>    |
|  | <b>MCh\$</b>              | <b>MCh\$</b>   |
| <b>Assets for leasing (*)</b>                                    | <b>41,402</b>             | <b>42,891</b>  |
| <b>Assets received or awarded in lieu of payment</b>             |                           |                |
| Assets received in lieu of payment                               | 16,659                    | 17,731         |
| Assets awarded at judicial sale                                  | 6,530                     | 9,974          |
| Provision on assets received in lieu of payment or awarded       | (2,914)                   | (3,091)        |
| <b>Subtotals</b>   | <b>20,275</b>             | <b>24,614</b>  |
| <b>Other assets</b>  |                           |                |
| Guarantee deposits   | 181,032                   | 256,854        |
| Gold investments   | 373                       | 464            |
| VAT credit   | 8,705                     | 10,337         |
| Income tax recoverable   | 42,354                    | 28,274         |
| Prepaid expenses   | 34,970                    | 50,870         |
| Assets recovered from leasing for sale                           | 5,747                     | 3,335          |
| Pension plan assets  | 1,822                     | 1,989          |
| Accounts and notes receivable                                    | 60,256                    | 82,378         |
| Notes receivable through brokerage and simultaneous transactions | 75,145                    | 89,314         |
| Other receivable assets  | 9,746                     | 29,883         |
| Other assets   | 33,111                    | 36,687         |
| <b>Subtotals</b>   | <b>453,261</b>            | <b>590,385</b> |
| <b>Total</b>   | <b>514,938</b>            | <b>657,890</b> |

(\*) Assets available to be granted under the financial leasing agreements.

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## NOTE 17

## TIME DEPOSITS AND OTHER TIME LIABILITIES

As of December 31, 2013 and 2012, the composition of the line item Time deposits and other liabilities is as follows:

|   | <b>As of December 31,</b> |                  |
|---|---------------------------|------------------|
|   | <b>2013</b>               | <b>2012</b>      |
|   | <b>MCh\$</b>              | <b>MCh\$</b>     |
| <b>Deposits and other demand liabilities</b>    |                           |                  |
| Checking accounts                               | 4,403,526                 | 4,006,143        |
| Other deposits and demand accounts              | 569,395                   | 455,315          |
| Other demand liabilities                        | 647,842                   | 508,561          |
| <b>Total</b>                                    | <b>5,620,763</b>          | <b>4,970,019</b> |
| <b>Time deposits and other time liabilities</b> |                           |                  |
| Time deposits                                   | 9,567,855                 | 9,008,902        |
| Time savings account                            | 104,143                   | 101,702          |
| Other time liabilities                          | 3,274                     | 1,609            |
| <b>Total</b>                                    | <b>9,675,272</b>          | <b>9,112,213</b> |

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## NOTE 18

## INTERBANK BORROWINGS

As of December 31, 2013 and 2012 the line item Interbank borrowings is as follows:

|  | <b>As of December 31,</b> |              |
|--|---------------------------|--------------|
|  | <b>2013</b>               | <b>2012</b>  |
|  | <b>MCh\$</b>              | <b>MCh\$</b> |
| <b>Loans from financial institutions and the Central Bank of Chile</b> |                           |              |
| Other obligations with Central Bank of Chile                           | 220                       | 398          |
| <b>Subtotals</b>   | <b>220</b>                | <b>398</b>   |
| <b>Loans from domestic financial institutions</b>                      | <b>500</b>                | <b>-</b>     |
| <b>Loans from foreign financial institutions</b>                       |                           |              |
| Standard Chartered Bank - New York                                     | 349,433                   | 279,966      |
| Citibank N.A. - New York   | 181,107                   | 187,036      |
| Wells Fargo Bank N.A. – New York                                       | 144,284                   | -            |
| Mizuho Corporate Bank  | 131,273                   | 95,290       |
| Landesbank Baden Wuerttemberg  | 108,566                   | -            |
| Commerzbank A.G. - Frankfurt   | 107,843                   | 88,801       |
| Banco Interamericano del Desarrollo                                    | 104,929                   | -            |
| Sumitomo Mitsui Banking Corporation                                    | 102,379                   | 67,105       |
| Bank of America  | 94,388                    | 139,570      |
| Bank of Montreal – Toronto   | 80,820                    | 112,236      |
| The Toronto Dominion Bank – Toronto                                    | 70,803                    | 74,486       |
| Banco Santander – Montevideo   | 52,442                    | 57,532       |
| Royal Bank of Scotland – London  | 44,608                    | 40,784       |
| The Bank of New York Mellon  | 26,224                    | -            |
| HSBC Bank of New York  | 26,222                    | -            |
| National Bank of Abu Dhabi   | 15,741                    | -            |
| Deutsche Bank A.G.- New York   | 13,109                    | 245          |
| Wachovia Bank N.A.- Miami  | 7,394                     | 204,184      |
| Banco Santander – Hong Kong  | 5,781                     | 4,283        |
| Commerzbank N.A. – Miami   | 5,254                     | 14,368       |
| Standard Chartered Bank - Hong Kong                                    | 1,059                     | -            |
| Unicredito Italiana SPA  | 993                       | -            |
| Woori Bank   | 627                       | -            |
| Lanschot Bankiers N.V.   | 446                       | -            |
| Banco Popolare di Novara   | 351                       | 308          |

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|  |                  |                  |
|--|------------------|------------------|
| National Agricultural Cooperative      | 259              | -                |
| Banco de Sabadell S.A.                 | 250              | -                |
| Banco de Occidente                     | 248              | -                |
| Banco Popular Español S.A.             | 224              | -                |
| Banco Bilbao Vizcaya Argentaria        | 221              | -                |
| HSBC Bank USA                          | 179              | -                |
| Bank of Tokyo Mitsubishi               | 174              | -                |
| U.S. Bank                              | 174              | 513              |
| Intesa Sanpaolo SPA - USA              | 173              | -                |
| J.P. Morgan Chase Bank N.A. - New York | 164              | 48,176           |
| United Bank of India                   | 160              | -                |
| Banco do Brasil S.A. – London          | 146              | 285              |
| National Westminster Bank PLC          | 136              | -                |
| Bank of China                          | 105              | 1,510            |
| State Bank of India                    | 89               | -                |
| Banca Popolare di Vicenza SCPA         | 76               | 208              |
| Discount Bank – Montevideo             | 73               | 3,835            |
| Banco Bradesco S.A.                    | 60               | 245              |
| Unicredit Banca d Impresa              | 47               | 544              |
| Banca Nazionale del Lavoro S.P.        | 38               | 216              |
| BBVA Banco Francés S.A.                | 26               | -                |
| Banca Commerciale Italiana S.P.        | 23               | 494              |
| Turkiye Halk Bankasi                   | 23               | 403              |
| Bancolombia S.A. - Panamá              | 9                | 709              |
| UBS A.G.                               | -                | 3,786            |
| Banca Antoniana Popolare – Veneto      | -                | 746              |
| Unicredito Italiano - New York         | -                | 410              |
| Banco Santander – Madrid               | 500              | 660              |
| Banco General S.A.                     | -                | 349              |
| Banco Español de Crédito               | -                | 281              |
| ING Bank N.V. - Vienna                 | -                | 257              |
| Banco Sofisa                           | -                | 212              |
| Other                                  | 2,004            | 7,572            |
| <b>Subtotals</b>                       | <b>1,681,657</b> | <b>1,437,605</b> |
| <b>Total</b>                           | <b>1,682,377</b> | <b>1,438,003</b> |

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## NOTE 18

## INTERBANK BORROWINGS, continued

## a) Obligations with Central Bank of Chile

Debts to the Central Bank of Chile include credit lines for renegotiation of loans and other borrowings. These credit lines were provided by the Central Bank of Chile for renegotiation of loans due to the need to refinance debt as a result of the economic recession and crisis of the banking system in the early 1980s.

The outstanding amounts owed to the Central Bank of Chile under these credit lines are as follows:

|  | <b>As of December 31,</b> |              |
|--|---------------------------|--------------|
|  | <b>2013</b>               | <b>2012</b>  |
|  | <b>MCh\$</b>              | <b>MCh\$</b> |
| Totals Line of credit for renegotiation with Central Bank of Chile | 220                       | 398          |

**b) Loans from domestic financial institutions**

These obligations' maturities are as follows:

|                         | <b>As of December 31,</b> |              |
|-------------------------|---------------------------|--------------|
|                         | <b>2013</b>               | <b>2012</b>  |
|                         | <b>MCh\$</b>              | <b>MCh\$</b> |
| Due within 1 year       | 500                       | -            |
| Due within 1 and 2 year | -                         | -            |
| Due within 2 and 3 year | -                         | -            |
| Due within 3 and 4 year | -                         | -            |
| Due after 5 years       | -                         | -            |

**Total loans from domestic financial institutions 500 -**

**c) Foreign obligations**

|  | <b>As of December 31,</b> |                  |
|--|---------------------------|------------------|
|  | <b>2013</b>               | <b>2012</b>      |
|  | <b>MCh\$</b>              | <b>MCh\$</b>     |
| Due within 1 year                                      | 1,529,511                 | 1,272,994        |
| Due within 1 and 2 year                                | 152,146                   | 164,611          |
| Due within 2 and 3 year                                | -                         | -                |
| Due within 3 and 4 year                                | -                         | -                |
| Due after 5 years                                      | -                         | -                |
| <b>Total loans from foreign financial institutions</b> | <b>1,681,657</b>          | <b>1,437,605</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 19****ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES**

As of December 31, 2013 and 2012, composition of this item is as follows:

|                                    | <b>As of December 31,</b> |                  |
|------------------------------------|---------------------------|------------------|
|                                    | <b>2013</b>               | <b>2012</b>      |
|                                    | <b>MCh\$</b>              | <b>MCh\$</b>     |
| <b>Other financial liabilities</b> |                           |                  |
| Obligations to public sector       | 68,075                    | 96,185           |
| Other domestic obligations         | 118,683                   | 93,653           |
| Foreign obligations                | 3,023                     | 2,773            |
| <b>Subtotals</b>                   | <b>189,781</b>            | <b>192,611</b>   |
| <b>Issued debt instruments</b>     |                           |                  |
| Mortgage finance bonds             | 101,667                   | 128,086          |
| Senior bonds                       | 4,190,918                 | 3,717,213        |
| Mortgage bond                      | 70,339                    | -                |
| Subordinated bonds                 | 835,734                   | 725,990          |
| <b>Subtotals</b>                   | <b>5,198,658</b>          | <b>4,571,289</b> |
| <b>Total</b>                       | <b>5,338,439</b>          | <b>4,763,900</b> |

Debts classified as current are either demand obligations or will mature in one year or less. All other debts are classified as non-current. The Bank's debts, both current and non-current, are summarized below:

|                                | <b>As of December 31, 2013</b> |                    |                  |
|--------------------------------|--------------------------------|--------------------|------------------|
|                                | <b>Current</b>                 | <b>Non-current</b> | <b>Total</b>     |
|                                | <b>MCh\$</b>                   | <b>MCh\$</b>       | <b>MCh\$</b>     |
| Mortgage finance bonds         | 6,493                          | 95,174             | 101,667          |
| Senior bonds                   | 1,603,929                      | 2,586,989          | 4,190,918        |
| Mortgage bond                  | -                              | 70,339             | 70,339           |
| Subordinated bonds             | 138,466                        | 697,268            | 835,734          |
| <b>Issued debt instruments</b> | <b>1,748,888</b>               | <b>3,449,770</b>   | <b>5,198,658</b> |

|                                    |                  |                  |                  |
|------------------------------------|------------------|------------------|------------------|
| <b>Other financial liabilities</b> | <b>101,698</b>   | <b>88,083</b>    | <b>189,781</b>   |
| <b>Total</b>                       | <b>1,850,586</b> | <b>3,537,853</b> | <b>5,388,439</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 19****ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued**

|                                    | <b>As of December 31, 2012</b> |                    |                  |
|------------------------------------|--------------------------------|--------------------|------------------|
|                                    | <b>Current</b>                 | <b>Non-current</b> | <b>Total</b>     |
|                                    | <b>MCh\$</b>                   | <b>MCh\$</b>       | <b>MCh\$</b>     |
| Mortgage finance bonds             | 6,863                          | 121,223            | 128,086          |
| Senior bonds                       | 534,852                        | 3,182,361          | 3,717,213        |
| Subordinated bonds                 | 16,037                         | 709,953            | 725,990          |
| <b>Issued debt instruments</b>     | <b>557,752</b>                 | <b>4,013,537</b>   | <b>4,571,289</b> |
| <b>Other financial liabilities</b> | <b>101,335</b>                 | <b>91,276</b>      | <b>192,611</b>   |
| <b>Total</b>                       | <b>659,087</b>                 | <b>4,104,813</b>   | <b>4,763,900</b> |

a) **Mortgage finance bonds**

These bonds are used to finance mortgage loans. Their principal amounts are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. Loans are indexed to UF and create a yearly interest rate of 5.21% as of December 31, 2013 (5.95% as of December 31, 2012).

|                                     | <b>As of December 31,</b> |                |
|-------------------------------------|---------------------------|----------------|
|                                     | <b>2013</b>               | <b>2012</b>    |
|                                     | <b>MCh\$</b>              | <b>MCh\$</b>   |
| Due within 1 year                   | 6,493                     | 6,863          |
| Due after 1 year but within 2 years | 9,760                     | 7,595          |
| Due after 2 year but within 3 years | 8,768                     | 14,752         |
| Due after 3 year but within 4 years | 9,921                     | 11,026         |
| Due after 4 year but within 5 years | 12,511                    | 11,923         |
| Due after 5 years                   | 54,214                    | 75,927         |
| <b>Total mortgage bonds</b>         | <b>101,667</b>            | <b>128,086</b> |

b) **Senior bonds**

The following table shows senior bonds by currency:

|                           | <b>As of December 31,</b> |                  |
|---------------------------|---------------------------|------------------|
|                           | <b>2013</b>               | <b>2012</b>      |
|                           | <b>MCh\$</b>              | <b>MCh\$</b>     |
| Santander bonds in UF     | 1,964,905                 | 2,025,105        |
| Santander bonds in USD    | 1,658,789                 | 1,269,454        |
| Santander bonds in CHF    | 246,284                   | 90,249           |
| Santander bonds in Ch\$   | 277,530                   | 293,933          |
| Santander bonds in CNY    | 43,410                    | 38,472           |
| <b>Total senior bonds</b> | <b>4,190,918</b>          | <b>3,717,213</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 19****ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued****i. Placement of senior bonds:**

In 2013, the Bank placed bonds for UF 13,768,000; CLP 32,500,000,000; CHF 300,000,000; and USD 250,000,000 detailed as follows:

| Series            | Amount                    | Term      | Issuance rate             | Issuance date | Series issued amount | Maturity date |
|-------------------|---------------------------|-----------|---------------------------|---------------|----------------------|---------------|
| E1 Series         | UF 2,742,000              | 5 years   | 3.5% per annum simple     | 02-01-2011    | UF 4,000,000         | 02-01-2016    |
| E2 Series         | UF 952,000                | 7 years   | 3.0% per annum simple     | 01-01-2012    | UF 4,000,000         | 07-01-2018    |
| E3 Series         | UF 2,244,000              | 8.5 years | 3.5% per annum simple     | 01-01-2011    | UF 4,000,000         | 07-01-2019    |
| E6 Series         | UF 3,720,000              | 10 years  | 3.5% per annum simple     | 04-01-2012    | UF 4,000,000         | 04-01-2022    |
| E9 Series         | UF 2,000,000              | 10 years  | 3.5% per annum simple     | 01-01-2013    | UF 2,000,000         | 01-01-2023    |
| FD Series         | UF 110,000                | 5 years   | 3.0% per annum simple     | 08-01-2010    | UF 110,000           | 08-01-2015    |
| EC Series         | UF 2,000,000              | 10 years  | 3.5 % per annum simple    | 11-28-2013    | UF 2,000,000         | 09-01-2023    |
| <b>Total UF</b>   | <b>UF 13,768,000</b>      |           |                           |               |                      |               |
| E4 Series         | CLP 7,500,000,000         | 5 years   | 6.75 % per annum simple   | 06-01-2011    | CLP 50,000,000,000   | 06-01-2016    |
| E8 Series         | CLP 25,000,000,000        | 10 years  | 6.6% per annum simple     | 11-01-2012    | CLP 25,000,000,000   | 11-01-2022    |
| <b>CLP Total</b>  | <b>CLP 32,500,000,000</b> |           |                           |               |                      |               |
| CHF floating bond | CHF 150,000,000           | 4 years   | Libor (3 months) + 100 bp | 03-28-2013    | CHF 150,000,000      | 03-28-2017    |
| CHF Bond          | CHF 150,000,000           | 6 years   | 1.75% per annum simple    | 09-26-2013    | CHF 150,000,000      | 09-26-2019    |
| <b>CHF Total</b>  | <b>CHF 300,000,000</b>    |           |                           |               |                      |               |
|                   | USD 250,000,000           | 5 years   |                           | 06-07-2013    | USD 250,000,000      | 06-07-2018    |

|                      |            |                    |                              |
|----------------------|------------|--------------------|------------------------------|
| USD floating<br>bond |            |                    | Libor (3 months) +<br>100 bp |
| <b>USD Total</b>     | <b>USD</b> | <b>250,000,000</b> |                              |

During 2013, the Bank performed a partial repurchase of bonds for Ch\$ 49,245,000,000

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 19****ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued**

In 2012, the Bank placed bonds for UF 698,000; CLP 55,600,000,000; USD 1,085,990,000; and CNY 500,000,000 detailed as follows:

| <b>Series</b>             | <b>Amount</b>             | <b>Term</b> | <b>Issuance rate</b>      | <b>Issuance date</b> | <b>Series issued amount</b> | <b>Maturity date</b> |
|---------------------------|---------------------------|-------------|---------------------------|----------------------|-----------------------------|----------------------|
| FD Series                 | UF 50,000                 | 5 years     | 3.00% per annum simple    | 08-01-2010           | UF 3,000,000                | 08-01-2015           |
| E1 Series                 | UF 362,000                | 5 years     | 3.00% per annum simple    | 02-01-2011           | UF 4,000,000                | 02-01-2016           |
| E3 Series                 | UF 6,000                  | 8.5 years   | 3.50 % per annum simple   | 01-01-2011           | UF 4,000,000                | 07-01-2019           |
| E6 Series                 | UF 280,000                | 10 years    | 3.50 % per annum simple   | 04-01-2012           | UF 4,000,000                | 04-01-2022           |
| <b>Total UF</b>           | <b>UF 698,000</b>         |             |                           |                      |                             |                      |
| E4 Series                 | CLP 5,600,000,000         | 5 years     | 6.75 % per annum simple   | 06-01-2011           | CLP 50,000,000,000          | 06-01-2016           |
| E5 Series                 | CLP 25,000,000,000        | 10 years    | 6.30% per annum simple    | 12-01-2011           | CLP 25,000,000,000          | 12-01-2021           |
| E7 Series                 | CLP 25,000,000,000        | 5 years     | 6.75 % per annum simple   | 03-01-2012           | CLP 25,000,000,000          | 03-01-2017           |
| <b>CLP Total</b>          | <b>CLP 55,600,000,000</b> |             |                           |                      |                             |                      |
| USD floating bond         | USD 250,000,000           | 2 years     | Libor (3 months) + 200 bp | 02-14-2012           | USD 250,000,000             | 02-14-2014           |
| Zero coupon floating bond | USD 85,990,000            | 1 year      | Libor (3 months) + 100 bp | 08-29-2012           | USD 85,990,000              | 08-30-2013           |
| USD bonds                 | USD 750,000,000           | 10 years    | 3.875% per annum simple   | 09-20-2012           | USD 750,000,000             | 09-20-2022           |
| <b>USD Total</b>          | <b>USD 1,085,990,000</b>  |             |                           |                      |                             |                      |
| CNY bonds                 | CNY 500,000,000           | 2 years     | 3.75% per annum simple    | 11-26-2012           | CNY 500,000,000             | 11-26-2014           |
| <b>CNY Total</b>          | <b>CNY 500,000,000</b>    |             |                           |                      |                             |                      |

During 2012, partial repurchases of bonds were made for CHF 45,000,000 and USD 53,500,000.

**ii. Nominal bonds to be placed:**

As of December 31, 2013, there are no outstanding amounts of bonds, not previously authorized, to be placed.

**iii. The maturities of senior bonds are as follows:**

|                                     | <b>As of December 31,<br/>2013<br/>MCh\$</b> | <b>2012<br/>MCh\$</b> |
|-------------------------------------|--|-----------------------|
| Due within 1 year                   | 1,603,929                                    | 534,852               |
| Due after 1 year but within 2 years | 674,784                                      | 600,723               |
| Due after 2 year but within 3 years | 338,853                                      | 643,791               |
| Due after 3 year but within 4 years | 321,589                                      | 610,817               |
| Due after 4 year but within 5 years | 154,368                                      | 323,474               |
| Due after 5 years                   | 1,097,395                                    | 1,003,556             |
| <b>Total senior bonds</b>           | <b>4,190,918</b>                             | <b>3,717,213</b>      |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 19****ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued**c) **Mortgage bonds**

Detail of mortgage bonds per currency is as follows:

|                             | <b>As of</b>        |              |
|-----------------------------|---------------------|--------------|
|                             | <b>December 31,</b> |              |
|                             | <b>2013</b>         | <b>2012</b>  |
|                             | <b>MCh\$</b>        | <b>MCh\$</b> |
| Mortgage bonds in UF        | 70,339              | -            |
| <b>Total mortgage bonds</b> | <b>70,339</b>       | <b>-</b>     |

**i. Allocation of mortgage bonds**

In 2013, the Bank issued bonds for UF 3,000,000, detailed as follows:

| <b>Series</b>      | <b>Amount</b>    | <b>Term</b> | <b>Issuance rate</b>  | <b>Issuance date</b> | <b>Series issued amount</b> | <b>Maturity date</b> |
|--------------------|------------------|-------------|-----------------------|----------------------|-----------------------------|----------------------|
| BH Series UF       | 3,000,000        | 15 years    | 3.2% per annum simple | 07-31-2013           | UF 3,000,000                | 07-31-2028           |
| <b>Total UF UF</b> | <b>3,000,000</b> |             |                       |                      |                             |                      |

The maturities of senior Mortgage bond are as follows:

**As of**  
**December 31,**

|                                     | <b>2013</b>   | <b>2012</b>  |
|-------------------------------------|---------------|--------------|
|                                     | <b>MCh\$</b>  | <b>MCh\$</b> |
| Due within 1 year                   | -             | -            |
| Due after 1 year but within 2 years | -             | -            |
| Due after 2 year but within 3 years | -             | -            |
| Due after 3 year but within 4 years | -             | -            |
| Due after 4 year but within 5 years | -             | -            |
| Due after 5 years                   | 70,339        | -            |
| <b>Total senior bonds</b>           | <b>70,339</b> | <b>-</b>     |

**d) Subordinated bonds**

Detail of the subordinated bonds per currency is as follows:

|                                       | <b>As of December</b> |                |
|---------------------------------------|-----------------------|----------------|
|                                       | <b>31,</b>            |                |
|                                       | <b>2013</b>           | <b>2012</b>    |
|                                       | <b>MCh\$</b>          | <b>MCh\$</b>   |
| Subordinated bonds denominated in USD | 139,802               | 174,285        |
| Subordinated bonds denominated in UF  | 695,932               | 551,705        |
| <b>Total subordinated bonds</b>       | <b>835,734</b>        | <b>725,990</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 19****ISSUED DEBT INSTRUMENTS AND OTHER FINANCIAL LIABILITIES, continued****i. Allocation of subordinated bonds**

During 2013, the Bank places subordinated bonds for UF 5,900,000.

The following chart shows details related to subordinated bonds allocations:

| <b>Series</b> | <b>Amount</b>       | <b>Term</b> | <b>Issuance rate</b>   | <b>Issuance date</b> | <b>Series issued amount</b> | <b>Maturity date</b> |
|---------------|---------------------|-------------|------------------------|----------------------|-----------------------------|----------------------|
| G5 Series UF  | 1,900,000           | 20 years    | 3.9 % per annum simple | 04-05-2011           | UF 4,000,000                | 04-01-2031           |
| H1 Series UF  | 4,000,000           | 30 years    | 3.9 % per annum simple | 11-04-2011           | UF 4,000,000                | 04-01-2041           |
| <b>Total</b>  | <b>UF 5,900,000</b> |             |                        |                      |                             |                      |

During the first half of 2012, the Bank performed a partial repurchase of bonds for USD 47,786,000.

During 2012, the Bank did not issued any subordinated bonds on the market.

The maturities of subordinated bonds, are as follows:

|                                     | <b>As of December 31,</b> |              |
|-------------------------------------|---------------------------|--------------|
|                                     | <b>2013</b>               | <b>2012</b>  |
|                                     | <b>MCh\$</b>              | <b>MCh\$</b> |
| Due within 1 year                   | 138,466                   | 16,037       |
| Due after 1 year but within 2 years | 14,039                    | 182,844      |
| Due after 2 year but within 3 years | 4,140                     | 9,535        |

|                                     |                |                |
|-------------------------------------|----------------|----------------|
| Due after 3 year but within 4 years | -              | 5,760          |
| Due after 4 year but within 5 years | -              | -              |
| Due after 5 years                   | 679,089        | 511,814        |
| <b>Total subordinated bonds</b>     | <b>835,734</b> | <b>725,990</b> |

e) **Other financial liabilities**

The composition of other financial obligations, by maturity, is detailed below:

|   | As of December |                |
|---|----------------|----------------|
|   | 31,            |                |
|   | 2013           | 2012           |
|   | MCh\$          | MCh\$          |
| Non-current portion:                                      |                |                |
| Due after 1 year but within 2 years                       | 3,389          | 3,897          |
| Due after 2 year but within 3 years                       | 2,389          | 2,501          |
| Due after 3 year but within 4 years                       | 3,045          | 3,090          |
| Due after 4 year but within 5 years                       | 20,862         | 2,937          |
| Due after 5 years   | 58,398         | 78,851         |
| <b>Non-current portion subtotals</b>                      | <b>88,083</b>  | <b>91,276</b>  |
| Current portion:  |                |                |
| Amounts due to credit card operators                      | 97,027         | 70,410         |
| Acceptance of letters of credit                           | 741            | 1,683          |
| Other long-term financial obligations, short-term portion | 3,930          | 29,242         |
| <b>Current portion subtotals</b>                          | <b>101,698</b> | <b>101,335</b> |
| <b>Total other financial liabilities</b>                  | <b>189,781</b> | <b>192,611</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 20

**MATURITY OF ASSETS AND LIABILITIES**

As of December 31, 2013 and 2012, the detail of the maturities of assets and liabilities is as follows:

| As of December 31, 2013                            | Demand           | Up to<br>1 month | Between 1 and<br>3 months | Between 3<br>and<br>12 months | Subtotal<br>up to 1 year | Between 1<br>and<br>5 years | More than<br>5 years | Subtotal<br>More than 1<br>year |          |
|--|------------------|------------------|---------------------------|-------------------------------|--------------------------|-----------------------------|----------------------|---------------------------------|----------|
|  | MCh\$            | MCh\$            | MCh\$                     | MCh\$                         | MCh\$                    | MCh\$                       | MCh\$                | MCh\$                           | M        |
| <b>Assets</b>                                      |                  |                  |                           |                               |                          |                             |                      |                                 |          |
| Cash and deposits in banks                         | 1,571,810        | -                | -                         | -                             | 1,571,810                | -                           | -                    | -                               | 1        |
| Cash items in process of collection                | 604,077          | -                | -                         | -                             | 604,077                  | -                           | -                    | -                               | 6        |
| Trading investments                                | -                | 10,018           | 17                        | -                             | 10,035                   | 203,608                     | 73,924               | 277,532                         | 2        |
| Investments under resale agreements                | -                | -                | 17,469                    | -                             | 17,469                   | -                           | -                    | -                               | 1        |
| Financial derivative contracts                     | -                | 168,785          | 99,471                    | 225,617                       | 493,873                  | 565,329                     | 434,816              | 1,000,145                       | 1        |
| Interbank loans (*)                                | 1,224            | 66,264           | 56,901                    | 1,060                         | 125,449                  | -                           | -                    | -                               | 1        |
| Loans and accounts receivables from customers (**) | 773,387          | 2,173,231        | 1,776,530                 | 3,533,313                     | 8,256,461                | 6,367,870                   | 6,310,981            | 12,678,851                      | 2        |
| Available for sale investments                     | -                | 228,997          | 240,018                   | 627,052                       | 1,096,067                | 275,281                     | 329,645              | 604,926                         | 1        |
| Held to maturity investments                       | -                | -                | -                         | -                             | -                        | -                           | -                    | -                               | -        |
| <b>Total assets</b>                                | <b>2,950,498</b> | <b>2,647,295</b> | <b>2,190,406</b>          | <b>4,387,042</b>              | <b>12,175,241</b>        | <b>7,412,088</b>            | <b>7,149,366</b>     | <b>14,561,454</b>               | <b>2</b> |
| <b>Liabilities</b>                                 |                  |                  |                           |                               |                          |                             |                      |                                 |          |
| Deposits and other demand liabilities              | 5,620,763        | -                | -                         | -                             | 5,620,763                | -                           | -                    | -                               | 5        |
| Cash items in process of being cleared             | 276,379          | -                | -                         | -                             | 276,379                  | -                           | -                    | -                               | 2        |
| Obligations under repurchase agreements            | -                | 185,140          | 18,466                    | 5,366                         | 208,972                  | -                           | -                    | -                               | 2        |

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|  |                  |                  |                  |                  |                   |                  |                  |                  |          |
|--|------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|----------|
| Time deposits and other time liabilities | 104,233          | 5,351,489        | 2,333,001        | 1,743,525        | 9,532,248         | 87,380           | 55,644           | 143,024          | 9        |
| Financial derivative contracts           | -                | 126,238          | 89,018           | 223,031          | 438,287           | 508,206          | 345,292          | 853,498          | 1        |
| Interbank borrowings                     | 8,199            | 104,490          | 216,472          | 1,201,070        | 1,530,231         | 152,146          | -                | 152,146          | 1        |
| Issued debt instruments                  | -                | 470,600          | 688,261          | 590,027          | 1,748,888         | 1,548,733        | 1,901,037        | 3,449,770        | 5        |
| Other financial liabilities              | 97,027           | 568              | 1,111            | 2,992            | 101,698           | 29,685           | 58,398           | 88,083           | 1        |
| <b>Total liabilities</b>                 | <b>6,106,601</b> | <b>6,238,525</b> | <b>3,346,329</b> | <b>3,766,011</b> | <b>19,457,466</b> | <b>2,326,150</b> | <b>2,360,371</b> | <b>4,686,521</b> | <b>2</b> |

- (\*) Interbank loans are presented on a gross basis. The amount of allowance is Ch\$495 million.
- (\*\*) Loans and accounts receivables from customers are presented on a gross basis. Provisions amounts according to type of loan are detailed as follows: Commercial loans Ch\$306,547 million, Mortgage loans Ch\$43,306 million, and Consumer loans Ch\$264,585 million.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 20****MATURITY OF ASSETS AND LIABILITIES, continued:**

| As of December 31, 2012                            | Demand           | Up to<br>1 month | Between 1 and<br>3 months | Between 3<br>and<br>12 months | Subtotal<br>up to 1 year | Between 1<br>and<br>5 years | More than<br>5 years | Subtotal<br>More than 1<br>year | Total             |
|--|------------------|------------------|---------------------------|-------------------------------|--------------------------|-----------------------------|----------------------|---------------------------------|-------------------|
|  | MCh\$            | MCh\$            | MCh\$                     | MCh\$                         | MCh\$                    | MCh\$                       | MCh\$                | MCh\$                           | MCh\$             |
| <b>Assets</b>                                      |                  |                  |                           |                               |                          |                             |                      |                                 |                   |
| Cash and deposits in banks                         | 1,250,414        | -                | -                         | -                             | 1,250,414                | -                           | -                    | -                               | 1,250,414         |
| Cash items in process of collection                | 520,267          | -                | -                         | -                             | 520,267                  | -                           | -                    | -                               | 520,267           |
| Trading investments                                | -                | 19,565           | 2,597                     | 237,726                       | 259,888                  | 58,138                      | 20,261               | 78,399                          | 336,282           |
| Investments under resale agreements                | -                | 6,993            | -                         | -                             | 6,993                    | -                           | -                    | -                               | 6,993             |
| Financial derivative contracts                     | -                | 58,311           | 77,728                    | 216,832                       | 352,871                  | 571,315                     | 369,026              | 940,341                         | 1,294,216         |
| Interbank loans (*)                                | 60,654           | -                | 29,919                    | -                             | 90,573                   | -                           | -                    | -                               | 90,573            |
| Loans and accounts receivables from customers (**) | 1,123,417        | 1,156,145        | 1,736,942                 | 2,995,860                     | 7,012,364                | 5,925,100                   | 5,938,615            | 11,863,715                      | 23,947,048        |
| Available for sale investments                     | -                | 112,173          | 234,566                   | 519,181                       | 865,920                  | 506,152                     | 454,086              | 960,238                         | 1,370,156         |
| Held to maturity investments                       | -                | -                | -                         | -                             | -                        | -                           | -                    | -                               | -                 |
| <b>Total assets</b>                                | <b>2,954,752</b> | <b>1,353,187</b> | <b>2,081,752</b>          | <b>3,969,599</b>              | <b>10,359,290</b>        | <b>7,060,705</b>            | <b>6,781,988</b>     | <b>13,842,693</b>               | <b>27,204,427</b> |
| <b>Liabilities</b>                                 |                  |                  |                           |                               |                          |                             |                      |                                 |                   |
| Deposits and other demand liabilities              | 4,970,019        | -                | -                         | -                             | 4,970,019                | -                           | -                    | -                               | 4,970,019         |
| Cash items in process of being cleared             | 284,953          | -                | -                         | -                             | 284,953                  | -                           | -                    | -                               | 284,953           |
| Obligations under repurchase agreements            | -                | 275,303          | 25,534                    | 3,280                         | 304,117                  | -                           | -                    | -                               | 304,117           |
| Time deposits and other time liabilities           | 65,854           | 4,981,947        | 2,278,958                 | 1,600,701                     | 8,927,460                | 133,760                     | 50,993               | 184,753                         | 9,246,964         |
| Financial derivative contracts                     | -                | 71,445           | 80,484                    | 208,473                       | 360,402                  | 503,036                     | 282,723              | 785,759                         | 1,130,640         |

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|                             |                  |                  |                  |                  |                   |                  |                  |                  |          |
|-----------------------------|------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|----------|
| Interbank borrowings        | 5,820            | 82,965           | 185,730          | 998,877          | 1,273,392         | 164,611          | -                | 164,611          | 1        |
| Issued debt instruments     | -                | 10,855           | 168,817          | 378,080          | 557,752           | 2,422,240        | 1,591,297        | 4,013,537        | 4        |
| Other financial liabilities | 70,136           | 718              | 733              | 29,748           | 101,335           | 12,425           | 78,851           | 91,276           | 1        |
| <b>Total liabilities</b>    | <b>5,396,782</b> | <b>5,423,233</b> | <b>2,740,256</b> | <b>3,219,159</b> | <b>16,779,430</b> | <b>3,236,072</b> | <b>2,003,864</b> | <b>5,239,936</b> | <b>2</b> |

(\*) Interbank loans are presented on a gross basis. The amount of allowance is Ch\$159 million.

Loans and accounts receivables from customers are presented on a gross basis. Provisions amounts according to (\*\*) type of loan are detailed as follows: Commercial loans Ch\$250,640 million, Mortgage loans Ch\$35,990 million, and Consumer loans Ch\$263,259 million.

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## NOTE 21

## PROVISIONS

a) As of December 31, 2013 and 2012, the composition is as follows:

|   | <b>As of December<br/>31,</b> |                |
|---|-------------------------------|----------------|
|   | <b>2013</b>                   | <b>2012</b>    |
|   | <b>MCh\$</b>                  | <b>MCh\$</b>   |
| Provisions for personnel salaries and expenses. | 39,501                        | 47,574         |
| Provisions for mandatory dividends              | 132,688                       | 107,044        |
| Provisions for contingent loan risk             | 11,582                        | 7,036          |
| Provisions for contingencies                    | 33,539                        | 30,238         |
| <b>Total</b>                                    | <b>217,310</b>                | <b>191,892</b> |

b) Below is the activity regarding provisions during the years ended December 31, 2013 and 2012:

|   | <b>Provisions for<br/>Personnel<br/>salaries<br/>and expenses<br/>MCh\$</b> | <b>Mandatory<br/>dividends<br/>MCh\$</b> | <b>Contingent<br/>loans<br/>MCh\$</b> | <b>Contingencies<br/>MCh\$</b> | <b>Total<br/>MCh\$</b> |
|---|---|--|---------------------------------------|--------------------------------|------------------------|
| <b>Balances as of January 1, 2013</b>   | <b>47,574</b>   | <b>107,044</b>                           | <b>7,036</b>                          | <b>30,238</b>                  | <b>191,892</b>         |
| Provisions established                  | 35,515  | 132,688                                  | 10,511                                | 99,599                         | 278,313                |
| Application of provisions               | (43,588)  | (107,044)                                | -                                     | (3,675)                        | (154,307)              |
| Provisions released                     | -   | -  | (5,965)                               | (89,185)                       | (95,150)               |
| Reclassifications                       | -   | -  | -                                     | (3,438)                        | (3,438)                |
| Other                                   | -   | -  | -                                     | -                              | -                      |
| <b>Balances as of December 31, 2013</b> | <b>39,501</b>   | <b>132,688</b>                           | <b>11,582</b>                         | <b>33,539</b>                  | <b>217,310</b>         |
| <b>Balances as of January 1, 2012</b>   | <b>42,974</b>   | <b>120,657</b>                           | <b>3,489</b>                          | <b>20,574</b>                  | <b>187,694</b>         |
| Provisions established                  | 39,151  | 107,044                                  | 9,670                                 | 26,846                         | 182,711                |
| Application of provisions               | (34,551)  | (120,657)                                | (6,123)                               | (12,469)                       | (173,800)              |

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|   |               |                |              |               |                |
|---|---------------|----------------|--------------|---------------|----------------|
| Provisions released                     | -             | -              | -            | (5,257)       | (5,257)        |
| Reclassifications                       | -             | -              | -            | 544           | 544            |
| Other                                   | -             | -              | -            | -             | -              |
| <b>Balances as of December 31, 2012</b> | <b>47,574</b> | <b>107,044</b> | <b>7,036</b> | <b>30,238</b> | <b>191,892</b> |

c) Provisions for personnel salaries and expenses.

|  | <b>As of</b>        |               |
|--|---------------------|---------------|
|  | <b>December 31,</b> |               |
|  | <b>2013</b>         | <b>2012</b>   |
|  | <b>MCh\$</b>        | <b>MCh\$</b>  |
| Provision for seniority compensation         | 691                 | 1,299         |
| Provision for stock-based personnel benefits | 809                 | 1,986         |
| Provision for performance bonds              | 18,218              | 23,667        |
| Provision for vacations                      | 18,741              | 18,802        |
| Provision for other personnel benefits       | 1,042               | 1,820         |
| <b>Total</b>                                 | <b>39,501</b>       | <b>47,574</b> |

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**NOTE 22****OTHER LIABILITIES**

The other liabilities line item is as follows:

|                                 | <b>As of December 31,</b> |                |
|---------------------------------|---------------------------|----------------|
|                                 | <b>2013</b>               | <b>2012</b>    |
|                                 | <b>MCh\$</b>              | <b>MCh\$</b>   |
| Accounts and notes payable      | 84,729                    | 89,034         |
| Unearned income                 | 384                       | 426            |
| Guarantees received (threshold) | 115,333                   | 179,820        |
| Other payable obligations       | 95,266                    | 59,824         |
| Withheld VAT                    | 1,165                     | 1,254          |
| Other liabilities               | 14,602                    | 10,916         |
| <b>Total</b>                    | <b>311,479</b>            | <b>341,274</b> |

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NOTE 23

## CONTINGENCIES AND COMMITMENTS

**a) Lawsuits and legal procedures**

As of the issuance date of these financial statements, the Bank and its affiliates were subject to certain legal actions in the normal course of their business. As of December 31, 2013, the Banks and its subsidiaries have provisions for this item of Ch\$1,224 million (Ch\$428 million as of December 31, 2012) which is included in “Provisions” in the Consolidated Statements of Financial Position as provisions for contingencies. In addition, there are other lawsuits for UF26,512, which primarily relates to the litigation between Santander Corredores de Seguros Limitada and its clients for leasing assets.

**b) Contingent loans**

The following table shows the Bank’s contractual obligations to issue loans:

|                                      | <b>As of December 31,</b> |                  |
|--------------------------------------|---------------------------|------------------|
|                                      | <b>2013</b>               | <b>2012</b>      |
|                                      | <b>MCh\$</b>              | <b>MCh\$</b>     |
| Letters of credit issued             | 218,032                   | 199,420          |
| Foreign letters of credit confirmed  | 127,600                   | 113,878          |
| Guarantees                           | 1,212,799                 | 1,046,114        |
| Personal guarantees                  | 181,416                   | 139,059          |
| <b>Subtotals</b>                     | <b>1,739,847</b>          | <b>1,498,471</b> |
| Available on demand credit lines     | 5,141,831                 | 4,933,335        |
| Other irrevocable credit commitments | 47,376                    | 63,828           |
| <b>Total</b>                         | <b>6,929,054</b>          | <b>6,495,634</b> |

**c) Held securities**

The Bank holds securities in the normal course of its business as follows:

|  | <b>As of December 31,</b> |                   |
|--|---------------------------|-------------------|
|  | <b>2013</b>               | <b>2012</b>       |
|  | <b>MCh\$</b>              | <b>MCh\$</b>      |
| <b>Third party operations</b>  |                           |                   |
| Collections  | 217,948                   | 287,128           |
| Assets from third parties managed by the Bank and its affiliates (1) | 1,015,817                 | 821,080           |
| <b>Subtotals</b>   | <b>1,233,765</b>          | <b>1,108,208</b>  |
| <b>Custody of securities</b>   |                           |                   |
| Securities held in custody   | 304,535                   | 227,554           |
| Securities held in custody deposited in other entity                 | 532,072                   | 573,129           |
| Issued securities held in custody                                    | 15,351,545                | 14,931,587        |
| <b>Subtotals</b>   | <b>16,188,152</b>         | <b>15,732,270</b> |
| <b>Total</b>   | <b>17,421,917</b>         | <b>16,840,478</b> |

(1) This includes the portfolios run by private-sector banking for Ch\$1,015,781 and Ch\$821,045 million as of December 31, 2013 and 2012, respectively.

#### **d) Guarantees**

Banco Santander Chile has a comprehensive officer fidelity insurance policy, No. 2823611, with the Chilena Consolidada de Seguros insurance company, for USD \$5,000,000, which jointly covers both the Bank and its affiliates for the period from July 1, 2013 to June 30, 2014.

#### **e) Contingent loans and liabilities**

To satisfy its clients' needs, the Bank took on several contingent loans and liabilities, yet these could not be recognized in the Consolidated Statements of Financial Position; these contain loan risks and they are, therefore, part of the Bank's global risk.

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**NOTE 24****EQUITY**

a)

**Capital**

As of December 31, 2013 and 2012 the Bank had 188,446,126,794 shares outstanding, all of which are subscribed for and paid in full. All shares have the same rights, and have no preferences or restrictions.

The activity with respect to shares during 2013 and 2012 was as follows:

**SHARES**

|                                  | <b>As of December 31,</b> |                        |                        |
|----------------------------------|---------------------------|------------------------|------------------------|
|                                  | <b>2013</b>               | <b>2012</b>            | <b>2011</b>            |
| Issued as of January 1           | 188,446,126,794           | 188,446,126,794        | 188,446,126,794        |
| Issuance of paid shares          | -                         | -                      | -                      |
| Issuance of outstanding shares   | -                         | -                      | -                      |
| Stock options exercised          | -                         | -                      | -                      |
| <b>Issued as of December 31,</b> | <b>188,446,126,794</b>    | <b>188,446,126,794</b> | <b>188,446,126,794</b> |

As of December 31, 2013 and 2012 the Bank does not have any of its own shares in treasury, nor do any of the consolidated companies.

In December 2013, the Bank received 26,241,318 of its own shares in lieu of payment. The value of the shares was 757,586,851 pesos (28.87 pesos per share). Those shares were sold in the stock market during the same month, generating a price difference of Ch\$29 million, which was recorded within Equity, as a reserve increase.

As of December 31, 2013 the shareholder composition was as follows:

| Corporate Name or Shareholder's Name    | Shares         | ADRs (*)       | Total                  | % of<br>equity holding |
|---|----------------|----------------|------------------------|------------------------|
| Teatinos Siglo XXI Inversiones Limitada | 59,770,481,573 | -              | 59,770,481,573         | 31.72                  |
| Santander Chile Holding S.A.            | 66,822,519,695 | -              | 66,822,519,695         | 35.46                  |
| J.P. Morgan Chase Bank                  | -              | 30,087,328,471 | 30,087,328,471         | 15.97                  |
| Banks on behalf of third parties        | -              | 11,590,917,506 | 11,590,917,506         | 6.15                   |
| AFP on behalf of third parties          | -              | 10,533,224,876 | 10,533,224,876         | 5.59                   |
| Other minority holders                  | 3,660,897,625  | 5,980,757,048  | 9,641,654,673          | 5.11                   |
| <b>Total</b>                            |                |                | <b>188,446,126,794</b> | <b>100.00</b>          |

(\*) American Depository Receipts (ADR) are certificates issued by a U.S. commercial bank to be traded on the U.S. securities markets.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 24****EQUITY, continued**

As of December 31, 2012 the shareholder composition was as follows:

| <b>Corporate Name or Shareholder's Name</b>        | <b>Shares</b>   | <b>ADRs (*)</b> | <b>Total</b>           | <b>% of<br/>equity holding</b> |
|--|-----------------|-----------------|------------------------|--------------------------------|
| Teatinos Siglo XXI Inversiones Limitada            | 59,770,481,573- |                 | 59,770,481,573         | 31.72                          |
| Santander Chile Holding S.A.                       | 66,822,519,695- |                 | 66,822,519,695         | 35.46                          |
| J.P. Morgan Chase Bank                             | -               | 35,111,060,871  | 35,111,060,871         | 18.63                          |
| BNP Paribas Arbitrage                              | 173,328,889     | -               | 173,328,889            | 0.09                           |
| MBI Arbitrage Fondo de Inversion                   | 495,766,248     | -               | 495,766,248            | 0.26                           |
| Banks and stock brokers on behalf of third parties | 12,473,837,817- |                 | 12,473,837,817         | 6.62                           |
| AFP on behalf of third parties                     | 6,346,809,483   | -               | 6,346,809,483          | 3.37                           |
| Other minority holders                             | 3,839,358,209   | 3,412,964,009   | 7,252,322,218          | 3.85                           |
| <b>Total</b>                                       |                 |                 | <b>188,446,126,794</b> | <b>100.00</b>                  |

(\*) American Depository Receipts (ADR) are certificates issued by a U.S. commercial bank to be traded on the U.S. securities markets.

As of December 31, 2011 the shareholder composition was as follows:

| <b>Corporate Name or Shareholder's Name</b>        | <b>Shares</b>   | <b>ADRs (*)</b> | <b>Total</b>   | <b>% of<br/>equity holding</b> |
|--|-----------------|-----------------|----------------|--------------------------------|
| Teatinos Siglo XXI Inversiones Limitada            | 59,770,481,573- |                 | 59,770,481,573 | 31.72                          |
| Santander Chile Holding S.A.                       | 66,822,519,695- |                 | 66,822,519,695 | 35.46                          |
| J.P. Morgan Chase Bank                             | -               | 39,287,497,122  | 39,287,497,122 | 20.85                          |
| Inversiones Antares S.A.                           | 170,363,545     | -               | 170,363,545    | 0.09                           |
| Banks and stock brokers on behalf of third parties | 10,132,511,637- |                 | 10,132,511,637 | 5.38                           |
| AFP on behalf of third parties                     | 5,751,493,833   | -               | 5,751,493,833  | 3.05                           |

|                        |               |               |                        |               |
|------------------------|---------------|---------------|------------------------|---------------|
| Other minority holders | 3,827,146,677 | 2,684,112,712 | 6,511,259,389          | 3.45          |
| <b>Total</b>           |               |               | <b>188,446,126,794</b> | <b>100.00</b> |

(\*) American Depository Receipts (ADR) are certificates issued by a U.S. commercial bank to be traded on the U.S. securities markets.

In 2011, Teatinos Siglo XXI Inversiones Limitada sold 9.73% of its shares in Banco Santander Chile. This sale took place in February and December, with sales of 1.91% and 7.82%, respectively

**b) Reserves**

In April 2013, due to the Shareholders' Meeting, the Bank agreed to capitalized 40% of retained earnings from 2012 as reserves; which equals Ch\$ 155,502 million (Ch\$ 174,033 million in 2012).

**c) Dividends**

The distribution of dividends is detailed in the chart of the Consolidated Statements of Changes in Equity.

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**NOTE 24****EQUITY, continued****d) As of December 31, diluted earnings and basic earnings were as follows:**

|   | <b>As of December 31,</b> |                 |                 |
|---|---------------------------|-----------------|-----------------|
|   | <b>2013</b>               | <b>2012</b>     | <b>2011</b>     |
|   | <b>MCh\$</b>              | <b>MCh\$</b>    | <b>MCh\$</b>    |
| <b>a) Basic earnings per share</b>            |                           |                 |                 |
| Total attributable to Bank shareholders       | 442,294                   | 356,808         | 402,191         |
| Weighted average number of outstanding shares | 188,446,126,794           | 188,446,126,794 | 188,446,126,794 |
| Basic earnings per share (in Ch\$)            | 2.347                     | 1.893           | 2.134           |
| <b>b) Diluted earnings per share</b>          |                           |                 |                 |
| Total attributable to Bank shareholders       | 442,294                   | 356,808         | 402,191         |
| Weighted average number of outstanding shares | 188,446,126,794           | 188,446,126,794 | 188,446,126,794 |
| Adjusted number of shares                     | 188,446,126,794           | 188,446,126,794 | 188,446,126,794 |
| Diluted earnings per share (in Ch\$)          | 2.347                     | 1.893           | 2.134           |

As of December 31, 2013 and 2012 the Bank does not own instruments with dilutive effects.

**e) Other comprehensive income from available for sale investments and cash flow hedges:**

|   | <b>For the years ended December 31,</b> |                 |               |
|---|---|-----------------|---------------|
|   | <b>2013</b>                             | <b>2012</b>     | <b>2011</b>   |
|   | <b>MCh\$</b>                            | <b>MCh\$</b>    | <b>MCh\$</b>  |
| <b>Available for sale investments</b>   |   |                 |               |
| As of January 1,  | (10,017)                                | 3,043           | (18,596)      |
| Gain (losses) on the re-measurement of available for sale investments, before tax | 2,629                                   | (15,131)        | 18,676        |
| Reclassification from other comprehensive income to income for the year           | 8,228                                   | 2,071           | 2,963         |
| <b>Subtotals</b>  | <b>10,857</b>                           | <b>(13,060)</b> | <b>21,639</b> |
| <b>Total</b>  | <b>840</b>                              | <b>(10,017)</b> | <b>3,043</b>  |

|  |                 |                |                 |
|--|-----------------|----------------|-----------------|
| <b>Cash flow hedges</b>  |                 |                |                 |
| As of January 1,   | 5,315           | 394            | 11,958          |
| Gains (losses) on the re-measurement of cash flow hedges, before tax   | (15,089)        | 4,326          | (12,031)        |
| Reclassification adjustments on cash flow hedges, before tax   | 1,517           | 595            | 467             |
| Amounts removed from equity and included in carrying amount of non-financial asset (liability) which acquisition or incurrence was hedged as a highly probable transaction | -               | -              | -               |
| <b>Subtotals</b>   | <b>(13,572)</b> | <b>4,921</b>   | <b>(11,564)</b> |
| <b>Total</b>   | <b>(8,257)</b>  | <b>5,315</b>   | <b>394</b>      |
| <br>   |                 |                |                 |
| <b>Other comprehensive income, before taxes</b>  | <b>(7,417)</b>  | <b>(4,702)</b> | <b>3,437</b>    |
| <br>   |                 |                |                 |
| <b>Income tax related to other comprehensive income components</b>   |                 |                |                 |
| Income tax relating to available for sale investments  | (168)           | 2,003          | (562)           |
| Income tax relating to cash flow hedges  | 1,651           | (1,063)        | (72)            |
| <b>Total</b>   | <b>1,483</b>    | <b>(940)</b>   | <b>(634)</b>    |
| <br>   |                 |                |                 |
| <b>Other comprehensive income, net of tax</b>  | <b>(5,934)</b>  | <b>(3,762)</b> | <b>2,803</b>    |
| Attributable to:   |                 |                |                 |
| Bank shareholders (Equity holders of the Bank)   | (5,964)         | (3,781)        | 2,832           |
| Non-controlling interest   | 30              | 19             | (29)            |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

NOTE 25

## NON-CONTROLLING INTEREST

a) The non-controlling interest included in the equity and the income from the subsidiaries is summarized as follows:

| As of December 31, 2013   | Non-controlling<br>% | Other comprehensive income |                 |           |            |               | Comprehensive<br>income<br>MCh\$ |
|---|----------------------|----------------------------|-----------------|-----------|------------|---------------|----------------------------------|
|   |                      | Equity                     | Income for sale | Available | Deferred   | Total other   |                                  |
|   |                      | MCh\$                      | MCh\$           | MCh\$     | tax        | comprehensive |                                  |
|   |                      |                            |                 |           | MCh\$      | income        |                                  |
|   |                      |                            |                 |           |            | MCh\$         |                                  |
| <b>Subsidiaries:</b>  |                      |                            |                 |           |            |               |                                  |
| Santander Agente de Valores Limitada                                  | 0.97                 | 471                        | 87              | 3         | (1)        | 2             | 89                               |
| Santander S.A. Sociedad Securitizadora                                | 0.36                 | 2                          | -               | -         | -          | -             | -                                |
| Santander S.A. Corredores de Bolsa (*)                                | 49.00                | 19,698                     | 1,656           | 11        | (2)        | 9             | 1,665                            |
| Santander Asset Management S.A. (**) Administradora General de Fondos | 0.02                 | -                          | 9               | -         | -          | -             | 9                                |
| Santander Corredora de Seguros Limitada                               | 0.25                 | 149                        | 1               | -         | -          | -             | 1                                |
| <b>Subtotals</b>  |                      | <b>20,320</b>              | <b>1,753</b>    | <b>14</b> | <b>(3)</b> | <b>11</b>     | <b>1,764</b>                     |
| <b>Entities controlled through other considerations:</b>              |                      |                            |                 |           |            |               |                                  |
| Bansa Santander S.A.  | 100.00               | 3,435                      | 1,307           | -         | -          | -             | 1,307                            |
| Santander Gestión de Recaudación y Cobranzas Limitada                 | 100.00               | 275                        | (2,230)         | -         | -          | -             | (2,230)                          |
| Multinegocios S.A.  | 100.00               | 477                        | 234             | -         | -          | -             | 234                              |
| Servicios Administrativos y Financieros Limitada.                     | 100.00               | 1,686                      | 276             | -         | -          | -             | 276                              |
| Servicios de Cobranzas Fiscalex Limitada                              | 100.00               | 632                        | 416             | -         | -          | -             | 416                              |
|   | 100.00               | 1,679                      | 379             | -         | -          | -             | 379                              |

Multiservicios de Negocios  
Limitada.

|                  |               |              |           |            |           |              |
|------------------|---------------|--------------|-----------|------------|-----------|--------------|
| <b>Subtotals</b> | <b>8,184</b>  | <b>382</b>   | <b>-</b>  | <b>-</b>   | <b>-</b>  | <b>382</b>   |
| <b>Total</b>     | <b>28,504</b> | <b>2,135</b> | <b>14</b> | <b>(3)</b> | <b>11</b> | <b>2,146</b> |

(\*) In June 2013, Santander S.A Corredores de Bolsa, distributed total accumulated income from previous years, decreasing equity. The amount of dividends distributed to non-controlling interest was Ch\$7,590 million.

(\*\*) According to Note 3 Significant events, this subsidiary was sold in December 2013. This note presents the effect of the consolidation of the subsidiary until November 2013.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

## NOTE 25

## NON-CONTROLLING INTEREST, continued

| As of December 31, 2012  | Non-controlling<br>% | Equity<br>MCh\$ | Income<br>MCh\$ | Other comprehensive income                    |                          |   | Comprehensive<br>income<br>MCh\$ |
|--|----------------------|-----------------|-----------------|---|--------------------------|---|----------------------------------|
|  |                      |                 |                 | Available<br>for sale<br>investments<br>MCh\$ | Deferred<br>tax<br>MCh\$ | Total other<br>comprehensive<br>income<br>MCh\$ |                                  |
| <b>Subsidiaries:</b>   |                      |                 |                 |   |                          |   |                                  |
| Santander Agente de Valores Limitada                             | 0.97                 | 656             | 84              | 1   | -                        | 1   | 85                               |
| Santander S.A. Sociedad Securitizadora                           | 0.36                 | 3               | -               | -   | -                        | -   | -                                |
| Santander S.A. Corredores de Bolsa                               | 49.00                | 25,646          | 2,423           | 57  | (12)                     | 45  | 2,468                            |
| Santander Asset Management S.A. Administradora General de Fondos | 0.02                 | 10              | 4               | -   | -                        | -   | 4                                |
| Santander Corredora de Seguros Limitada                          | 0.25                 | 148             | 4               | -   | -                        | -   | 4                                |
| <b>Subtotals</b>   |                      | <b>26,463</b>   | <b>2,515</b>    | <b>58</b>                                     | <b>(12)</b>              | <b>46</b>                                       | <b>2,561</b>                     |
| <b>Entities controlled through other considerations:</b>         |                      |                 |                 |   |                          |   |                                  |
| Bansa Santander S.A.   | 100.00               | 2,127           | 1,098           | -   | -                        | -   | 1,098                            |
| Santander Gestión de Recaudación y Cobranzas Limitada            | 100.00               | 2,505           | 171             | -   | -                        | -   | 171                              |
| Multinegocios S.A.   | 100.00               | 244             | 93              | -   | -                        | -   | 93                               |
| Servicios Administrativos y Financieros Limitada.                | 100.00               | 1,411           | 328             | -   | -                        | -   | 328                              |
| Servicios de Cobranzas Fiscalex Limitada                         | 100.00               | 216             | 64              | -   | -                        | -   | 64                               |
| Multiservicios de Negocios Limitada.                             | 100.00               | 1,299           | 356             | -   | -                        | -   | 356                              |
| <b>Subtotals</b>   |                      | <b>7,802</b>    | <b>2,110</b>    | <b>-</b>                                      | <b>-</b>                 | <b>-</b>  | <b>2,110</b>                     |
| <b>Total</b>   |                      | <b>34,265</b>   | <b>4,625</b>    | <b>58</b>                                     | <b>(12)</b>              | <b>46</b>                                       | <b>4,671</b>                     |



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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

## NOTE 25

## NON-CONTROLLING INTEREST, continued

| As of December 31, 2011  | Non-<br>controlling<br>% | Equity<br>MCh\$ | Income<br>MCh\$ | Other comprehensive income                    |                          |   | Comprehensive<br>income<br>MCh\$ |
|--|--------------------------|-----------------|-----------------|---|--------------------------|---|----------------------------------|
|  |                          |                 |                 | Available<br>for sale<br>investments<br>MCh\$ | Deferred<br>tax<br>MCh\$ | Total other<br>comprehensive<br>income<br>MCh\$ |                                  |
| <b>Subsidiaries:</b>   |                          |                 |                 |   |                          |   |                                  |
| Santander Agente de Valores Limitada                             | 0.97                     | 571             | 68              | 15  | (3)                      | 12  | 80                               |
| Santander S.A. Sociedad Securitizadora                           | 0.36                     | 3               | -               | -   | -                        | -   | -                                |
| Santander S.A. Corredores de Bolsa                               | 49.00                    | 27,378          | 4,077           | 206   | (35)                     | 171   | 4,248                            |
| Santander Asset Management S.A. Administradora General de Fondos | 0.02                     | 13              | 6               | -   | -                        | -   | 6                                |
| Santander Corredora de Seguros Limitada                          | 0.24                     | 143             | 7               | -   | -                        | -   | 7                                |
| <b>Subtotals</b>   |                          | <b>28,108</b>   | <b>4,158</b>    | <b>221</b>                                    | <b>(38)</b>              | <b>183</b>                                      | <b>4,341</b>                     |
| <b>Entities controlled through other considerations:</b>         |                          |                 |                 |   |                          |   |                                  |
| Bansa Santander S.A.   | 100.00                   | 1,029           | (613)           | -   | -                        | -   | (613)                            |
| Santander Gestión de Recaudación y Cobranzas Limitada            | 100.00                   | 2,335           | 616             | -   | -                        | -   | 616                              |
| Multinegocios S.A.   | 100.00                   | 150             | 17              | -   | -                        | -   | 17                               |
| Servicios Administrativos y Financieros Limitada                 | 100.00                   | 1,083           | 426             | -   | -                        | -   | 426                              |
| Servicios de Cobranzas Fiscalex Limitada                         | 100.00                   | 152             | 37              | -   | -                        | -   | 37                               |
| Multiservicios de Negocios Limitada                              | 100.00                   | 944             | 290             | -   | -                        | -   | 290                              |
| <b>Subtotals</b>   |                          | <b>5,693</b>    | <b>773</b>      | <b>-</b>                                      | <b>-</b>                 | <b>-</b>  | <b>773</b>                       |
| <b>Total</b>   |                          | <b>33,801</b>   | <b>4,931</b>    | <b>221</b>                                    | <b>(38)</b>              | <b>183</b>                                      | <b>5,114</b>                     |

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NOTE 25

NON-CONTROLLING INTERESTS, continued

b) The overview of the financial information of the subsidiaries included in the consolidation of the Bank that possess non-controlling interests is as follows, which does not include consolidation or homogenization adjustments:

|  | As of December 31,<br>2013 |                      |                  |                        | 2012            |                      |                  |                        | 2011            |                      |                  |                        |
|--|----------------------------|----------------------|------------------|------------------------|-----------------|----------------------|------------------|------------------------|-----------------|----------------------|------------------|------------------------|
|  | Assets<br>MCh\$            | Liabilities<br>MCh\$ | Capital<br>MCh\$ | Net<br>income<br>MCh\$ | Assets<br>MCh\$ | Liabilities<br>MCh\$ | Capital<br>MCh\$ | Net<br>income<br>MCh\$ | Assets<br>MCh\$ | Liabilities<br>MCh\$ | Capital<br>MCh\$ | Net<br>income<br>MCh\$ |
| Santander<br>Corredora de<br>Seguros<br>Limitada<br>Santander S.A.   | 67,956                     | 8,484                | 59,012           | 460                    | 69,863          | 10,520               | 57,795           | 1,548                  | 65,329          | 8,723                | 55,000           | 1,548                  |
| Corredores de<br>Bolsa<br>Santander Asset<br>Management<br>S.A.  | 110,917                    | 70,799               | 36,735           | 3,383                  | 138,147         | 85,921               | 47,193           | 5,033                  | 164,893         | 109,126              | 47,193           | 5,033                  |
| Administradora<br>General de<br>Fondos (*)<br>Santander<br>Agente de<br>Valores<br>Limitada<br>Santander S.A.  | -                          | -                    | -                | -                      | 58,186          | 8,981                | 27,262           | 21,943                 | 62,420          | 9,572                | 27,262           | 21,943                 |
| Sociedad<br>Securitizadora<br>Santander<br>Gestión de<br>Recaudación y<br>Cobranzas Ltda.<br>Multinegocios<br>S.A.<br>(management of<br>sales force) | 194,812                    | 146,255              | 39,581           | 8,976                  | 215,126         | 147,545              | 58,900           | 8,681                  | 252,489         | 193,589              | 50,000           | 8,681                  |
|  | 725                        | 74                   | 764              | (113)                  | 849             | 87                   | 836              | (74)                   | 979             | 144                  | 979              | (74)                   |
|  | 4,978                      | 4,703                | 2,505            | (2,230)                | 6,313           | 3,808                | 2,334            | 171                    | 5,465           | 3,130                | 1,700            | 171                    |
|  | 1,441                      | 963                  | 244              | 234                    | 2,020           | 1,777                | 150              | 93                     | 1,883           | 1,732                | 130              | 93                     |

|   |                |                |                |               |                |                |                |               |                |                |           |
|---|----------------|----------------|----------------|---------------|----------------|----------------|----------------|---------------|----------------|----------------|-----------|
| Servicios Administrativos y Financieros Limitada (management of sales force). | 2,412          | 725            | 1,411          | 276           | 2,748          | 1,337          | 1,083          | 328           | 2,320          | 1,237          | 65        |
| Servicio de Cobranza Fixcalex Ltda.   | 4,008          | 3,376          | 216            | 416           | 3,500          | 3,284          | 152            | 64            | 2,390          | 2,238          | 11        |
| Multiservicios de Negocios Limitada (call center).                            | 3,049          | 1,371          | 1,299          | 379           | 3,483          | 2,183          | 944            | 356           | 2,419          | 1,491          | 65        |
| Bansa Santander S.A.  | 28,490         | 25,055         | 2,128          | 1,307         | 28,938         | 26,810         | 1,029          | 1,099         | 28,047         | 27,018         | 1         |
| <b>Total</b>  | <b>418,788</b> | <b>261,805</b> | <b>143,895</b> | <b>13,088</b> | <b>529,173</b> | <b>292,253</b> | <b>197,678</b> | <b>39,242</b> | <b>588,634</b> | <b>358,000</b> | <b>18</b> |

(\*) Santander Asset Management S.A. Administradora General de Fondos was sold in December 2013. See Note 3 - Significant events

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## NOTE 26

## INTEREST INCOME AND EXPENSE

This item refers to interest earned in the period from the financial assets whose return, whether implicitly or explicitly, is determined by applying the effective interest rate method, regardless of the value at fair value, as well as the reclassifications as a consequence of hedge accounting.

a) For the years ended December 31, 2013, 2012 and 2011 the composition of income from interest and inflation-indexing adjustments, not including income from hedge accounting, is as follows:

| Items                  | For the years ended December 31,<br>2013 |                |               |                  | 2012             |                |               |                  | 2011             |            |
|------------------------|--|----------------|---------------|------------------|------------------|----------------|---------------|------------------|------------------|------------|
|                        | Interest                                 | Inflation      | Prepaid       | Total            | Interest         | Inflation      | Prepaid       | Total            | Interest         | Infl       |
|                        | MCh\$                                    | adjustments    | fees          | MCh\$            | MCh\$            | adjustments    | fees          | MCh\$            | MCh\$            | adj        |
| Resale agreements      | 2,254                                    | -              | -             | <b>2,254</b>     | 4,796            | (10)           | -             | <b>4,786</b>     | 5,448            | (2)        |
| Interbank loans        | 195                                      | -              | -             | <b>195</b>       | 790              | -              | -             | <b>790</b>       | 3,486            | -          |
| Commercial loans       | 728,597                                  | 72,570         | 4,980         | <b>806,147</b>   | 698,925          | 78,762         | 4,924         | <b>782,611</b>   | 596,171          | 121        |
| Mortgage loans         | 232,860                                  | 108,702        | 13,234        | <b>354,796</b>   | 227,994          | 123,297        | 11,401        | <b>362,692</b>   | 205,288          | 181        |
| Consumer loans         | 611,936                                  | 2,184          | 3,030         | <b>617,150</b>   | 613,543          | 2,804          | 2,797         | <b>619,144</b>   | 544,671          | 3,0        |
| Investment instruments | 77,240                                   | 7,815          | -             | <b>85,055</b>    | 95,732           | 2,011          | -             | <b>97,743</b>    | 89,823           | 9,3        |
| Other interest income  | 5,282                                    | (1,063)        | -             | <b>4,219</b>     | 19,880           | 3,037          | -             | <b>22,917</b>    | 7,569            | 4,2        |
| <b>Interest income</b> | <b>1,658,364</b>                         | <b>190,208</b> | <b>21,244</b> | <b>1,869,816</b> | <b>1,661,660</b> | <b>209,901</b> | <b>19,122</b> | <b>1,890,683</b> | <b>1,452,456</b> | <b>320</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 26**

## INTEREST INCOME AND EXPENSE, continued

b) For the years ended December 31, 2013, 2012 and 2011, the composition of expense from interest and inflation-indexing adjustments, excluding expense from hedge accounting is as follows:

| Items                         | For the years ended December 31, |                       |                  |                  |                       |                  |                  |                       |                  |
|-------------------------------|----------------------------------|-----------------------|------------------|------------------|-----------------------|------------------|------------------|-----------------------|------------------|
|                               | 2013                             |                       |                  | 2012             |                       |                  | 2011             |                       |                  |
|                               | Interest                         | Inflation adjustments | Total            | Interest         | Inflation adjustments | Total            | Interest         | Inflation adjustments | Total            |
|                               | MCh\$                            | MCh\$                 | MCh\$            | MCh\$            | MCh\$                 | MCh\$            | MCh\$            | MCh\$                 | MCh\$            |
| Demand deposits               | (5,225)                          | (588)                 | (5,813)          | (3,601)          | (535)                 | (4,136)          | (1,283)          | (658)                 | (1,941)          |
| Repurchase agreements         | (12,092)                         | -                     | (12,092)         | (10,707)         | 9                     | (10,698)         | (8,603)          | (184)                 | (8,787)          |
| Time deposits and liabilities | (426,812)                        | (22,787)              | (449,599)        | (456,348)        | (45,743)              | (502,091)        | (351,009)        | (86,772)              | (437,781)        |
| Interbank loans               | (21,233)                         | (5)                   | (21,238)         | (26,182)         | (14)                  | (26,196)         | (26,006)         | (41)                  | (26,047)         |
| Issued debt instruments       | (171,659)                        | (53,952)              | (225,611)        | (172,138)        | (64,006)              | (236,144)        | (170,756)        | (98,374)              | (269,130)        |
| Other financial liabilities   | (4,712)                          | (661)                 | (5,373)          | (4,884)          | (881)                 | (5,765)          | (5,019)          | (1,485)               | (6,504)          |
| Other interest expense        | (2,340)                          | (3,749)               | (6,089)          | (2,366)          | (3,435)               | (5,801)          | (2,372)          | (7,195)               | (9,467)          |
| <b>Interest expense total</b> | <b>(644,073)</b>                 | <b>(81,742)</b>       | <b>(725,815)</b> | <b>(676,226)</b> | <b>(114,605)</b>      | <b>(790,831)</b> | <b>(565,048)</b> | <b>(194,709)</b>      | <b>(754,757)</b> |

c) For the years ended December 31, 2013, 2012 and 2011, the overview of interests and inflation-indexing adjustments is as follows:

| Items                              | For the years ended December 31, |                  |                  |
|------------------------------------|----------------------------------|------------------|------------------|
|                                    | 2013                             | 2012             | 2011             |
|                                    | MCh\$                            | MCh\$            | MCh\$            |
| Interest income                    | 1,869,816                        | 1,890,683        | 1,790,832        |
| Interest expense                   | (725,815)                        | (790,831)        | (759,757)        |
| <b>Interest income</b>             | <b>1,144,001</b>                 | <b>1,099,852</b> | <b>1,031,075</b> |
| Income from hedge accounting (net) | (67,239)                         | (57,118)         | (58,775)         |
| <b>Total net interest income</b>   | <b>1,076,762</b>                 | <b>1,042,734</b> | <b>972,300</b>   |

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## NOTE 27

## FEES AND COMMISSIONS

This item includes the amount of fees earned and paid during the year, except for those which are an integral part of the financial instrument's effective interest rate:

|  | <b>For the years ended December 31,</b> |                | <b>2011</b>    |
|--|---|----------------|----------------|
|  | <b>2013</b>                             | <b>2012</b>    |                |
|  | <b>MCh\$</b>                            | <b>MCh\$</b>   | <b>MCh\$</b>   |
| <b>Fee and commission income</b>                                     |   |                |                |
| Fees and commissions for lines of credits and overdrafts             | 7,025                                   | 9,296          | 11,602         |
| Fees and commissions for guarantees and letters of credit            | 30,131                                  | 28,523         | 24,388         |
| Fees and commissions for card services                               | 127,101                                 | 127,437        | 122,900        |
| Fees and commissions for management of accounts                      | 28,044                                  | 28,755         | 28,725         |
| Fees and commissions for collections and payments                    | 45,190                                  | 56,472         | 61,803         |
| Fees and commissions for intermediation and management of securities | 10,482                                  | 11,272         | 13,072         |
| Fees and commissions for investments in mutual funds or others       | 31,154                                  | 33,414         | 37,618         |
| Insurance brokerage fees   | 32,253                                  | 32,499         | 34,066         |
| Office banking   | 15,165                                  | 13,507         | 11,884         |
| Other fees earned  | 19,575                                  | 19,252         | 16,983         |
| <b>Total</b>   | <b>346,120</b>                          | <b>360,427</b> | <b>363,041</b> |



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## NOTE 28

## PROFIT AND LOSS FROM FINANCIAL OPERATIONS

This item includes adjustments for changes in financial instruments, except for interest attributable to the application of the effective interest rate method for adjustments to asset values, as well as the income earned in purchases and sales of financial instruments.

For the years ended December 31, 2013, 2012 and 2011, the detail of the income from financial operations is as follows:

|   | <b>For the years ended December 31,</b> |                 |                |
|---|---|-----------------|----------------|
|   | <b>2013</b>                             | <b>2012</b>     | <b>2011</b>    |
|   | <b>MCh\$</b>                            | <b>MCh\$</b>    | <b>MCh\$</b>   |
| <b>Profit and loss from financial operations</b>      |   |                 |                |
| Trading derivatives                                   | (68,201)                                | (104,344)       | 116,877        |
| Trading investments                                   | 29,985                                  | 36,338          | 38,819         |
| Sale of loans and accounts receivables from customers |   |                 |                |
| Current portfolio (Note 11)                           | 1,677                                   | 2,745           | 2,368          |
| Charged-off portfolio (Note 11)                       | 1,500                                   | 2,090           | 7,324          |
| Available for sale investments                        | 10,258                                  | (1,764)         | (3,356)        |
| Repurchase of issued bonds                            | 4,502                                   | 760             | -              |
| Other profit and loss from financial operations       | (10)                                    | 96              | 8,825          |
| <b>Total</b>  | <b>(20,289)</b>                         | <b>(64,079)</b> | <b>170,857</b> |

## NOTE 29

## NET FOREIGN EXCHANGE GAIN (LOSS)

This item includes the income earned from foreign currency trading, differences arising from converting monetary items in a foreign currency to the functional currency, and those generated by non-monetary assets in a foreign currency at the time of their sale.

For the years ended December 31, 2013, 2012 and 2011, the detail of foreign exchange income is as follows:

|  | <b>For the years ended December 31,</b> |                |                 |
|--|---|----------------|-----------------|
|  | <b>2013</b>                             | <b>2012</b>    | <b>2011</b>     |
|  | <b>MCh\$</b>                            | <b>MCh\$</b>   | <b>MCh\$</b>    |
| <b>Net foreign exchange gain (loss)</b>                  |   |                |                 |
| Net profit (loss) from currency exchange differences     | (242,841)                               | 270,990        | (257,986)       |
| Hedging derivatives:                                     | 379,910                                 | (120,610)      | 177,553         |
| Income from inflation-indexed assets in foreign currency | 8,600                                   | (5,574)        | 4,632           |
| Income from inflation-indexed assets in foreign currency | (943)                                   | 1,572          | (859)           |
| <b>Total</b>   | <b>144,726</b>                          | <b>146,378</b> | <b>(76,660)</b> |

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## NOTE 30

## PROVISIONS FOR LOAN LOSSES

- a) 2013, 2012 and 2011 activity within income for provisions for loan losses is as follows:

| For the year ended December 31, 2013              | Loans and accounts receivable from customers |                              |                 |                              |                         |                              |                |                  |
|---|--|------------------------------|-----------------|------------------------------|-------------------------|------------------------------|----------------|------------------|
|   | Interbank Commercial                         |                              |                 | Mortgage Consumer Contingent |                         |                              |                |                  |
|   | loans<br>Individual<br>MCh\$                 | loans<br>Individual<br>MCh\$ | Group<br>MCh\$  | loans<br>Group<br>MCh\$      | loans<br>Group<br>MCh\$ | loans<br>Individual<br>MCh\$ | Group<br>MCh\$ | Total<br>MCh\$   |
| <b>Charged-off individually significant loans</b> | -  | (8,071)                      | -               | -                            | -                       | -                            | -              | (8,071)          |
| Provisions established                            | (455)  | (92,008)                     | (98,715)        | (42,487)                     | (258,446)               | (7,402)                      | (3,109)        | (502,622)        |
| <b>Total provisions and charge-offs</b>           | <b>(455)</b>                                 | <b>(100,079)</b>             | <b>(98,715)</b> | <b>(42,487)</b>              | <b>(258,446)</b>        | <b>(7,402)</b>               | <b>(3,109)</b> | <b>(510,693)</b> |
| Provisions released                               | 119  | 22,014                       | 11,151          | 9,216                        | 35,482                  | 2,128                        | 3,837          | 83,947           |
| Recovery of loans previously charged off          | -  | 4,572                        | 9,973           | 4,735                        | 36,004                  | -                            | -              | 55,284           |
| <b>Net charge to income</b>                       | <b>(336)</b>                                 | <b>(73,493)</b>              | <b>(77,591)</b> | <b>(28,536)</b>              | <b>(186,960)</b>        | <b>(5,274)</b>               | <b>728</b>     | <b>(371,462)</b> |

| For the year ended December 31, 2012              | Loans and accounts receivable from customers |                              |                 |                              |                         |                              |                |                  |
|---|--|------------------------------|-----------------|------------------------------|-------------------------|------------------------------|----------------|------------------|
|   | Interbank Commercial                         |                              |                 | Mortgage Consumer Contingent |                         |                              |                |                  |
|   | loans<br>Individual<br>MCh\$                 | loans<br>Individual<br>MCh\$ | Group<br>MCh\$  | loans<br>Group<br>MCh\$      | loans<br>Group<br>MCh\$ | loans<br>Individual<br>MCh\$ | Group<br>MCh\$ | Total<br>MCh\$   |
| <b>Charged-off individually significant loans</b> | -  | (5,470)                      | -               | -                            | -                       | -                            | -              | (5,470)          |
| Provisions established                            | (548)  | (83,742)                     | (83,181)        | (25,314)                     | (318,565)               | (5,036)                      | (4,634)        | (521,020)        |
| <b>Total provisions and charge-offs</b>           | <b>(548)</b>                                 | <b>(89,212)</b>              | <b>(83,181)</b> | <b>(25,314)</b>              | <b>(318,565)</b>        | <b>(5,036)</b>               | <b>(4,634)</b> | <b>(526,490)</b> |
| Provisions released                               | 400  | 20,716                       | 16,624          | 7,449                        | 38,471                  | 2,017                        | 4,106          | 89,783           |
| Recovery of loans previously charged off          | -  | 1,991                        | 6,704           | 2,305                        | 22,015                  | -                            | -              | 33,015           |
| <b>Net charge to income</b>                       | <b>148</b>                                   | <b>(66,505)</b>              | <b>(59,853)</b> | <b>(15,560)</b>              | <b>(258,079)</b>        | <b>(3,019)</b>               | <b>(528)</b>   | <b>(403,692)</b> |

Loans and accounts receivable from customers

| For the year ended December 31, 2011              | Interbank Commercial         |                              |                  | Mortgage Consumer Contingent |                         |                              |                |                  |
|---|------------------------------|------------------------------|------------------|------------------------------|-------------------------|------------------------------|----------------|------------------|
|   | loans<br>Individual<br>MCh\$ | loans<br>Individual<br>MCh\$ | Group<br>MCh\$   | loans<br>Group<br>MCh\$      | loans<br>Group<br>MCh\$ | loans<br>Individual<br>MCh\$ | Group<br>MCh\$ | Total<br>MCh\$   |
| <b>Charged-off individually significant loans</b> | -                            | <b>(8,141)</b>               | -                | -                            | -                       | -                            | -              | <b>(8,141)</b>   |
| Provisions established                            | (464)                        | (72,927)                     | (104,928)        | (38,723)                     | (230,586)               | (807)                        | (3,960)        | (452,395)        |
| <b>Total provisions and charge-offs</b>           | <b>(464)</b>                 | <b>(81,068)</b>              | <b>(104,928)</b> | <b>(38,723)</b>              | <b>(230,586)</b>        | <b>(807)</b>                 | <b>(3,960)</b> | <b>(460,536)</b> |
| Provisions released                               | 507                          | 41,741                       | 26,582           | 7,645                        | 25,185                  | 2,818                        | 4,096          | 108,574          |
| Recovery of loans previously charged off (*)      | -                            | -                            | 7,216            | 16,135                       | 12,474                  | -                            | -              | 35,825           |
| <b>Net charge to income</b>                       | <b>43</b>                    | <b>(39,327)</b>              | <b>(71,130)</b>  | <b>(14,943)</b>              | <b>(192,927)</b>        | <b>2,011</b>                 | <b>136</b>     | <b>(316,137)</b> |

(\*) During the last quarter, the Ministry for Housing and Urban Development (MINVU) made payments to pay charge-off mortgage loans belonging to the National Association of Saving and Loans (ANAP) for Ch\$14,390 million.

b) The detail of Charge-off of individually significant loans, is as follows:

|  | For the years ended December 31, |               |               |
|--|----------------------------------|---------------|---------------|
|  | 2013<br>MCh\$                    | 2012<br>MCh\$ | 2011<br>MCh\$ |
| Charge-off of loans                                      | 26,390                           | 26,481        | 23,200        |
| Provision applied  | (18,319)                         | (21,011)      | (15,059)      |
| <b>Net charge offs of individually significant loans</b> | <b>8,071</b>                     | <b>5,470</b>  | <b>8,141</b>  |

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## NOTE 31

## PERSONNEL SALARIES AND EXPENSES

a) **Composition of personnel salaries and expenses**

|                           | <b>For the years ended December 31,</b> |                |                |
|---------------------------|---|----------------|----------------|
|                           | <b>2013</b>                             | <b>2012</b>    | <b>2011</b>    |
|                           | <b>MCh\$</b>                            | <b>MCh\$</b>   | <b>MCh\$</b>   |
| Personnel compensation    | 197,695                                 | 188,563        | 173,540        |
| Bonuses or gratifications | 67,805                                  | 66,666         | 62,450         |
| Stock-based benefits      | 684                                     | 1,747          | 2,261          |
| Seniority compensation:   | 8,828                                   | 8,966          | 8,424          |
| Pension plans (*)         | (311)                                   | 58             | 634            |
| Training expenses         | 2,366                                   | 2,423          | 2,176          |
| Day care and kindergarten | 2,542                                   | 2,487          | 2,367          |
| Health funds              | 3,493                                   | 3,571          | 2,940          |
| Welfare fund              | 76                                      | 397            | 447            |
| Other personnel expenses  | 25,166                                  | 25,026         | 24,801         |
| <b>Total</b>              | <b>308,344</b>                          | <b>299,904</b> | <b>280,040</b> |

(\*) As of January 1, 2013, the modifications to the IAS 19 - Employee Benefits, were launched with retroactive effects. See Note 02 - Accounting Changes.

**b) Share-based compensation**

Banco Santander Chile and Subsidiaries, as part of Santander Group in Spain (Banco Santander S.A.), adheres to the variable offsetting plans designed by the central office regarding the salaries of their employees, linked to the achievement of objectives, which is evaluated and rewarded on a quarterly and/or yearly basis. In addition, there are multi-year variable compensation plans aimed at keeping and motivating sellers. Their payment depends on the extent to which objectives are achieved. Goals are based on individual and group performance, and measured at least once a year.

**Long-term incentive policy**

The Board of Directors of the equity holders of Banco Santander S.A. (with its Central Office located in Spain, hereinafter the "Parent Company"), approved a long-term incentive plan which was ratified locally. This plan focuses on the Santander Group's executive directors and certain executive employees in Spain and other Santander Group companies.

### **Stock performance plan**

The plan includes a multi-year incentive plan compensated in shares by the Parent Company. The beneficiaries are Executive Directors, other Senior management members and other employees determined by the Directors Committee from the Parent Company or its deputy, the Executive Committee. These shares will be distributed if the following criteria are met:

- i. The share price reaches the top 10 as compared to 30 other global banks.
- ii. Earnings per share reach the top 10 as compared to 30 other global banks.
- iii. The Bank has achieved its commercial and financial budget objectives in the last two years.
- iv. The executive has achieved his/her personal targets during the last two years and has continued to work at the Bank until the end of the program.

This plan involves the implementation of successive cycles of shares delivered to the beneficiaries. Each cycle lasts three years so, each year a new cycle will begin and, since 2009 onwards, another cycle will end. The aim is to establish a proper sequence between the end of the incentive program linked to the previous plan (I06) and the following cycles of this plan. Therefore, the first two cycles started in July, 2007. The first one lasted two years (PI09) and the second one adhered to the three year standard duration (PI10)

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**NOTE 31****PERSONNEL SALARIES AND EXPENSES, continued**

The commencement of the third-cycle (PI11) and fourth-cycle (PI12) incentive plans were approved by the Parent Company in June 2008 and 2010, respectively. These new plans consist of three-year cycles and are linked to the fulfillment of the predetermined objectives. In June, 2010, the fifth cycle (PI13) was approved. In June, 2011 the sixth and last plan of shares linked to the fulfillment of objectives (PI14) was approved. The first cycle (PI09) was cancelled on July 31, 2009, the second one (PI10) was cancelled on July 31, 2010, the third one (PI11) was cancelled on July 31, 2011, and the fourth one (PI12) was cancelled on July 31, 2012.

For each cycle, the maximum number of shares that may correspond to each beneficiary is established based on who had been active in the Group over the period covered by the plan. The objective -which fulfillment will determine the number of shares to be delivered- is defined by comparing the evolution of the Group with a group of financial entities of reference. It will be linked solely to the Total Shareholder Return (TSR). Regarding the plans approved prior to June 2008, the objectives that had determined the number of shares to deliver were defined by comparing the evolution of the Group with a group of financial entities of reference, linked to two parameters: the Total Shareholder Return (TSR) and the Growth of Earnings per Share (EPS).

The final number of shares to be granted in each cycle is determined by the degree of fulfillment of the objectives on the third anniversary of each cycle (with the exception of the first cycle, for which the second anniversary is used), and the shares are delivered within seven months from the date the cycle ends.

Regarding PI13, by the completion of the relevant cycle, the TSR was calculated relative to Santander and every entity of the reference group. The list of reference entities was ordered from largest to smallest, thus determining the percentage of shares to be delivered, on the basis of the following scale and according to the relative position of Santander within the group of financial entities for reference:

| <b>Santander's position in the</b> | <b>Maximum percentage</b> |
|------------------------------------|---------------------------|
| <b>TSR Ranking</b>                 | <b>of shares earned</b>   |

|            |         |
|------------|---------|
| 1st to 5th | 100.00% |
| 6th        | 82.50%  |

|               |        |
|---------------|--------|
| 7th           | 65.00% |
| 8th           | 47.50% |
| 9th           | 30.00% |
| 10th and more | 0.00%  |

As for PI14, the application of a certain criterion related to TSR will determine the percentage of shares to be delivered, on the basis of the following scale and according to the relative position of Banco Santander S.A. (Spain) within the group of financial entities of reference:

| <b>Position of Santander on the<br/>TSR Ranking</b> | <b>Percentage<br/>of shares earned<br/>above the average</b> |
|---|--|
| 1st to 5th  | 100.00%  |
| 6th   | 86.05%   |
| 7th   | 72.00%   |
| 8th   | 58.00%   |
| 9th   | 44.00%   |
| 10th  | 30.00%   |
| 11th to 17th  | 0.00%  |

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**NOTE 31**

**PERSONNEL SALARIES AND EXPENSES, continued**

If any of the entities of the reference group was to be acquired by a different company, it would be eliminated from the reference group. In such case, the percentage will be determined based on Santander's placement in relation to the remaining entities, based on quartiles. If Santander falls within the first quartile (including the top 25<sup>th</sup> percentile) of the reference group, Santander will earn the highest share percentage, as noted above. No share will be earned if Santander falls below the average (50<sup>th</sup> percentile) of the reference group. If Santander equals the median (50<sup>th</sup> percentile), it will earn 30% of the maximum amount. Lastly, for positions in-between the average (50<sup>th</sup> percentile exclusive) and the first quartile (25<sup>th</sup> percentile exclusive), it will be calculated by means of linear interpolation.

As of December 31, 2013, the objectives were not met, so Plan I13 was terminated, however as of December 31, 2012, the objectives were met completely for Plan I12. Plan I14 is still active, so the Bank has recorded an amount of Ch\$684 million (Ch\$1,747 million as of December 31, 2012), which is included within the income of the specific period on which beneficiaries provided their services to Banco Santander Chile. This program had no effects on non-controlling interest. The fair value was calculated as described:

The fair value of each of those plans conceived by the Group is calculated on the grant date. Volatility is measured using an implied volatility model.

The calculation of the fair value of the stock plan linked to objectives is as follows:

- It has been considered that the beneficiaries will not leave over the period of each plan.

The fair value of the relative position of the TSR was determined by the Banco Santander S.A.(Spain) on the grant date using the Monte Carlo valuation model with 10,000 simulations to determine the TSR for each of the reference-financial institutions (benchmark), considering the aforementioned variables. The results (each of which represents the distribution of a number of shares) are classified in descending order through the calculation of the weighted average, and this amount is discounted at the risk-free interest rate.

|                                   | <b>PI12</b> | <b>PI13</b> | <b>PI14</b> |
|-----------------------------------|-------------|-------------|-------------|
| Expected volatility (*)           | 42.36%      | 49.65%      | 51.35%      |
| Historical annual dividend return | 4.88%       | 6.34%       | 6.06%       |
| Risk-free interest rate           | 2.04%       | 3.33%       | 4.07%       |

(\*) Determined based on the historical volatility of the corresponding period (three years).

The application of the simulations under the Monte Carlo model results in a percentage value representing the probability of vesting of 55.42% for the I12 plan, 62.62% for the I13 plan and 55.39% for the I14 plan. Fair value measurement takes into account market conditions (TSR and EPS) and we recognize compensation expense for employees who satisfy vesting conditions (such as service conditions).

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**NOTE 31****PERSONNEL SALARIES AND EXPENSES, continued**

Below is a table which provides a detail of the foregoing:

|  | Number of shares | Exercise price<br>€ | Group of employees             | Number of individuals | Maturity commencement of the exercise period | Da<br>ter<br>of<br>pe |
|--|------------------|---------------------|--------------------------------|-----------------------|--|-----------------------|
| Options granted (Plan I12)                 | 327,882          | -                   | Manager                        | 157                   | 07-01-2009                                   | 06                    |
| Options granted (Plan I12)                 | 36,848           | -                   | Other non-managerial positions | 76                    | 07-01-2009                                   | 06                    |
| <b>Plans in force on December 31, 2009</b> | <b>364,730</b>   |                     |                                |                       |  |                       |
| <b>2010 Flow</b>                           |                  |                     |                                |                       |  |                       |
| Options granted (Plan I12)                 | 564,339          | -                   | Manager                        | 170                   | 07-01-2009                                   | 06                    |
| Options granted (Plan I12)                 | 43,787           | -                   | Other non-managerial positions | 63                    | 07-01-2009                                   | 06                    |
| Options granted (Plan I13)                 | 310,902          | -                   | Manager                        | 166                   | 07-01-2010                                   | 06                    |
| Options granted (Plan I13)                 | 65,148           | -                   | Other non-managerial positions | 68                    | 07-01-2010                                   | 06                    |
| <b>Plans in force on December 31, 2010</b> | <b>1,348,906</b> |                     |                                |                       |  |                       |
| <b>2011 Flow</b>                           |                  |                     |                                |                       |  |                       |
| Options granted (Plan I12)                 | 591,686          | -                   | Manager                        | 157                   | 07-01-2009                                   | 06                    |
| Options granted (Plan I12)                 | 79,631           | -                   | Other non-managerial positions | 77                    | 07-01-2009                                   | 06                    |
| Options granted (Plan I13)                 | 650,474          | -                   | Manager                        | 166                   | 07-01-2011                                   | 06                    |
| Options granted (Plan I13)                 | 136,303          | -                   | Other non-managerial positions | 68                    | 07-01-2011                                   | 06                    |
| Options granted (Plan I14)                 | 268,318          | -                   | Manager                        | 147                   | 07-01-2012                                   | 06                    |
| Options granted (Plan I14)                 | 27,185           | -                   | Other non-managerial positions | 82                    | 07-01-2012                                   | 06                    |
| <b>Plans in force on December 31, 2011</b> | <b>3,102,503</b> |                     |                                |                       |  |                       |
| <b>2012 Flow</b>                           |                  |                     |                                |                       |  |                       |
| Options granted Plan I12                   | 601,101          | -                   | Manager                        | 157                   | 07-01-2009                                   | 06                    |
| Options granted Plan I12                   | 63,254           | -                   | Other non-managerial positions | 77                    | 07-01-2009                                   | 06                    |
| Options granted Plan I13                   | 501,456          | -                   | Manager                        | 166                   | 07-01-2010                                   | 06                    |
| Options granted Plan I13                   | 129,076          | -                   | Other non-managerial positions | 114                   | 07-01-2010                                   | 06                    |
| Options granted Plan I14                   | 508,144          | -                   | Manager                        | 147                   | 07-01-2011                                   | 06                    |
| Options granted Plan I14                   | 46,810           | -                   | Other non-managerial positions | 82                    | 07-01-2011                                   | 06                    |

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|  |                  |                                |     |            |    |
|--|------------------|--------------------------------|-----|------------|----|
| Options exercised Plan I12                 | (2,085,008)-     | Manager                        | 157 | 07-01-2009 | 06 |
| Options exercised Plan I12                 | (223,520) -      | Other non-managerial positions | 77  | 07-01-2009 | 06 |
| <b>Plans in force on December 31, 2012</b> | <b>2,643,816</b> |                                |     |            |    |

**2013 Flow**

|  |                |                                |     |   |   |
|--|----------------|--------------------------------|-----|---|---|
| Plan I13 terminated (*)                    | (1,462,832)-   | Manager                        | 166 | - | - |
| Plan I13 terminated (*)                    | (330,527) -    | Other non-managerial positions | 114 | - | - |
| <b>Plans in force on December 31, 2013</b> | <b>850,457</b> |                                |     |   |   |

Plan I14 850,457

(\*) Plan I13 does not comply with the assignation requirements

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**NOTE 32**

## ADMINISTRATIVE EXPENSES

For the years ended December 31, 2013, 2012 and 2011, the composition of the item is as follows:

|   | <b>For the years ended December 31,</b> |                |                |
|---|---|----------------|----------------|
|   | <b>2013</b>                             | <b>2012</b>    | <b>2011</b>    |
|   | <b>MCh\$</b>                            | <b>MCh\$</b>   | <b>MCh\$</b>   |
| <b>General administrative expenses</b>                  | <b>116,685</b>                          | <b>113,804</b> | <b>107,603</b> |
| Maintenance and repair of property, plant and equipment | 15,368                                  | 14,290         | 12,171         |
| Office lease  | 26,105                                  | 24,369         | 27,921         |
| Equipment lease   | 106                                     | 367            | 198            |
| Insurance payments                                      | 2,989                                   | 2,420          | 2,562          |
| Office supplies   | 4,579                                   | 5,796          | 6,354          |
| IT and communication expenses                           | 29,144                                  | 24,873         | 22,005         |
| Lighting, heating, and other utilities                  | 3,871                                   | 4,086          | 4,739          |
| Security and valuables transport services               | 15,879                                  | 11,929         | 11,122         |
| Representation and personnel travel expenses            | 5,255                                   | 5,101          | 4,548          |
| Judicial and notarial expenses                          | 1,619                                   | 8,609          | 7,203          |
| Fees for technical reports and auditing                 | 6,400                                   | 7,396          | 5,860          |
| Other general administrative expenses                   | 5,370                                   | 4,568          | 2,920          |
| <b>Outsourced services</b>                              | <b>44,411</b>                           | <b>41,127</b>  | <b>33,025</b>  |
| Data processing   | 26,489                                  | 26,581         | 26,073         |
| Products sale   | 1,820                                   | 1,686          | 2,066          |
| Archive services  | 1,728                                   | 795            | 603            |
| Valuation services                                      | 2,265                                   | 1,957          | 974            |
| Furniture storage                                       | 579                                     | 478            | 400            |
| Outsourcing   | 9,489                                   | 8,253          | 2,795          |
| Other   | 2,041                                   | 1,377          | 114            |
| <b>Board expenses</b>                                   | <b>1,154</b>                            | <b>1,073</b>   | <b>1,311</b>   |
| <b>Marketing expenses</b>                               | <b>15,800</b>                           | <b>16,899</b>  | <b>15,262</b>  |
| <b>Taxes, payroll taxes, and contributions</b>          | <b>10,141</b>                           | <b>10,476</b>  | <b>9,624</b>   |
| Real estate taxes                                       | 1,201                                   | 1,615          | 1,742          |
| Patents   | 1,843                                   | 1,961          | 1,708          |
| Other taxes   | 4                                       | 15             | 31             |
| Contributions to SBIF                                   | 7,093                                   | 6,885          | 6,143          |
| <b>Total</b>  | <b>188,191</b>                          | <b>183,379</b> | <b>166,825</b> |

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## NOTE 33

## DEPRECIATION, AMORTIZATION, AND IMPAIRMENT

Depreciation, amortization and impairment charges for the years ended December 31, 2013 and 2012, are detailed below:

|  | <b>For the years ended December 31,</b> |                 |                 |
|--|---|-----------------|-----------------|
|  | <b>2013</b>                             | <b>2012</b>     | <b>2011</b>     |
|  | <b>MCh\$</b>                            | <b>MCh\$</b>    | <b>MCh\$</b>    |
| <b>Depreciation and amortization</b>           |   |                 |                 |
| Depreciation of property, plant, and equipment | (22,452)                                | (21,195)        | (20,373)        |
| Amortizations of Intangible assets             | (38,622)                                | (35,174)        | (33,093)        |
| <b>Total depreciation and amortization</b>     | <b>(61,074)</b>                         | <b>(56,369)</b> | <b>(53,466)</b> |
| Impairment of property, plant, and equipment   | (244)                                   | (90)            | (116)           |
| <b>Total</b>                                   | <b>(61,318)</b>                         | <b>(56,459)</b> | <b>(53,582)</b> |

As of December 31, 2013, the costs for Property, plant, and equipment impairment totaled Ch\$ 244 million, mainly due to damages to ATMs (Ch\$ 90 million and Ch\$ 166 million as of December 31, 2012 and 2011, respectively).

## NOTE 34

## OTHER OPERATING INCOME AND EXPENSES

a) Other operating income is comprised of the following components:

|  | <b>For the years ended December 31,</b> |              |              |
|--|---|--------------|--------------|
|  | <b>2013</b>                             | <b>2012</b>  | <b>2011</b>  |
|  | <b>MCh\$</b>                            | <b>MCh\$</b> | <b>MCh\$</b> |
| <b>Income from assets received in lieu of payment</b>  |   |              |              |
| Income from sale of assets received in lieu of payment | 6,571                                   | 2,654        | 5,629        |

|   |               |               |               |
|---|---------------|---------------|---------------|
| <b>Subtotals</b>  | <b>6,571</b>  | <b>2,654</b>  | <b>5,629</b>  |
| <b>Income from sale of investments in other companies</b> |               |               |               |
| Gain on sale of investments in other companies (2)        | 78,122        | 599           | -             |
| <b>Subtotals</b>  | <b>78,122</b> | <b>599</b>    | <b>-</b>      |
| <b>Other income</b>                                       |               |               |               |
| Leases  | 328           | 142           | 305           |
| Income from sale of property, plant and equipment (1)     | 176           | 9,194         | 11,863        |
| Recovery of provisions for contingencies                  | 77            | -             | -             |
| Compensation from insurance companies due to damages      | 725           | 262           | 437           |
| Other   | 2,156         | 254           | 515           |
| <b>Subtotals</b>  | <b>3,462</b>  | <b>9,852</b>  | <b>13,120</b> |
| <b>Total</b>  | <b>88,155</b> | <b>13,105</b> | <b>18,749</b> |

(1) During 2013, no offices were sold.

(2) Correspond to sale of Santander Assets Management S.A. Administradora General de Fondos.

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**NOTE 34****OTHER OPERATING INCOME AND EXPENSES continued**

b) Other operating expenses are detailed as follows:

|   | <b>For the years ended December 31,</b> |               |               |
|---|---|---------------|---------------|
|   | <b>2013</b>                             | <b>2012</b>   | <b>2011</b>   |
|   | <b>MCh\$</b>                            | <b>MCh\$</b>  | <b>MCh\$</b>  |
| <b>Allowances and expenses for assets received in lieu of payment</b> |   |               |               |
| Provision on assets received in lieu of payment                       | 2,363                                   | 7,546         | 10,050        |
| Expenses for maintenance of assets received in lieu of payment        | 2,461                                   | 2,630         | 2,732         |
| <b>Subtotals</b>  | <b>4,824</b>                            | <b>10,176</b> | <b>12,782</b> |
| <b>Credit card expenses</b>   | <b>2,157</b>                            | <b>6,362</b>  | <b>6,427</b>  |
| <b>Customer services</b>  | <b>10,954</b>                           | <b>8,674</b>  | <b>8,965</b>  |
| <b>Other expenses</b>   |   |               |               |
| Operating charge-offs   | 8,222                                   | 8,366         | 9,884         |
| Life insurance and general product insurance policies                 | 7,348                                   | 7,211         | 6,524         |
| Additional tax on expenses paid overseas                              | 2,862                                   | 3,283         | 3,516         |
| Provisions for contingencies  | 5,805                                   | 7,964         | 8,144         |
| Expense for adopting chip technology on cards                         | 2,283                                   | -             | -             |
| Other   | 7,883                                   | 7,601         | 7,966         |
| <b>Subtotals</b>  | <b>34,403</b>                           | <b>34,425</b> | <b>36,034</b> |
| <b>Total</b>  | <b>52,338</b>                           | <b>59,637</b> | <b>64,208</b> |

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NOTE 35

**TRANSACTIONS WITH RELATED PARTIES**

In addition to Affiliates and associated entities, the Bank's "related parties" include its "key personnel" from the executive staff (members of the Bank's Board of Directors and Managers of Banco Santander Chile and its affiliates, together with their close relatives), as well as the entities over which the key personnel could exercise significant influence or control.

The Bank also considers the companies that are part of the Santander Group worldwide as related parties, given that all of them have a common parent, i.e., Banco Santander S.A. (located in Spain).

Transactions between the Bank and its related parties are specified below. To facilitate comprehension, we have divided the information into four categories:

**Santander Group Companies**

This category includes all the companies that are controlled by the Santander Group around the world, and hence, it also includes the companies over which the Bank exercises any degree of control (Affiliates and special-purpose entities).

**Associated companies**

This category includes the entities over which the Bank, in accordance with section b) of Note 1 to these Financial Statements, exercises a significant degree of influence and which generally belong to the group of entities known as "business support companies."

**Key personnel**

This category includes members of the Bank's Board of Directors and managers of Banco Santander Chile and its affiliates, together with their close relatives.

**Other**

This category encompasses the related parties that are not included in the groups identified above and which are, in general, entities over which the key personnel could exercise significant influence or control.

The terms for transactions with related parties are equivalent to those which prevail in transactions made under market conditions or to which the corresponding considerations in kind have been attributed.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 35****TRANSACTIONS WITH RELATED PARTIES, continued****a) Loans to related parties:**

Below are loans and receivables as well as contingent loans that correspond to related entities:

|  | As of December 31,<br>2013   |                         |                  |               | 2012                         |                         |                  |               | 2011                         |                         |                  |          |
|--|------------------------------|-------------------------|------------------|---------------|------------------------------|-------------------------|------------------|---------------|------------------------------|-------------------------|------------------|----------|
|  | Companies<br>of the<br>Group | Associated<br>companies | Key<br>personnel | Other         | Companies<br>of the<br>Group | Associated<br>companies | Key<br>personnel | Other         | Companies<br>of the<br>Group | Associated<br>companies | Key<br>personnel | Other    |
|  | MCh\$                        | MCh\$                   | MCh\$            | MCh\$         | MCh\$                        | MCh\$                   | MCh\$            | MCh\$         | MCh\$                        | MCh\$                   | MCh\$            | MCh\$    |
| <b>Loans and<br/>accounts<br/>receivables:</b> |                              |                         |                  |               |                              |                         |                  |               |                              |                         |                  |          |
| Commercial<br>loans                            | 47,305                       | 618                     | 4,022            | 51,141        | 46,790                       | 668                     | 2,910            | 57,723        | 39,708                       | 663                     |                  | 2        |
| Mortgage<br>loans                              | -                            | -                       | 15,561           | -             | -                            | -                       | 15,089           | -             | -                            | -                       |                  | 1        |
| Consumer<br>loans                              | -                            | -                       | 2,061            | -             | -                            | -                       | 1,513            | -             | -                            | -                       |                  | 1        |
| <b>Loans and<br/>accounts<br/>receivables:</b> | <b>47,305</b>                | <b>618</b>              | <b>21,644</b>    | <b>51,141</b> | <b>46,790</b>                | <b>668</b>              | <b>19,512</b>    | <b>57,723</b> | <b>39,708</b>                | <b>663</b>              |                  | <b>1</b> |
| Allowance<br>for loan<br>losses                | (238)                        | (3)                     | (44)             | (6)           | (329)                        | (3)                     | (39)             | (9)           | (54)                         | (1)                     |                  | (3)      |
| <b>Net loans</b>                               | <b>47,067</b>                | <b>615</b>              | <b>21,600</b>    | <b>51,135</b> | <b>46,461</b>                | <b>665</b>              | <b>19,473</b>    | <b>57,714</b> | <b>39,654</b>                | <b>662</b>              |                  | <b>1</b> |
| Guarantees                                     | 124,420                      | -                       | 19,237           | 2,326         | 9                            | -                       | 17,909           | 1,349         | 25,311                       | -                       |                  | 1        |
| <b>Contingent<br/>loans:</b>                   | -                            | -                       | -                | -             | -                            | -                       | -                | -             | -                            | -                       |                  | -        |

|                                |                |   |   |              |               |   |   |              |               |   |   |
|--------------------------------|----------------|---|---|--------------|---------------|---|---|--------------|---------------|---|---|
| Personal guarantees            |                |   |   |              |               |   |   |              |               |   |   |
| Letters of credit              | 30,714         | - | - | -            | 25,697        | - | - | -            | 187           | - | - |
| Guarantees                     | 172,274        | - | - | 9,989        | 34,897        | - | - | 1,443        | 12,778        | - | - |
| <b>Contingent loans:</b>       | <b>202,988</b> | - | - | <b>9,989</b> | <b>60,594</b> | - | - | <b>1,443</b> | <b>12,965</b> | - | - |
| Allowance for contingent loans | (22)           | - | - | (4)          | (15)          | - | - | (2)          | (63)          | - | - |
| <b>Net contingent loans</b>    | <b>202,966</b> | - | - | <b>9,985</b> | <b>60,579</b> | - | - | <b>1,441</b> | <b>12,902</b> | - | - |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 35****TRANSACTIONS WITH RELATED PARTIES, continued**

Loan activity to related parties during 2013, 2012 and 2011 is shown below:

|  | As of December 31,<br>2013            |                                  |                           |                | 2012                               |                                  |                           |                | 2011                               |                            |
|--|---------------------------------------|----------------------------------|---------------------------|----------------|------------------------------------|----------------------------------|---------------------------|----------------|------------------------------------|----------------------------|
|  | Companies<br>of the<br>Group<br>MCh\$ | Associated<br>companies<br>MCh\$ | Key<br>Personnel<br>MCh\$ | Other<br>MCh\$ | Companies<br>of the Group<br>MCh\$ | Associated<br>companies<br>MCh\$ | Key<br>Personnel<br>MCh\$ | Other<br>MCh\$ | Companies<br>of the Group<br>MCh\$ | Associa<br>compar<br>MCh\$ |
| Opening<br>balances<br>as of<br>January 1, | 107,384                               | 668                              | 19,512                    | 59,166         | 52,673                             | 663                              | 19,698                    | 63,081         | 52,237                             | 670                        |
| Loans<br>granted                           | 161,763                               | 377                              | 7,313                     | 14,858         | 78,586                             | 21                               | 6,132                     | 10,927         | 40,471                             | 24                         |
| Loans<br>payments                          | (18,854)                              | (427)                            | (5,181)                   | (12,894)       | (23,875)                           | (16)                             | (6,318)                   | (14,842)       | (40,035)                           | (31)                       |
| <b>Total</b>                               | <b>250,293</b>                        | <b>618</b>                       | <b>21,644</b>             | <b>61,130</b>  | <b>107,384</b>                     | <b>668</b>                       | <b>19,512</b>             | <b>59,166</b>  | <b>52,673</b>                      | <b>663</b>                 |

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**NOTE 35****TRANSACTIONS WITH RELATED PARTIES, continued****b) Assets and liabilities with related parties**

|  | As of December 31,<br>2013            |                                  |                           |                | 2012                                  |                                  |                           |                |
|--|---------------------------------------|----------------------------------|---------------------------|----------------|---------------------------------------|----------------------------------|---------------------------|----------------|
|  | Companies<br>of the<br>Group<br>MCh\$ | Associated<br>companies<br>MCh\$ | Key<br>personnel<br>MCh\$ | Other<br>MCh\$ | Companies<br>of the<br>Group<br>MCh\$ | Associated<br>companies<br>MCh\$ | Key<br>personnel<br>MCh\$ | Other<br>MCh\$ |
| <b>Assets</b>                                    |                                       |                                  |                           |                |                                       |                                  |                           |                |
| Cash and deposits in banks                       | 5,306                                 | -                                | -                         | -              | 5,357                                 | -                                | -                         | -              |
| Trading investments                              | -                                     | -                                | -                         | -              | -                                     | -                                | -                         | -              |
| Obligations under repurchase<br>agreements loans | -                                     | -                                | -                         | -              | -                                     | -                                | -                         | -              |
| Financial derivative contracts                   | 557,026                               | -                                | -                         | -              | 526,734                               | -                                | -                         | -              |
| Available for sale investments                   | -                                     | -                                | -                         | -              | -                                     | -                                | -                         | -              |
| Other assets                                     | 2,460                                 | -                                | -                         | -              | 4,339                                 | -                                | -                         | -              |
| <b>Liabilities</b>                               |                                       |                                  |                           |                |                                       |                                  |                           |                |
| Deposits and other demand liabilities            | 58,030                                | 10,406                           | 2,783                     | 23,300         | 65,386                                | 2,563                            | 2,286                     | 17,211         |
| Obligations under repurchase<br>agreements loans | 59,703                                | -                                | -                         | -              | 92,862                                | -                                | -                         | -              |
| Time deposits and other time liabilities         | 54,212                                | 299                              | 3,774                     | 156,977        | 97,449                                | 373                              | 2,842                     | 39,191         |
| Financial derivative contracts                   | 537,162                               | -                                | -                         | -              | 387,903                               | -                                | -                         | -              |
| Issued debt instruments                          | 96,872                                | -                                | -                         | -              | 67,368                                | -                                | -                         | -              |
| Other financial liabilities                      | 3,912                                 | -                                | -                         | -              | 103,207                               | -                                | -                         | -              |
| Other liabilities                                | 462                                   | -                                | -                         | -              | 1,241                                 | -                                | -                         | -              |

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**NOTE 35****TRANSACTIONS WITH RELATED PARTIES, continued****c) Income (expenses) recorded due to transactions with related parties**

|  | For the years ended December 31,   |                                  |                           |                | 2012                               |                                  |                           |                | 2011                               |                     |
|--|------------------------------------|----------------------------------|---------------------------|----------------|------------------------------------|----------------------------------|---------------------------|----------------|------------------------------------|---------------------|
|  | Companies<br>of the Group<br>MCh\$ | Associated<br>companies<br>MCh\$ | Key<br>personnel<br>MCh\$ | Other<br>MCh\$ | Companies<br>of the Group<br>MCh\$ | Associated<br>companies<br>MCh\$ | Key<br>personnel<br>MCh\$ | Other<br>MCh\$ | Companies<br>of the Group<br>MCh\$ | Ass<br>cor<br>MCh\$ |
| <b>Income<br/>(expense)<br/>recorded</b>   |                                    |                                  |                           |                |                                    |                                  |                           |                |                                    |                     |
| Interest<br>income and<br>expenses   | (8,812)                            | 50                               | 1,065                     | (1,082)        | (11,660)                           | 54                               | 948                       | (2,819)        | (17,892)                           | 54                  |
| Fee and<br>commission<br>income and<br>expenses  | -                                  | 75                               | 120                       | 3,615          | (1,191)                            | 59                               | 114                       | 214            | 387                                | 38                  |
| Net profit<br>(loss) from<br>financial<br>operations and<br>net foreign<br>exchange gain<br>(loss) (*) | (8,690)                            | -                                | (4)                       | (1,534)        | 241,424                            | -                                | (1)                       | 107            | 38,744                             | -                   |
| Other<br>operating<br>income and<br>expenses   | 955                                | -                                | -                         | -              | 643                                | -                                | -                         | -              | 519                                | -                   |
| Income from<br>sale of<br>investments in<br>other<br>companies<br>(**)                                 | 78,122                             | -                                | -                         | -              | -                                  | -                                | -                         | -              | -                                  | -                   |
|  | -                                  | -                                | (31,652)                  | -              | -                                  | -                                | (30,999)                  | -              |                                    |                     |

|   |               |                 |                 |            |                |                 |                 |                |              |             |
|---|---------------|-----------------|-----------------|------------|----------------|-----------------|-----------------|----------------|--------------|-------------|
| Key personnel<br>compensation<br>and expenses |               |                 |                 |            |                |                 |                 |                |              |             |
| Administrative<br>and other<br>expenses       | (28,371)      | (30,758)        | -               | -          | (23,121)       | (20,461)        | -               | -              | (13,303)     | (25)        |
| <b>Total</b>                                  | <b>33,204</b> | <b>(30,633)</b> | <b>(30,471)</b> | <b>999</b> | <b>206,095</b> | <b>(20,348)</b> | <b>(29,938)</b> | <b>(2,498)</b> | <b>8,455</b> | <b>(25)</b> |

(\*) Primarily relates to derivative contracts used to financially cover exchange risk of assets and liabilities that cover positions of the Bank and its subsidiaries.

(\*\*) Corresponds to the profit from the sale of the subsidiary Santander Asset Management S.A Administradora General de Fondos.

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**NOTE 35****TRANSACTIONS WITH RELATED PARTIES, continued****d) Payments to Board members and key management personnel**

The compensation received by key management personnel, including Board members and all the executives holding Manager positions shown in the “Personnel salaries and expenses” and/or “Administrative expenses” items of the Consolidated Statements of Income, corresponds to the following categories:

|                                      | <b>For the years ended</b> |               |               |
|--------------------------------------|----------------------------|---------------|---------------|
|                                      | <b>December 31,</b>        |               |               |
|                                      | <b>2013</b>                | <b>2012</b>   | <b>2011</b>   |
|                                      | <b>MCh\$</b>               | <b>MCh\$</b>  | <b>MCh\$</b>  |
| Personnel compensation               | 16,954                     | 16,880        | 16,155        |
| Board members' salaries and expenses | 1,083                      | 1,034         | 1,002         |
| Bonuses or gratifications            | 11,267                     | 10,255        | 10,292        |
| Compensation in stock                | 684                        | 1,508         | 1,765         |
| Training expenses                    | 55                         | 138           | 108           |
| Seniority compensation               | 1,064                      | 12            | 1,580         |
| Health funds                         | 290                        | 289           | 272           |
| Other personnel expenses             | 566                        | 431           | 392           |
| Pension plans (*)                    | (311)                      | 452           | 1,207         |
| <b>Total</b>                         | <b>31,652</b>              | <b>30,999</b> | <b>32,773</b> |

(\*) Some of the executives that qualified for this benefit are no longer members of the Group for various reasons, lowering the amount of the obligation thus generating an income from allowance reversals.

**e) Composition of key personnel**

As of December 31, 2013 and 2012, the composition of the Bank's key personnel is as follows:

| <b>Position</b>            | <b>No. of executives</b>  |             |             |
|----------------------------|---------------------------|-------------|-------------|
|                            | <b>As of December 31,</b> |             |             |
|                            | <b>2013</b>               | <b>2012</b> | <b>2011</b> |
| Director                   | 12                        | 13          | 13          |
| Division manager           | 16                        | 19          | 18          |
| Department manager         | 80                        | 85          | 88          |
| Manager                    | 60                        | 63          | 62          |
| <b>Total key personnel</b> | <b>168</b>                | <b>180</b>  | <b>181</b>  |

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**NOTE 36**

**PENSION PLANS**

The Bank has an additional benefit available to its principal executives, consisting of a pension plan. The purpose of the pension plan is to endow the executives with funds for a better supplementary pension upon their retirement.

For this purpose, the Bank will match the voluntary contributions made by the beneficiaries for their future pensions with an equivalent contribution. The executives will be entitled to receive this benefit only when they fulfill the following conditions:

- e. The plan is aimed at the Group's management
- f. The general requirement to apply for this benefit is that the employee must be carrying out his/her duties when turning 60 years old.
- g. The Santander Group will take on insurance (pension fund) for the employee's behalf where it will pay (defined contribution) periodically.
- h. The Santander Group will be responsible for granting the benefits directly.

If the working relationship between the manager and the respective company ends, before s/he fulfills the abovementioned requirements, s/he will have no rights under this benefit plan.

In the event of the executive's death or total or partial disability, s/he will be entitled to receive this benefit.

The Bank will make contributions to this benefit plan on the basis of mixed collective insurance policies whose beneficiary is the Bank. The life insurance company with whom such policies are executed is not an entity linked or related to the Bank or any other Santander Group company.

Rights owned by the Bank due to the plan at the end of 2013 totaled Ch\$ 5,171 million (Ch\$ 5,584 million in 2012).

The amount of the defined benefit plans has been quantified by the Bank, based on the following criteria:

**Calculation method:**

Use of the credit unit projected method which considers each working year as generating an additional amount of rights over benefits and values each unit separately. It is calculated based primarily on fund contributions, as well as other factors such as the legal annual pension limit, seniority, age and yearly income for each unit valued individually.

**Actuarial hypothesis assumptions:**

Actuarial assumptions with respect to demographic and financial variables are non-biased and mutually compatible with each other. The most significant actuarial hypotheses considered in the calculations were:

|                               | Plans           | Plans           |
|-------------------------------|-----------------|-----------------|
|                               | post-employment | post-employment |
|                               | <b>2013</b>     | <b>2012</b>     |
| Mortality chart               | RV-2009         | RV-2009         |
| Termination of contract rates | 5.0%            | 5.0%            |
| Impairment chart              | PDT 1985        | PDT 1985        |

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**NOTE 36****PENSION PLANS, continued**

Assets related to the pension fund contributed by the Bank into the Seguros Euroamérica insurance company with respect to defined benefit plans are presented as net of associated commitments.

Activity for post-employment benefits is as follows:

|  | <b>As of December 31,</b> |              |
|--|---------------------------|--------------|
|  | <b>2013</b>               | <b>2012</b>  |
|  | <b>MCh\$</b>              | <b>MCh\$</b> |
| Plan assets                                  | 5,171                     | 5,584        |
| <b>Commitments for defined-benefit plans</b> |                           |              |
| For active personnel                         | (3,888)                   | (3,595)      |
| Incurred by inactive personnel               | -                         | -            |
| Minus:                                       |                           |              |
| Unrealized actuarial (gain) losses           | -                         | -            |
| <b>Balances at year end</b>                  | <b>1,283</b>              | <b>1,989</b> |

Year's cash flow for post-employment benefits is as follows:

|                                       | <b>For the years ended</b> |              |              |
|---------------------------------------|----------------------------|--------------|--------------|
|                                       | <b>December 31,</b>        |              |              |
|                                       | <b>2013</b>                | <b>2012</b>  | <b>2011</b>  |
|                                       | <b>MCh\$</b>               | <b>MCh\$</b> | <b>MCh\$</b> |
| <b>a) Fair value of plan assets</b>   |                            |              |              |
| Opening balance                       | 5,584                      | 5,508        | 5,170        |
| Expected yield of insurance contracts | 247                        | 326          | 403          |
| Employer contributions                | (660)                      | (250)        | (65)         |
| Actuarial (gain) losses (*)           | -                          | -            | -            |
| Premiums paid                         | -                          | -            | -            |
| Benefits paid                         | -                          | -            | -            |

|   |                |                |                |
|---|----------------|----------------|----------------|
| <b>Fair value of plan assets at year end</b>    | <b>5,171</b>   | <b>5,584</b>   | <b>5,508</b>   |
| <b>b) Present value of obligations</b>          |                |                |                |
| Present value of obligations opening balance    | (3,594)        | (3,143)        | (953)          |
| Net incorporation of Group companies            | -              | -              | -              |
| Service cost                                    | (311)          | (452)          | (1,207)        |
| Interest cost                                   | -              | -              | -              |
| Curtailement/settlement effect                  | -              | -              | -              |
| Benefits paid                                   | -              | -              | -              |
| Past service cost                               | -              | -              | -              |
| Actuarial (gain) losses                         | 17             | -              | -              |
| Other   | -              | -              | -              |
| <b>Present value of obligations at year end</b> | <b>(3,888)</b> | <b>(3,595)</b> | <b>(2,160)</b> |
| <b>Net balance at year end</b>                  | <b>1,283</b>   | <b>1,989</b>   | <b>3,348</b>   |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 36****PENSION PLANS, continued**

Plan expected profit:

|  | <b>As of December 31,</b> |                   |                   |
|--|---------------------------|-------------------|-------------------|
|  | <b>2013</b>               | <b>2012</b>       | <b>2011</b>       |
| Type of expected yield from the plan's assets        | UF + 2.50% annual         | UF + 2.50% annual | UF + 2.50% annual |
| Type of yield expected from the reimbursement rights | UF + 2.50% annual         | UF + 2.50% annual | UF + 2.50% annual |

Plan associated expenses:

|   | <b>For the years ended December 31,</b> |              |              |
|---|---|--------------|--------------|
|   | <b>2013</b>                             | <b>2012</b>  | <b>2011</b>  |
|   | <b>MCh\$</b>                            | <b>MCh\$</b> | <b>MCh\$</b> |
| Current period service expenses                           | 311                                     | 452          | 1,207        |
| Interest cost   | -                                       | -            | -            |
| Expected yield from plan's assets                         | (247)                                   | (326)        | (403)        |
| Expected yield of insurance contracts linked to the Plan: |   |              |              |
| Extraordinary allocations                                 | -                                       | -            | -            |
| Actuarial (gain)/ losses recorded in the period           | (17)                                    | -            | -            |
| Past service cost   | -                                       | -            | -            |
| Other   | -                                       | -            | -            |
| <b>Total</b>  | <b>47</b>                               | <b>126</b>   | <b>804</b>   |

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NOTE 37

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement of fair value assumes the transaction to sale an asset or the transference of the liability happens within the main asset or liability market, or the most advantageous market for the asset or liability.

For financial instruments with no available market prices, fair values have been estimated by using recent transactions in analogous instruments, and in the absence thereof, the present values or other valuation techniques based on mathematical valuation models sufficiently accepted by the international financial community. In the use of these models, consideration is given to the specific particularities of the asset or liability to be valued, and especially to the different kinds of risks associated with the asset or liability.

These techniques are inherently subjective and are significantly influenced by the assumptions used, including the discount rate, the estimates of future cash flows and prepayment expectations. Hence, the fair value estimated for an asset or liability may not coincide exactly with the price at which that asset or liability could be delivered or settled on the date of its valuation, and may not be justified in comparison with independent markets.

**Determination of fair value of financial instruments**

Below is a comparison between the value at which the Bank's financial assets and liabilities are recorded and their fair value as of December 31, 2013 and 2012:

| <b>As of December 31,</b> |                   |                   |                   |
|---------------------------|-------------------|-------------------|-------------------|
| <b>2013</b>               |                   | <b>2012</b>       |                   |
| <b>Book value</b>         | <b>Fair value</b> | <b>Book value</b> | <b>Fair value</b> |
| <b>MCh\$</b>              | <b>MCh\$</b>      | <b>MCh\$</b>      | <b>MCh\$</b>      |

**Assets**

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Cash and deposits in banks  | 1,571,810  | 1,571,810  | 1,250,414  | 1,250,414  |
| Cash items in process of collection                                   | 604,077    | 604,077    | 520,267    | 520,267    |
| Trading investments   | 287,567    | 287,567    | 338,287    | 338,287    |
| Investments under resale agreements                                   | 17,469     | 17,469     | 6,993      | 6,993      |
| Financial derivative contracts  | 1,494,018  | 1,494,018  | 1,293,212  | 1,293,212  |
| Loans and accounts receivable from customers and interbank loans, net | 20,445,828 | 23,556,158 | 18,416,604 | 20,682,904 |
| Available for sale investments  | 1,700,993  | 1,700,993  | 1,826,158  | 1,826,158  |
| <b>Liabilities</b>  |            |            |            |            |
| Deposits and interbank borrowings                                     | 16,978,412 | 16,921,614 | 15,520,235 | 15,495,714 |
| Cash items in process of being cleared                                | 276,379    | 276,379    | 284,953    | 284,953    |
| Investments under repurchase agreements                               | 208,972    | 208,972    | 304,117    | 304,117    |
| Financial derivative contracts  | 1,291,785  | 1,291,785  | 1,146,161  | 1,146,161  |
| Issued debt instruments and other financial liabilities               | 5,388,439  | 5,729,213  | 4,763,900  | 5,300,998  |

In addition, the fair value estimates presented above do not attempt to estimate the value of the Bank's profits generated by its business activity, nor its future activities, and accordingly, they do not represent the Bank's value as a going concern. Below is a detail of the methods used to estimate the financial instruments' fair value

a) Cash and deposits in banks

The recorded value of cash and interbank loans approximates its estimated fair value in view of these instruments' short-term nature.

b) Cash items in process of collection, trading investments, available for sale investment instruments, and investments under resale agreements

The estimated fair value of these financial instruments was established using market values or estimates from an available dealer, or quoted market prices of similar financial instruments. Investments with maturity of less than one year are evaluated at recorded value since, due to their short maturity term, they are considered as having a fair value not significantly different from their recorded value. To estimate the fair value of debt investments or representative values in these lines of businesses, we take into consideration additional variables and elements, as long as they apply, including the estimate of prepayment rates and credit risk of issuers.

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**Notes to the Consolidated Financial Statements**

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 37**

**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

- c) Loans and accounts receivable from customers and interbank loans

Fair value of commercial, mortgage and consumer loans and credit cards is measured through a discounted cash flow (DCF) analysis. To do so, we use current market interest rates considering product, term, amount and similar loan quality. Fair value of loans with 90 days or more of delinquency are measured by means of the market value of the associated guarantee, minus the rate and term of expected payment. For variable rate loans whose interest rates change frequently (monthly or quarterly) and that are not subjected to any significant credit risk change, the estimated fair value is based on their book value.

- d) Deposits

Disclosed fair value of deposits that do not bear interest and saving accounts is the amount payable at the reporting date and, therefore, equals the recorded amount. Fair value of time deposits is calculated through a discounted cash flow calculation that applies current interest rates from a monthly calendar of scheduled maturities in the market.

- e) Short and long term issued debt instruments

The fair value of these financial instruments is calculated by using a discounted cash flow analysis based on the current incremental lending rates for similar types of loans having similar maturities.

- f) Financial derivative contracts

The estimated fair value of financial derivative contracts is calculated using the prices quoted on the market for financial instruments having similar characteristics.

The fair value of interest rate swaps represents the estimated amount that the Bank expects to receive or pay to rescind the contracts or agreements, bearing in mind the term structures of the interest rate curve, the underlying asset's

volatility, and the counterparty's credit risk.

If there are no quoted prices from the market (either direct or indirect) for any derivative instrument, the respective fair value estimates have been calculated by using models and valuation techniques such as Black-Scholes, Hull, and Monte Carlo simulations, taking into consideration the relevant inputs/outputs such as volatility of options, observable correlations between underlying assets, counterparty credit risk, implicit price volatility, the velocity with which the volatility reverts to its average value, and the straight-line relationship (correlation) between the value of a market variable and its volatility, among others.

### **Measurement of fair value and hierarchy**

IFRS 13 - Fair Value Measurement, provides a hierarchy of reasonable values which separates the inputs and/or valuation technique assumptions used to measure the fair value of financial instruments. The hierarchy reflects the significance of the inputs used in making the measurement. The three levels of the hierarchy of fair values are the following:

- Level 1: the inputs are quoted prices (unadjusted) on active markets for identical assets and liabilities that the Bank can access on the measurement date.
- Level 2: inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs are unobservable inputs for the asset or liability i.e. they are not based on observable market data.

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**NOTE 37**

**FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

The hierarchy level within which the fair value measurement is categorized in its entirety is determined based on the lowest level of input that is significant to the fair value measurement in its entirety.

The best evidence of a financial instrument's fair value at the initial time is the transaction price (Level 1).

In cases where quoted market prices cannot be observed, Management makes its best estimate of the price that the market would set using its own internal models which in most cases use data based on observable market parameters as a significant input (Level 2) and, in very specific cases, significant inputs not observable in market data (Level 3). Various techniques are employed to make these estimates, including the extrapolation of observable market data.

Financial instruments at fair value and determined by quotations published in active markets (Level 1) include:

- Chilean Government and Department of Treasury bonds

Instruments which cannot be 100% observable in the market are valued according to other inputs observable in the market (Level 2).

The following financial instruments are classified under Level 2:

| <b>Type of</b>              | <b>Model</b>                         | <b>Description</b> |
|-----------------------------|--------------------------------------|--------------------|
| <b>financial instrument</b> | <b>used in valuation</b>             |                    |
| Mortgage and private bonds  | Present Value of<br>Cash Flows Model |                    |

Internal Rates of Return (“IRRs”) are provided by RiskAmerica, according to the following criterion:

If, at the valuation day, there are one or more valid transactions at the Santiago Stock Exchange for a given nemotechnic, the reported rate is the weighted average amount of the observed rates.

In the case there are no valid transactions for a given nemotechnic on the valuation day, the reported rate is the IRR base from a reference structure, plus a spread model based on historical spread for the same item or similar ones.

IRRs are provided by RiskAmerica, according to the following criterion:

If, at the valuation day, there are one or more valid transactions at the Santiago Stock Exchange for a given nemotechnic, the reported rate is the weighted average amount of the observed rates.

In the case there are no valid transactions for a given nemotechnic on the valuation day, the reported rate is the IRR base from a reference structure, plus a spread model based on issuer curves.

IRRs are provided by ICAP, GFI, Tradition, and Bloomberg according to this criterion:

With published market prices, a valuation curve is created by the bootstrapping method and is then used to value different derivative instruments.

Formula adjusted by the volatility smile (implicit volatility). Prices (volatility) are provided by BGC Partners, according to this criterion:

With published market prices, a volatility surface is created by interpolation and then these volatilities are used to value options.

Time deposits

Present Value of  
Cash Flows Model

Constant Maturity Swaps (CMS),  
FX and Inflation Forward (Fwd) ,  
Cross Currency Swaps (CCS),  
Interest Rate Swap (IRS)

Present Value of  
Cash Flows Model

FX Options

Black-Scholes

In limited occasions significant inputs not observable in market data are used (Level 3). To carry out this estimate, several techniques are used, including extrapolation of observable market data or a mix of observable data.

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**NOTE 37****FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

The following financial instruments are classified under Level 3:

| <b>Type of financial instrument</b>  | <b>Model used in valuation</b>                  | <b>Description</b>   |
|--|---|--|
| Caps/ Floors/ Swaptions  | Black Normal Model for Cap/Floors and Swaptions | There is no observable input of implicit volatility.   |
| UF options   | Black – Scholes                                 | There is no observable input of implicit volatility.   |
| Cross currency swap with window  | Hull-White                                      | Hybrid HW model for rates and Brownian motion for FX There is no observable input of implicit volatility.  |
| CCS (special contracts)  | Implicit Forward Rate Agreement (FRA)           | Start Fwd unsupported by MUREX (platform) due to the UF forward estimate.  |
| Cross currency swap, Interest rate swap, Call money swap in Tasa Activa Bancaria (Active Bank Rate) TAB, | Present Value of Cash Flows Model               | Validation obtained by using the interest curve and interpolating at flow maturities, but TAB is not a directly observable variable and is not correlated to any market input. |
| Bonds (in our case, low liquidity bonds)   | Present Value of Cash Flows Model               | Valued by using similar instrument prices plus a charge/off rate by liquidity.   |

The following table presents the assets and liabilities that are measured at fair value on a recurrent basis, as of December 31, 2013 and 2012:

| <b>As of December 31,</b>      | <b>Fair value measurement</b> |                |                  |                |
|--------------------------------|-------------------------------|----------------|------------------|----------------|
|                                | <b>2013</b>                   | <b>Level 1</b> | <b>Level 2</b>   | <b>Level 3</b> |
|                                | <b>MCh\$</b>                  | <b>MCh\$</b>   | <b>MCh\$</b>     | <b>MCh\$</b>   |
| <b>Assets</b>                  |                               |                |                  |                |
| Trading investments            | 287,567                       | 275,296        | 12,271           | -              |
| Available for sale investments | 1,700,993                     | 654,945        | 1,045,210        | 838            |
| Derivatives                    | 1,494,018                     | -              | 1,442,752        | 51,266         |
| <b>Total</b>                   | <b>3,482,578</b>              | <b>930,241</b> | <b>2,500,233</b> | <b>52,104</b>  |

**Liabilities**

|              |                    |                  |              |
|--------------|--------------------|------------------|--------------|
| Derivatives  | 1,291,785 -        | 1,290,366        | 1,419        |
| <b>Total</b> | <b>1,291,785 -</b> | <b>1,290,366</b> | <b>1,419</b> |

**Fair value measurement**

|                           |              |                |                |                |
|---------------------------|--------------|----------------|----------------|----------------|
| <b>As of December 31,</b> | <b>2012</b>  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|                           | <b>MCh\$</b> | <b>MCh\$</b>   | <b>MCh\$</b>   | <b>MCh\$</b>   |

**Assets**

|                                |                  |                  |                  |               |
|--------------------------------|------------------|------------------|------------------|---------------|
| Trading investments            | 338,287          | 334,756          | 3,531            | -             |
| Available for sale investments | 1,826,158        | 1,020,904        | 803,895          | 1,359         |
| Derivatives                    | 1,293,212 -      | -                | 1,231,422        | 61,790        |
| <b>Total</b>                   | <b>3,457,657</b> | <b>1,355,660</b> | <b>2,038,848</b> | <b>63,149</b> |

**Liabilities**

|              |                    |                  |              |
|--------------|--------------------|------------------|--------------|
| Derivatives  | 1,146,161 -        | 1,145,055        | 1,106        |
| <b>Total</b> | <b>1,146,161 -</b> | <b>1,145,055</b> | <b>1,106</b> |

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 37****FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES, continued**

The following table presents the Bank's activity for assets and liabilities measured at fair value on a recurrent basis using unobserved significant entries (Level 3) as of December 31, 2013 and 2012:

|   | <b>Assets</b>   | <b>Liabilities</b> |
|---|-----------------|--------------------|
|   | <b>MCh\$</b>    | <b>MCh\$</b>       |
| <b>As of January 1, 2013</b>  | <b>63,149</b>   | <b>(1,106)</b>     |
| <b>Total realized and unrealized profits (losses)</b>   |                 |                    |
| Included in statement of income   | (10,524)        | (313)              |
| Included in other comprehensive income  | (521)           | -                  |
| Purchases, issuances, and loans (net)   | -               | -                  |
| <b>As of December 31, 2013</b>  | <b>52,104</b>   | <b>(1,419)</b>     |
| <b>Total profits or losses included in comprehensive income for 2013 that are attributable to change in unrealized profit (losses) related to assets or liabilities as of December 31, 2013</b> | <b>(11,045)</b> | <b>(313)</b>       |
|   | <b>Assets</b>   | <b>Liabilities</b> |
|   | <b>MCh\$</b>    | <b>MCh\$</b>       |
| <b>As of January 1, 2012</b>  | <b>83,483</b>   | <b>(1,369)</b>     |
| <b>Total realized and unrealized profits (losses)</b>   |                 |                    |
| Included in statement of income   | (19,724)        | 263                |
| Included in other comprehensive income  | (610)           | -                  |
| Purchases, issuances, and loans (net)   | -               | -                  |
| <b>As of December 31, 2012</b>  | <b>63,149</b>   | <b>(1,106)</b>     |
| <b>Total profits or losses included in comprehensive income for 2012 that are attributable to change in unrealized profit (losses) related to assets or liabilities as of December 31, 2012</b> | <b>(20,334)</b> | <b>263</b>         |

The realized and unrealized profits (losses) included in comprehensive income for 2013 and 2012, in the assets and liabilities measured at fair value on a recurrent basis through unobservable market data (Level 3) are recorded in the Statement of Comprehensive Income in the associated line item.

The potential effect as of December 31, 2013 and 2012 on the valuation of assets and liabilities valued at fair value on a recurrent basis through unobservable significant entries (level 3), generated by changes in the principal assumptions if other reasonably possible assumptions that are less or more favorable were used, is not considered by the Bank to be significant.

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NOTE 38

RISK MANAGEMENT

**Introduction and general description**

The Bank, due to its activities with financial instruments is exposed to several types of risks. The main risks related to financial instruments that apply to the Bank are as follows:

**Market risk:** rises from holding financial instruments whose value may be affected by fluctuations in market conditions, generally including the following types of risk:

- a. Foreign exchange risk: this arises as a consequence of exchange rate fluctuations among currencies.
- b. Interest rate risk: this arises as a consequence of fluctuations in market interest rates.
- c. Price risk: this arises as a consequence of changes in market prices, either due to factors specific to the instrument itself or due to factors that affect all the instruments negotiated in the market.
- d. Inflation risk: this arises as a consequence of changes in Chile's inflation rate, whose effect would be mainly applicable to financial instruments denominated in UFs.

**Credit risk:** this is the risk that one of the parties to a financial instrument fails to meet its contractual obligations for reasons of insolvency or inability of the individuals or legal entities in question to continue as a going concern, causing a financial loss to the other party.

**Liquidity risk:** is the possibility that an entity may be unable to meet its payment commitments, or that in order to meet them, it may have to raise funds with onerous terms or risk damage to its image and reputation.

**Operating risk:** this is a risk arising from human errors, system errors, fraud or external events which may damage the Bank's reputation, may have legal or regulatory implications, or cause financial losses.

This note includes information on the Bank's exposure to these risks and on its objectives, policies, and processes involved in their measurement and management.

## **Risk management structure**

The Board is responsible for the establishment and monitoring of the Bank's risk management structure, for which purpose it has an on-line corporate governance system which incorporates international recommendations and trends, adapted to Chilean regulatory conditions and given it the ability to apply the most advanced practices in the markets in which the Bank operates. To optimize the performance of this function, the Board of Directors has established the Asset and Liability Committee ("ALCO"), whose principal task is to assist in carrying out its functions relating to oversight and management of the Bank's risks. To complement the ALCO in the risk management function, the Board also has three key committees: the Markets Committee ("CDM," the acronym in Spanish) the Executive Credit Committee ("CEC," the acronym in Spanish) and the Audit Committee ("CDA," the acronym in Spanish). Each of these committees is composed of directors and executive members of the Bank's management.

The ALCO is responsible for developing risk handling policies of the Bank following the Board and Santander Spain Global Risk Department guidelines, as well as the requirements of the Chilean SBIF. Said policies have been created mainly to identify and analyze the risks the Bank faces, establishing risk limits and adequate control monitoring risks, and the abiding by of limits. Risk handling policies and systems are revised regularly to reflect changes in market conditions and products or services offered. The Bank, through the creation and management of regulations and procedures, aims at developing a disciplined and constructive control environment in which all employees understand their role and duties.

To carry out its duties, the ALCO works directly with the Bank's control and risk departments, whose joint objectives include the following:

- evaluate risks whose magnitude might threaten the Bank's solvency or which might potentially pose significant risks to its operations or reputation;
- ensure that the Bank is equipped with the means, systems, structures, and resources, consistent with best practices, which enable the implementation of the risk management strategy;
  - ensure the integration, control, and management of all the Bank's risks;
  - apply homogeneous risk principles, policies, and metrics throughout the Bank and its businesses;
- develop and implement a risk management model at the bank, in order for risk exposure to be adequately integrated into the different decision making processes;

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NOTE 38

RISK MANAGEMENT, continued

identify risk concentrations and mitigation alternatives, monitor the macroeconomic and competitive environment, quantifying sensitivities and the foreseeable impact of different scenarios on risk positioning; and carry out the management of structural liquidity, interest rate, and exchange rate risks, as well as those arising from the Bank's own resource base.

To achieve the aforementioned objectives, the Bank (its management and the ALCO) performs a variety of activities relating to risk management, including the following: calculate exposures to risk from different portfolios and/or investments, taking into consideration mitigating factors (guarantees, netting, collateral, etc.); calculate the probabilities of expected loss for each portfolio and/or investment; assign loss factors to new transactions (rating and scoring); measure the risk values of the portfolios and/or investments based on different scenarios by means of historical simulations; specify limits for potential losses based on the different risks incurred; determine the potential impact of the structural risks on the Bank's Consolidated Statements of Income; set limits and alerts which guarantee the Bank's liquidity; and identify and quantify the operating risks by line of business, so as to facilitate their mitigation through corrective actions.

The CDA is mainly responsible for supervising compliance with the Bank's risk management policies and procedures, and for reviewing the adaptation of the risk management framework to the risks faced by the Bank.

**Credit risk**

Credit risk is the risk that one of the parties to a financial instrument fails to meet its contractual obligations for reasons of insolvency or inability of the individuals or legal entities in question to continue as a going concern, causing a financial loss to the other party. To manage credit risk, the Bank consolidates all elements and components of credit risk exposure (e.g. individual delinquency risk, innate risk of a business line or segment, and/or geographical risk).

***Mitigation of credit risk for loans and accounts receivable***

The Board has delegated the duty of credit risk management to the ALCO and CEC, as well as to the Bank's risk departments, whose roles are summarized below:

Formulation of credit policies, by consulting with the business units, meeting requirements of guarantees, credit evaluation, risk rating and submission of reports, documentation and legal procedures in compliance with the regulatory, legal and internal requirements of the Bank.

Establish the structure to approve and renew credit requests. The Bank structures credit risks by assigning limits to the concentration of that risk in terms of individual debtors, debtor groups, industry segment and country. Approval levels are assigned to the correspondent officials of the business unit (commercial, consumer, SMEs) to be exercised by that level of management. In addition, those limits are revised constantly. Teams in charge of risk evaluation at the branch level interact on a regular basis with customers; however, for larger credit requests, the risk team from the head office and even the CEC work directly with customers to assess credit risks and prepare risk requests. Moreover, Banco Santander España participates in the process to approve larger credits; for example, to customers or economic groups with debts over USD 40 million.

Limit concentrations of exposure to customers or counterparties in geographic areas or industries (for accounts receivable or loans), and by issuer, credit rating, and liquidity (for investments).

Develop and maintain the Bank's credit risk classifications for the purpose of classifying risks according to the degree of exposure to financial loss that is exhibited by the respective financial instruments, with the aim of focusing risk management specifically on the associated risks.

Revise and evaluate credit risk. Review and evaluate credit risk. Management's risk divisions are largely independent of the Bank's commercial division and evaluate all credit risks in excess of the specified limits prior to loan approvals for customers or prior to the acquisition of specific investments. Credit renewal and revisions are subject to similar processes.

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NOTE 38

RISK MANAGEMENT, continued

When preparing a credit request for a corporate customer, the Bank verifies several parameters such as debt service capacity (generally including future cash flows), the customer's financial records and/or projections for their economic sector. The risk division is closely involved in this process. All applications include an analysis of the customer's strengths and weaknesses, as well as a risk classification and a recommendation. Credit limits are not established over customers' outstanding balances but on the direct and indirect credit risk of the financial group. For example, a corporation would be evaluated together with subsidiaries and affiliates.

Consumer loans are evaluated and approved by their respective risk divisions (individual, SME), and the evaluation process is based on an evaluation system known as Garra (Banco Santander) and Syseva (Santander Banefe). Both of these processes are decentralized, automated, and based on a scoring system that includes the credit risk policies adopted by the Bank's Board. The loan application process is based on a collection of information to determine the customer's financial condition and payment capacity. The parameters used to assess the credit risk of the applicant include different variables such as income levels, duration of current job, indebtedness, reports from credit reporting agencies, etc.

Provide advice, training, and specialized knowledge to the business units in order to promote the Bank's best practices in credit risk management.

***Mitigation of credit risk of other financial assets (investments, derivatives, commitments)***

As a part of the acquisition process of financial investments and financial instruments, the Bank examines the probability of uncollectability from issuers or counterparties, using internal and external evaluations, such as risk evaluators that are independent from the Bank. The Bank is also governed by a strict and conservative policy which ensures that the issuers of its investments and the counterparties in derivative transactions are highly reputable.

In addition, the Bank holds a variety of instruments which imply credit risk, but are not reflected in the Consolidated Statement of Financial Position, such as: guarantees and bonds, documentary letters of credit, performance bonds, and commitments to grant loans.

Guarantees and bonds represent an irrevocable payment obligation. If a guaranteed customer fails to meet their obligations to third parties secured by the Bank, the Bank will make the relevant payments; hence, these transactions imply the same credit risk exposure as an ordinary loan.

Documentary letters of credit are commitments documented by the Bank on behalf of customers, which are secured by the shipped merchandise to which they relate, and hence, have a lower risk than direct indebtedness. Performance bonds are contingent commitments which become enforceable only if the customer fails to carry out the work agreed upon with a third party who is secured by such performance bonds.

In the case of loan commitments, the Bank is potentially exposed to losses for an amount equivalent to the amount unused of the commitment. However, the expected loss amount is lower than the commitment's unused amount. The Bank controls the maturity term of credit lines since generally, long-term obligations have a larger credit risk than short-term ones.

*Maximum credit risk exposure*

For financial assets recorded in the Consolidated Statements of Financial Position, risk exposure equals their book amount. For financial guarantees granted, the maximum exposure to credit risk equals the maximum amount the Banks would have to pay if the financial guaranty was executed.

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NOTE 38

RISK MANAGEMENT, continued

Below is the distribution by financial asset of the Bank's maximum exposure to credit risk as of December 31, 2013 and 2012, without deduction of collateral or credit improvements received:

|  |             | <b>As of December 31,</b> |                   |
|--|-------------|---------------------------|-------------------|
|  |             | <b>2013</b>               | <b>2012</b>       |
|  |             | <b>Amount of</b>          | <b>Amount of</b>  |
|  |             | <b>exposure</b>           | <b>exposure</b>   |
|  | <b>Note</b> | <b>MCh\$</b>              | <b>MCh\$</b>      |
| Cash and deposits in banks   | 5           | 1,571,810                 | 1,250,414         |
| Cash items in process of collection                                      | 5           | 604,077                   | 520,267           |
| Trading investments  | 6           | 287,567                   | 338,287           |
| Investments under resale agreements                                      | 7           | 17,469                    | 6,993             |
| Financial derivative contracts   | 8           | 1,494,018                 | 1,293,212         |
| Loans and accounts receivable from customers and<br>interbank loans, net | 9 and 10    | 20,445,828                | 18,416,604        |
| Available for sale investments   | 11          | 1,700,993                 | 1,826,158         |
| Off-balance commitments:   |             |                           |                   |
| Letters of credit issued   | 23          | 218,032                   | 199,420           |
| Foreign letters of credit confirmed                                      | 23          | 127,600                   | 113,878           |
| Guarantees   | 23          | 1,212,799                 | 1,046,114         |
| Available credit lines   | 23          | 5,141,831                 | 4,933,335         |
| Personal guarantees  | 23          | 181,416                   | 139,059           |
| Other irrevocable credit commitments                                     | 23          | 47,376                    | 63,828            |
| <b>Total</b>   |             | <b>33,050,816</b>         | <b>30,147,569</b> |

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NOTE 38

RISK MANAGEMENT, continued

The following table shows loan portfolio information as set forth in our internal scoring policy, described in Note 01 o) "Allowance for loans losses" as of December 31, 2013 and 2012:

| Category<br>Commercial<br>Portfolio | As of December 31,<br>2013 |                   |                  |                   | 2012             |                   |                  |                   |
|-------------------------------------|----------------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
|                                     | Individual                 |                   | Percentage       |                   | Individual       |                   | Percentage       |                   |
|                                     | Allowance                  | Percentage        | Allowance        | Percentage        | Allowance        | Percentage        | Allowance        | Percentage        |
|                                     | MCh\$                      | %                 | MCh\$            | %                 | MCh\$            | %                 | MCh\$            | %                 |
| <b>A1</b>                           | 2,395,371                  | 11.37%            | 1,589            | 0.26%             | 2,114,853        | 11.15%            | 1,306            | 0.24%             |
| <b>A2</b>                           | 4,846,240                  | 23.01%            | 20,416           | 3.32%             | 4,119,414        | 21.72%            | 14,853           | 2.70%             |
| <b>A3</b>                           | 1,281,756                  | 6.09%             | 27,982           | 4.55%             | 1,037,593        | 5.47%             | 26,279           | 4.78%             |
| <b>B</b>                            | 374,051                    | 1.78%             | 30,536           | 4.97%             | 287,897          | 1.52%             | 23,095           | 4.20%             |
| <b>C1</b>                           | 56,040                     | 0.27%             | 1,121            | 0.18%             | 45,104           | 0.24%             | 902              | 0.16%             |
| <b>C2</b>                           | 46,996                     | 0.22%             | 4,700            | 0.76%             | 30,796           | 0.16%             | 3,080            | 0.56%             |
| <b>C3</b>                           | 20,780                     | 0.10%             | 5,195            | 0.84%             | 34,685           | 0.18%             | 8,672            | 1.58%             |
| <b>C4</b>                           | 43,109                     | 0.20%             | 17,243           | 2.80%             | 28,246           | 0.15%             | 11,298           | 2.05%             |
| <b>D1</b>                           | 61,246                     | 0.29%             | 39,811           | 6.47%             | 36,545           | 0.19%             | 23,754           | 4.32%             |
| <b>D2</b>                           | 64,755                     | 0.30%             | 58,279           | 9.48%             | 46,246           | 0.24%             | 41,622           | 7.57%             |
| <b>Subtotal</b>                     | <b>9,190,344</b>           | <b>43.63%</b>     | <b>206,872</b>   | <b>33.63%</b>     | <b>7,781,379</b> | <b>41.02%</b>     | <b>154,861</b>   | <b>28.16%</b>     |
|                                     | <b>Group</b>               | <b>Percentage</b> | <b>Allowance</b> | <b>Percentage</b> | <b>Group</b>     | <b>Percentage</b> | <b>Allowance</b> | <b>Percentage</b> |
|                                     | <b>MCh\$</b>               | <b>%</b>          | <b>MCh\$</b>     | <b>%</b>          | <b>MCh\$</b>     | <b>%</b>          | <b>MCh\$</b>     | <b>%</b>          |
| <b>Commercial</b>                   |                            |                   |                  |                   |                  |                   |                  |                   |
| Normal portfolio                    | 2,237,256                  | 10.62%            | 30,864           | 5.02%             | 2,380,961        | 12.55%            | 33,821           | 6.15%             |
| Impaired portfolio                  | 400,101                    | 1.90%             | 69,306           | 11.27%            | 417,254          | 2.20%             | 62,117           | 11.29%            |
| <b>Subtotal</b>                     | <b>2,637,357</b>           | <b>12.52%</b>     | <b>100,170</b>   | <b>16.29%</b>     | <b>2,798,215</b> | <b>14.75%</b>     | <b>95,938</b>    | <b>17.44%</b>     |
| <b>Mortgage</b>                     |                            |                   |                  |                   |                  |                   |                  |                   |
| Normal portfolio                    | 5,302,411                  | 25.18%            | 15,701           | 2.56%             | 5,042,551        | 26.59%            | 17,485           | 3.18%             |
| Impaired portfolio                  | 323,401                    | 1.54%             | 27,605           | 4.49%             | 229,030          | 1.21%             | 18,505           | 3.36%             |
| <b>Subtotal</b>                     | <b>5,625,812</b>           | <b>26.72%</b>     | <b>43,306</b>    | <b>7.05%</b>      | <b>5,271,581</b> | <b>27.80%</b>     | <b>35,990</b>    | <b>6.54%</b>      |
| <b>Consumer</b>                     |                            |                   |                  |                   |                  |                   |                  |                   |
| Normal portfolio                    | 3,257,836                  | 15.47%            | 112,468          | 18.29%            | 2,722,492        | 14.36%            | 126,493          | 23.00%            |
| Impaired portfolio                  | 349,412                    | 1.66%             | 152,117          | 24.74%            | 392,985          | 2.07%             | 136,766          | 24.86%            |

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|                 |                   |                |                |                |                   |                |                |                |
|-----------------|-------------------|----------------|----------------|----------------|-------------------|----------------|----------------|----------------|
| <b>Subtotal</b> | <b>3,607,248</b>  | <b>17.13%</b>  | <b>264,585</b> | <b>43.03%</b>  | <b>3,115,477</b>  | <b>16.43%</b>  | <b>263,259</b> | <b>47.86%</b>  |
| <b>Total</b>    | <b>21,060,761</b> | <b>100.00%</b> | <b>614,933</b> | <b>100.00%</b> | <b>18,966,652</b> | <b>100.00%</b> | <b>550,048</b> | <b>100.00%</b> |

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**Banco Santander Chile and Subsidiaries**

**Notes to the Consolidated Financial Statements**

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NOTE 38

RISK MANAGEMENT, continued

Regarding the individually evaluated portfolio, the different categories and levels within each category correspond to:

Category A or Normal Portfolio. Consists of debtors with a payment capacity that allows them to fulfill their financial obligations and commitments and who, according to their financial situation, are not likely to experience a change in this condition in the short term.

Category B Portfolio. Includes debtors with financial difficulties or whose payment capacity has been diminished and about whom the Bank has doubts about the total reimbursement of the capital and interest according to the agreed terms, showing they have a lesser likelihood of meeting their financial obligations in the short term.

Categories C and D or Default Portfolio. Consists of those debtors where the Bank considers the ability of reimbursement remote since they have an impaired or null payment capacity.

Regarding the portfolios evaluated on a group basis, all of the associated operations are evaluated together.

See Note 30 for the detail of the Bank's impaired loans and the associated allowances. Also, see Note 20 for a detail of the maturity of the Bank's financial assets.

**Exposure to credit risk in foreign derivative contracts**

As of December 31, 2013, the Bank's foreign exposure -including counterparty risk in the derivative instruments' portfolio- was USD 991 million or 1.9% of assets. In the table below, exposure to derivative instruments is calculated by using the equivalent credit risk; which equals the replacement carrying amount plus the maximum potential value, considering the cash collateral that minimizes exposure.

Below, there are additional details regarding our exposure to Spain and Italy, since they are classified above 1 and where the below represents majority of our exposure to categories other than 1. We do not have sovereign exposure to Spain or Italy. Below we detail exposure to Italy and Spain as of December 31, 2013, considering fair value of derivative instruments.

| Country      | Classification<br>(1) | Derivative Instruments<br>(adjusted to market)<br>USD MM | Deposits     |             | Loans    | Financial<br>investments | Total              |
|--------------|-----------------------|--|--------------|-------------|----------|--------------------------|--------------------|
|              |                       |  | USD MM       | USD MM      | USD MM   | USD MM                   | Exposure<br>USD MM |
| Spain        | 2                     | 0.28   | 8.56         | 0.04        | -        | -                        | 8.88               |
| Italy        | 2                     | 66.40  | 4.04         | 0.84        | -        | -                        | 71.28              |
| Other        | 2                     | 5.08   | 0.17         | 0.98        | -        | -                        | 6.23               |
| <b>Total</b> |                       | <b>71.76</b>   | <b>12.77</b> | <b>1.86</b> | <b>-</b> | <b>-</b>                 | <b>86.39</b>       |

(1) Corresponds to country's classification established in Chapter B-6 of the Compendium of Accounting Standards issued by the SBIF.

\* The total amount of this exposure to derivative instruments must be compensated daily with collateral and, therefore, the net credit exposure is USD 0

Our exposure to Spain within the group is as follows:

| Counterpart               | Country | Classification | Derivative instruments<br>(market adjusted)<br>USD MM | Deposits |        | Loans  | Financial   | Exposure |
|---------------------------|---------|----------------|---|----------|--------|--------|-------------|----------|
|                           |         |                |   | USD MM   | USD MM | USD MM | Investments | Exposure |
| Banco Santander<br>España | Spain   | 2              | 0.28  | 8.56     | -      | -      | -           | 8.84     |

\* The total amount of this exposure to derivative instruments must be compensated daily with collateral and, therefore, the net credit exposure is USD 0.28

\*\* We have included our exposure to Santander branches in New York and Hong Kong as exposure to Spain.

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NOTE 38

RISK MANAGEMENT, continued

**Impairment of other financial instruments**

As of December 31, 2013 and 2012, the Bank had no significant impairments of its financial assets other than loans and accounts receivable

**Security interests and credit improvements**

The maximum exposure to credit risk is reduced in some cases by security interests, credit improvements, and other actions which mitigate the Bank's exposure. Based on the foregoing, the creation of security interests are a necessary but not a sufficient condition for granting a loan; accordingly, the Bank's acceptance of risks requires the verification of other variables and parameters, such as the ability to pay or generate funds in order to mitigate the risk being taken on.

Procedures for management and valuation of securities are described in the internal policies of risk management. Said policies set the basic principles for credit risk management, including the management of securities received in customers' operations. In this sense, the risk management model includes valuating the existence of adequate and sufficient guarantees that allow recovering the credit when the debtor's circumstances prevent them from fulfilling their obligations.

The procedures used for the valuation of security interests utilize the prevailing market practices, which provide for the use of appraisals for mortgage securities, market prices for stock securities, fair value of the participating interest for investment funds, etc. All security interests received must be instrumented properly and registered on the relevant register, as well as have the approval of legal divisions of the Bank.

In addition, the Bank has classification tools that allow it to group the credit quality of transactions or customers. To study how this probability varies, the Bank has historical databases that keep this internally generated information. Classification tools vary according to the analyzed customer (commercial, consumer, SMEs, etc.).

Below is the detail of security interests, collateral, or credit improvements provided to the Bank as of December 31, 2013 and 2012.

|                                       | <b>As of December 31,</b> |                   |
|---------------------------------------|---------------------------|-------------------|
|                                       | <b>2013</b>               | <b>2012</b>       |
|                                       | <b>MCh\$</b>              | <b>MCh\$</b>      |
| <b>Non-impaired financial assets:</b> |                           |                   |
| Properties/mortgages                  | 12,701,836                | 11,462,572        |
| Investments and others                | 1,347,770                 | 869,036           |
| <b>Impaired financial assets:</b>     |                           |                   |
| Properties/ mortgages                 | 663,889                   | 1,145,721         |
| Investments and others                | 27,810                    | 105,903           |
| <b>Total</b>                          | <b>14,741,305</b>         | <b>13,583,232</b> |

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**Banco Santander Chile and Subsidiaries**

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NOTE 38

RISK MANAGEMENT, continued

**Liquidity risk**

Liquidity risk is the risk that the Bank may have difficulty meeting the obligations associated with its financial obligations.

**Liquidity risk management**

The Bank is exposed on a daily basis to requirements for cash funds from various banking activities, such as wires from checking accounts, fixed-term deposit payments, guarantee payments, disbursements on derivatives transactions, etc. As typical in the banking industry, the Bank does not hold cash funds to cover the balance of all the positions, as experience shows that only a minimum level of these funds will be withdrawn, which can be accurately predicted with a high degree of certainty.

The Bank's approach to liquidity management is to ensure— whenever possible—to have enough liquidity on hand to fulfill its obligations at maturity, in both normal and stressed conditions, without entering into unacceptable debts or risking the Bank's reputation. The Board establishes limits on the minimal part of available funds close to maturity to fulfill said payments as well as over a minimum level of interbank operations and other loan facilities that should be available to cover transfers at unexpected demand levels. This is constantly reviewed. Additionally, the Bank must comply with the regulation limits established by the SBIF for maturity mismatches.

These limits affect the mismatches of future flows of income and expenditures of the Bank on an individual basis. They are:

- i. mismatches of up to 30 days for all currencies, up to the amount of basic capital;
- ii. mismatches of up to 30 days for foreign currencies, up to the amount of basic capital; and

iii. mismatches of up to 90 days for all currencies, twice the basic capital.

The Bank's treasury department ("Treasury") receives information from all business units about the liquidity profile of its financial assets and liabilities in addition to details from other future cash flows that arise from future business transactions. Based on this information, Treasury keeps a short-term liquid assets portfolio, mainly composed of liquid investments, interbank loans, and advanced payments, to guarantee that the Bank has enough liquidity. Liquidity needs of business units are fulfilled through short-term transfers from Treasury to cover any short-term variation and long-term financing to address all structural liquidity requirements.

The Bank monitors its liquidity position daily to establish future flows of inflow and outflow. At each month's closing, stress tests are carried out in which a variety of scenarios are used, from normal market conditions to those that contain significant fluctuations. Liquidity policy and procedures are subjected to review and approval of the Bank's Board. There are periodic reports which detail the Bank's, and its subsidiaries', liquidity position, including any exceptions and adopted correcting measures, which are also reviewed periodically by the ALCO.

The Bank relies on customer (retail) and institutional deposits, obligations to banks, debt instruments, and time deposits as its main sources of funding. Although most obligations to banks, debt instruments and time deposits have maturities of more than one year, customer (retail) and institutional deposits tend to have shorter maturities and a large proportion of them are payable within 90 days. The short-term nature of these deposits increases the Bank's liquidity risk, and hence, the Bank actively manages this risk through continual supervision of the market trends and price 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.

The following table sets forth the balance of our liquidity portfolio managed by our Financial Management Division in the manner in which it is presented to the Asset and Liability Committee (ALCO) and the Board. The ALCO has determined that our liquidity portfolio must be comprised of cash plus assets that can be readily convertible into cash either through the Chilean Central Bank window, overnight deposits or instruments or the local secondary market. The management of the Bank's liquidity portfolio is performed by the Financial Management Division under rules determined by the ALCO.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

**NOTE 38**

## RISK MANAGEMENT, continued

|                                   | <b>As of December 31,</b> |              |
|-----------------------------------|---------------------------|--------------|
|                                   | <b>2013</b>               | <b>2012</b>  |
|                                   | <b>MCh\$</b>              | <b>MCh\$</b> |
| Financial investments for trading | 287.567                   | 338.287      |
| Available for sale investments    | 1.700.993                 | 1.826.158    |
| Encumbered assets (net) (1)       | (71.896)                  | (151.620)    |
| Net cash (2)                      | 248.073                   | (195)        |
| Net Interbank deposits (3)        | 984.666                   | 875.537      |
| Total liquidity portfolio         | 3.149.403                 | 2.888.167    |

(1) Assets encumbered through repurchase agreements are deducted from the liquidity portfolio

(2) Cash minus reserve requirements

(3) Includes overnight deposits in Central Bank, domestic banks and foreign banks.

**Exposure to liquidity risk**

A similar, yet not identical, measure is the calculation used to measure the Bank's liquidity limit as established by the SBIF. The Bank determines a mismatch percentage for purposes of calculating such liquidity limit which is calculated by dividing its benefits (assets) by its obligations (liabilities) according to maturity based on estimated repricing. The mismatch amount permitted for the 30 day and under period is 1 times regulatory capital and for the 90 day and under period – 2 times regulatory capital.

The following table displays the actual derived percentages as calculated per above:

|  | <b>As of</b>    |             |
|--|-----------------|-------------|
|  | <b>December</b> |             |
|  | <b>31,</b>      |             |
|  | <b>2013</b>     | <b>2012</b> |
|  | <b>%</b>        | <b>%</b>    |

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|                          |         |       |
|--------------------------|---------|-------|
| 30 days                  | 30.00   | 51.00 |
| 30 days foreign currency | (22.00) | 3.00  |
| 90 days                  | 31.00   | 29.00 |

Below, is the breakdown by maturity, of the asset and liability balances of the Bank as of December 31, 2013 and 2012, which also includes off-balance commitments:

| <b>As of December 31, 2013</b>             | <b>Demand</b>      | <b>Up to<br/>1 month</b> | <b>Between 1<br/>and 3<br/>months</b> | <b>Between 3<br/>and 12<br/>months</b> | <b>Between 1<br/>and 5 years</b> | <b>More than<br/>5 years</b> | <b>Total</b>   |
|--|--------------------|--------------------------|---------------------------------------|--|----------------------------------|------------------------------|----------------|
|  | <b>MCh\$</b>       | <b>MCh\$</b>             | <b>MCh\$</b>                          | <b>MCh\$</b>                           | <b>MCh\$</b>                     | <b>MCh\$</b>                 | <b>MCh\$</b>   |
| Maturity of assets (Note 21)               | 2,950,498          | 2,647,295                | 2,190,406                             | 4,387,042                              | 7,412,088                        | 7,149,366                    | 26,736,695     |
| Maturity of liabilities (Note 21)          | (6,106,601)        | (6,238,525)              | (3,346,329)                           | (3,766,011)                            | (2,326,150)                      | (2,360,371)                  | (24,143,987)   |
| Net maturity                               | (3,156,103)        | (3,591,230)              | (1,155,923)                           | 621,031                                | 5,085,938                        | 4,788,995                    | 2,592,708      |
| <b>Off-balance commitments:</b>            |                    |                          |                                       |  |                                  |                              |                |
| Personal guarantees                        | -                  | (7,745)                  | (9,292)                               | (137,269)                              | (19,001)                         | (8,109)                      | (181,416)      |
| Foreign letters of credit confirmed        | -                  | (17,347)                 | (50,984)                              | (24,639)                               | (26,543)                         | (8,087)                      | (127,600)      |
| Letters of credit issued                   | -                  | (48,634)                 | (101,181)                             | (46,210)                               | (22,007)                         | -                            | (218,032)      |
| Guarantees                                 | -                  | (128,171)                | (145,878)                             | (493,530)                              | (419,414)                        | (25,806)                     | (1,212,799)    |
| <b>Net maturity, including commitments</b> | <b>(3,156,103)</b> | <b>(3,793,127)</b>       | <b>(1,463,258)</b>                    | <b>(80,617)</b>                        | <b>4,598,973</b>                 | <b>4,746,993</b>             | <b>852,861</b> |

| <b>As of December 31, 2012</b>             | <b>Demand</b>      | <b>Up to<br/>1 month</b> | <b>Between 1<br/>and 3<br/>months</b> | <b>Between 3<br/>and 12<br/>months</b> | <b>Between 1<br/>and 5<br/>years</b> | <b>More than<br/>5<br/>years</b> | <b>Total</b>   |
|--|--------------------|--------------------------|---------------------------------------|--|--------------------------------------|----------------------------------|----------------|
|  | <b>MCh\$</b>       | <b>MCh\$</b>             | <b>MCh\$</b>                          | <b>MCh\$</b>                           | <b>MCh\$</b>                         | <b>MCh\$</b>                     | <b>MCh\$</b>   |
| Maturity of assets (Note 21)               | 2,954,752          | 1,353,187                | 2,081,752                             | 3,969,599                              | 7,060,705                            | 6,781,988                        | 24,201,983     |
| Maturity of liabilities (Note 21)          | (5,396,782)        | (5,423,233)              | (2,740,256)                           | (3,219,159)                            | (3,236,072)                          | (2,003,864)                      | (22,019,366)   |
| Net maturity                               | (2,442,030)        | (4,070,046)              | (658,504)                             | 750,440                                | 3,824,633                            | 4,778,124                        | 2,182,617      |
| <b>Off-balance commitments:</b>            |                    |                          |                                       |  |                                      |                                  |                |
| Personal guarantees                        | -                  | (23,315)                 | (24,201)                              | (22,051)                               | (65,571)                             | (3,921)                          | (139,059)      |
| Foreign letters of credit confirmed        | -                  | (4,786)                  | (22,127)                              | (40,870)                               | (46,095)                             | -                                | (113,878)      |
| Letters of credit issued                   | -                  | (52,056)                 | (103,153)                             | (6,351)                                | (37,860)                             | -                                | (199,420)      |
| Guarantees                                 | -                  | (82,428)                 | (136,561)                             | (312,299)                              | (488,770)                            | (26,056)                         | (1,046,114)    |
| <b>Net maturity, including commitments</b> | <b>(2,442,030)</b> | <b>(4,232,631)</b>       | <b>(944,546)</b>                      | <b>368,869</b>                         | <b>3,186,337</b>                     | <b>4,748,147</b>                 | <b>684,146</b> |

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NOTE 38

RISK MANAGEMENT, continued

The tables above show cash flows without deducting financial assets and liabilities over the estimated maturity base. Future cash flows from these instruments might vary significantly compared to this analysis. For example, we expect that demand deposits remain stable or grow steadily and we do not expect to execute all unrecognized loan obligations. In addition, the above detail excludes available credit lines since they do not have contractually defined maturities.

**Market risk**

Market risk arises as a consequence of the market activity, by means of financial instruments whose value can be affected by market variations, reflected in different assets and financial risk factors. The risk can be diminished by means of hedging through other products (assets/liabilities or derivative instruments) or terminating the open transaction/position. The objective of market risk management is to manage and control market risk exposure within acceptable parameters.

There are four major risk factors that affect the market prices: type of interest, type of exchange, price, and inflation. In addition and for certain positions, it is necessary to consider other risks as well, such as spread risk, base risk, commodity risk, volatility or correlation risk.

**Market risk management**

The Bank's internal management measure market risk based mainly on the procedures and standards of Santander Spain, which are in turn based on analysis of management in three principal components:

- trading portfolio;  
- domestic financial management portfolio;

- foreign financial management portfolio.

The trading portfolio is comprised mainly of investments, valued at fair value, and free of any restriction on their immediate sale, which are often bought and sold by the Bank with the intent of selling them in the short term in order to benefit from short-term price fluctuations. The financial management portfolios include all the financial investments not considered a part of trading portfolio.

The ALCO has the general responsibility for the market risk. The Bank's risk/finance department is responsible for formulating detailed management policies and applying them to the Bank's operations, in conformity with the guidelines adopted by the ALCO and the Global Risk Department of Banco Santander – Spain.

The department's functions in connection with trading portfolio include the following:

- i. apply the "Value at Risk" (VaR) techniques to measure interest rate risk,
  - ii. adjust the trading portfolios to market and measure the daily income and loss from commercial activities,
  - iii. compare the real VaR with the established limits,
  - iv. establish procedures to prevent losses in excess of predetermined limits, and
- v. furnish information on the trading activities to the ALCO, other members of the Bank's management, and the Global Risk Department of Santander – Spain.

The department's functions in connection with financial management portfolios include the following:

- i. perform sensitivity simulations (as explained below) to measure interest rate risk for activities denominated in local currency and the potential losses forecasted by these simulations, and
- ii. provide daily reports thereon to the ALCO, other members of the Bank's management, and the Global Risk Department of Santander - Spain.

### **Market risk - trading portfolio**

The Bank applies VaR methods to measure the market risk of its trading portfolio. The Bank has a consolidated commercial position that is made up of fixed income investments, foreign exchange trading, and a minimum position of investments in equity shares. This portfolio is mostly made of Chilean Central Bank bonds, mortgage bonds and corporate bonds issued locally at low risk. At the closing date, the trading portfolio did not show investments in another portfolio.

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NOTE 38

RISK MANAGEMENT, continued

For the Bank, the VaR estimate is done through the historical simulation method which consists of observing the behavior of profit and loss that might have taken place with the current portfolio if the market conditions at a given time had been present and, based on that information, infer maximum losses with a determined confidence level. This method has the advantage of reflecting precisely the historical distribution of market values and not requiring any distribution assumption for a specific probability. All VaR measures are designed to establish the distribution function for the value change in a given portfolio and, once this distribution is known, to calculate the percentile related to the necessary confidence level, which will match the risk value in virtue of those parameters. As calculated by the Bank, the VaR is an estimate of the maximum expected loss of market value of a given portfolio in one day, with 99.00% confidence. It is the maximum loss in one day the Bank could expect in a given portfolio with a confidence level of 99.00%. In other words, it is the loss the Bank would have to deal only 1.0% of the time. VaR provides a single estimation of the market risk that cannot be compared with other market risks. Returns are calculated using a time window of 2 years or, at least, 520 data points gathered since the reference date in the past to calculate VaR.

The Bank does not calculate three separate VaRs. Only one VaR is calculated for the entire trading portfolio which, in addition, is separated into risk types. The VaR program carries out a historical simulation and calculates a profit (ganancia or “G”) and loss (pérdida or “P”) G&P Statement for 520 data points (days) for each risk factor (fixed income, currency, and variable income). Each risk factor’s G&P is added and a consolidated VaR is calculated with 520 data points or days. In addition, the VaR is calculated for each risk factor based on the individual G&P calculated for each. Additionally, a weighted VaR is calculated following the above mentioned method but giving a larger weight to the 30 most recent data points. The highest VaR is reported. In 2011 and 2010, we were still using the same VaR model and the methodology has not changed.

The Bank uses VaR estimates to issue a warning in case the statistically estimated losses for the trading portfolio exceed the cautionary levels.

Limitations of the VaR model

When applying a calculation methodology, no assumptions are made regarding the probability distribution of the changes in the risk factors; the historically observed changes are used for the risk factors on which each position in the

portfolio will be valued.

It is necessary to define a valuation function  $f_j(x_i)$  for each instrument  $j$ , preferably the same one used to calculate the market value and income of the daily position. This valuation function will be applied in each scenario to generate simulated prices for all the instruments in each scenario.

In addition, the VaR methodology should be interpreted taking into consideration the following limitations:

Changes in market rates and prices may not be independent and identically distributed random variables, and may not have a normal distribution. In particular, the assumption of normal distribution may underestimate the probability of extreme market movements;

The historical data used by the Bank may not provide the best estimate of the joint distribution of changes in the risk factors in the future, and any modification of the data may be inadequate. In particular, the use of historical data may fail to capture the risk of potential extreme and adverse market fluctuations, regardless of the time period used;

A 1-day time horizon may not fully capture the market risk positions which cannot be liquidated or covered in a single day. It would not be possible to liquidate or cover all the positions in a single day;

The VaR is calculated at the close of business, but trading positions may change substantially in the course of the trading day;

The use of a 99% level of confidence does not take account of, or make any statement about, the losses that could occur outside of that degree of confidence; and

A model such as the VaR does not capture all the complex effects of the risk factors over the value of the positions or portfolios, and accordingly, it could underestimate potential losses.

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AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

## NOTE 38

## RISK MANAGEMENT, continued

At no time in 2013 and 2012 did the Bank exceed the VaR limits in connection with the three components which comprise the trading portfolio: fixed-income investments, variable-income investments and foreign currency investments.

The Bank carries out *back-testings* on a daily basis and, generally, discovers that trading losses exceed the estimated VaR approximately one out of hundred business days. Also, a maximum VaR limit was established that can be applied over the trading portfolio. Both in 2013 and 2012, the Bank has kept within the maximum limit it established for the VaR; even when the real VaR exceeded estimations.

High, low and average levels for each component and year were as follows:

| <b>VaR</b>                          | <b>2013</b>  | <b>2012</b>  |
|-------------------------------------|--------------|--------------|
|                                     | <b>USDMM</b> | <b>USDMM</b> |
| <b>Consolidated:</b>                |              |              |
| High                                | 3.48         | 4.62         |
| Low                                 | 1.061        | 0.96         |
| Average                             | 1.72         | 2.33         |
| <b>Fixed-income investments:</b>    |              |              |
| High                                | 2.39         | 4.99         |
| Low                                 | 0.97         | 0.95         |
| Average                             | 1.57         | 2.24         |
| <b>Variable-income investments</b>  |              |              |
| High                                | 0.19         | 0.07         |
| Low                                 | 0.00         | 0.00         |
| Average                             | 0.00         | 0.00         |
| <b>Foreign currency investments</b> |              |              |
| High                                | 3.20         | 3.23         |

|         |      |      |
|---------|------|------|
| Low     | 0.06 | 0.03 |
| Average | 0.69 | 0.66 |

### Market risk - local and foreign financial management

The Bank's financial management portfolio includes most of the Bank's non-trading assets and liabilities, including the credit/loan portfolio. For these portfolios, investment and financing decisions are strongly influenced by the Bank's commercial strategies.

The Bank uses a sensitivity analysis to measure market risk for domestic and foreign currencies (not included in the trading portfolio). The Bank carries out a simulation of scenarios that will be calculated as the difference between current flows in the chosen scenario (curve with a parallel movement of 100 basis points ("bp") in all its sections) and its value in the base scenario (current market). All positions in domestic currency indexed to inflation (UF) are adjusted by a sensitivity factor of 0.57 which represents a change in the curve of 57bp in all real rates and 100 bp in nominal rates. The same scenario is carried out for net positions in foreign currency and interest rates in USD. In addition, the Bank has established limits regarding maximum loss this kind of movement in interest rates can have over capital and net financial income budgeted for the year.

To establish the consolidated limit, we add the foreign currency limit to the domestic currency limit and multiple by 2 the sum of the multiplication of them together both for net financial loss limit as well as for the capital and reserves loss limit, using the following formula:

Consolidated limit = square root of  $a^2 + b^2 + 2ab$

a: domestic currency limit

b: foreign currency limit

Since we assume the correlation is 0;  $2ab = 0$ .  $2ab = 0$ .

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NOTE 38

RISK MANAGEMENT, continued

Limitations of the sensitivity models

The most important assumption is using an exchange rate of 100 bp based on yield curve (57 bp for real rates). The Bank uses a 100 bp exchange since sudden changes of this magnitude are considered realistic. Santander Spain Global Risk Department has also established comparable limits by country, so as to compare, control and consolidate market risk by country in a realistic and orderly fashion.

In addition, the sensitivity simulation methodology should be interpreted taking into consideration the following limitations:

The simulation of scenarios assumes that the volumes remain consistent in the Bank's Consolidated Statements of Financial Position and are always renewed at maturity, thereby omitting the fact that certain credit risk and prepayment considerations may affect the maturity of certain positions.

This model assumes an identical change along the entire length of the yield curve and does not take into account the different movements for different maturities.

- The model does not take into account the volume sensitivity which results from interest rate changes.

The limits to losses of budgeted financial income are calculated based on the financial income foreseen for the year, which may not be actually earned, meaning that the real percentage of financial income at risk may be higher than the expected one.

Market risk – Financial management portfolio – December 31, 2013 and 2012

|  | <b>2013</b>      | <b>Effect on</b> | <b>2012</b>      | <b>Effect on</b> |
|--|------------------|------------------|------------------|------------------|
|  | <b>Effect on</b> | <b>capital</b>   | <b>Effect on</b> | <b>capital</b>   |
|  | <b>financial</b> |                  | <b>financial</b> |                  |
|  | <b>income</b>    |                  | <b>income</b>    | <b>income</b>    |
| <b>Financial management portfolio – local currency (MCh\$)</b>                 |                  |                  |                  |                  |
| Loss limit   | 35,500           | 167,530          | 37,300           | 167,530          |
| High   | 28,923           | 86,196           | 26,233           | 100,175          |
| Low  | 21,129           | 69,729           | 13,885           | 85,546           |
| Average  | 25,124           | 77,849           | 20,054           | 92,312           |
| <b>Financial management portfolio – foreign currency (in millions of \$US)</b> |                  |                  |                  |                  |
| Loss limit   | 30.0             | 30.0             | 40.0             | 40.0             |
| High   | 17.2             | 26.0             | 24.3             | 14.7             |
| Low  | 2.1              | 2.3              | 3.7              | 4.5              |
| Average  | 10.2             | 18.6             | 12.8             | 11.7             |
| <b>Financial management portfolio – consolidated (in MCh\$)</b>                |                  |                  |                  |                  |
| Loss limit   | 35,500           | 167,530          | 39,200           | 167,530          |
| High   | 28,958           | 86,212           | 26,437           | 100,201          |
| Low  | 21,204           | 69,787           | 17,037           | 85,566           |
| Average  | 25,146           | 77,891           | 21,165           | 92,457           |

**Operating risk**

Operating risk is the risk of direct or indirect losses stemming from a wide variety of causes related to the Bank's processes, personnel, technology, and infrastructure, as well as external factors other than credit, market, or liquidity, such as those related to legal or regulatory requirements. Operating risks arise from all the Bank's operations.

The Bank's objective is to manage operating risk in order to mitigate economic losses and damage to the Bank's reputation through a flexible internal control structure.

The Bank's management has the main responsibility to develop and apply controls to mitigate operating risks. This responsibility is supported by the global development of the Bank's standards for operating risk management in the following areas:

- Requirements for adequate segregation of duties, including independent authorization of transactions
- Requirements for reconciliation and supervision of transactions

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NOTE 38

RISK MANAGEMENT, continued

- Compliance with the applicable legal and regulatory requirements
  - Documentation of controls and procedures
- Requirements for periodic evaluation of applicable operating risks and improvement of the controls and procedures to address the risks that are identified
  - Requirements for disclosure of operating losses and the proposed corrective measures
    - Development of contingency plans
    - Training and professional development
    - Adoption of ethical business standards
- Reduction or mitigation of risks, including acquisition of insurance policies if they are effective

Compliance with the Bank's standards is supported by a program of periodic reviews conducted by the Bank's internal audit unit, whose results are internally submitted to the management of the business unit that was examined and to the CDA.

**Risk Concentration**

The Bank operates mainly in Chile, thus most of its financial instruments are concentrated in that country. See Note 10 of the financial statements for a detail of the concentration of the Bank's loans and accounts receivable by industry.

NOTE 39

**SUBSEQUENT EVENTS**

The Bank has issued bonds for: CHF 300,000,000; USD 250,000,000; AUD 125,000,000; USD 500,000,000 and JPY 27,300,000,000,000, between January and April 2014.

Additionally, in March 2014 the Bank was authorized by SBIF to merger by incorporation its subsidiary Santander Servicios de Recaudación y Pagos Limitada, the Bank expects to complete the merger as of May 1, 2014.

At the ordinary shareholders' meeting held on April 22, 2014, members of the Board of Director were elected for a three-year term. Elected members were Mr. Vittorio Corbo Lioi, Mr. Oscar Von Chrismar Carvajal, Mr. Roberto Méndez Torres, Mr. Mauricio Larraín Garcés, Mr. Marco Colodro Hadjes, Mr. Carlos Olivos Marchant, Mrs. Lucía Santa Cruz Sutil, Mr. Lisandro Serrano Spoerer, Mr. Roberto Zahler Mayanz, Mr. Victor Arbulú Crousillat and Mr. Juan Pedro Santa María. Alternate Directors were Mr. Orlando Poblete Iturrate and Mr. Raimundo Monge Zegers.

In the same shareholders' meeting a dividend was approved. This dividend amounts \$1.40706372 per share, totaling Ch\$265,156 million.

At the Boards of Directors' meeting held on April 22, 2014, Board members elected Mr. Vittorio Corbo Lioi as new Chairman, Mr. Oscar Von Chrismar Carvajal as First Vice Chairman, and Mr. Roberto Méndez Torres as Second Vice Chairman.

Between January 1, 2014 and the date on which these Consolidated Financial Statements were issued (April 30, 2014), no other events have occurred which could significantly affect their interpretation.

**FELIPE CONTRERAS FAJARDO    CLAUDIO MELANDRI HINOJOSA**

**Chief Accounting Officer**

**Chief Executive Officer**