

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

TABLE OF CONTENTS

| | Page |
|--|------|
| <u>CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS</u> | 2 |
| <u>CERTAIN TERMS AND CONVENTIONS</u> | 4 |
| <u>PRESENTATION OF FINANCIAL INFORMATION</u> | 4 |
| <u>PART I</u> | 7 |
| <u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u> | 7 |
| <u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u> | 7 |
| <u>ITEM 3. KEY INFORMATION</u> | 7 |
| <u>ITEM 4. INFORMATION ON THE COMPANY</u> | 37 |
| <u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u> | 54 |
| <u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u> | 55 |
| <u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u> | 133 |
| <u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u> | 148 |
| <u>ITEM 8. FINANCIAL INFORMATION</u> | 153 |
| <u>ITEM 9. THE OFFER AND LISTING</u> | 153 |
| <u>ITEM 10. ADDITIONAL INFORMATION</u> | 155 |
| <u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 172 |
| <u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u> | 193 |
| <u>PART II</u> | 194 |
| <u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u> | 194 |
| <u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u> | 194 |
| <u>ITEM 15. CONTROLS AND PROCEDURES</u> | 195 |
| <u>ITEM 16. [RESERVED]</u> | 198 |
| <u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u> | 198 |
| <u>ITEM 16B. CODE OF ETHICS</u> | 198 |
| <u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u> | 199 |
| <u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u> | 199 |
| <u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u> | 199 |
| <u>ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT</u> | 199 |
| <u>ITEM 16G. CORPORATE GOVERNANCE</u> | 199 |
| <u>ITEM 16H. MINE SAFETY DISCLOSURE</u> | 201 |
| <u>PART III</u> | 202 |
| <u>ITEM 17. FINANCIAL STATEMENTS</u> | 202 |
| <u>ITEM 18. FINANCIAL STATEMENTS</u> | 202 |
| <u>ITEM 19. EXHIBITS</u> | 202 |

Table of Contents

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

our financial condition

our results of operation

The sections of this Annual Report which contain forward-looking statements include, without limitation, “Item 3. Key Information—Risk Factors,” “Item 4. 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;

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

Effect of Rounding

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

Economic and Market Data

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

Exchange Rates

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

Unless otherwise indicated, all 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.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents 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 |

Table of Contents

| | As of and for the years ended December 31, | | | | |
|---|---|--------|--------|--------|--------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| CONSOLIDATED RATIOS (IFRS) | | | | | |
| 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% |
| OTHER DATA | | | | | |
| 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.

Table of Contents

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 |

Table of Contents

| 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.”

Table of Contents

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

| Year | Dividend Ch\$ mn(1) | Per share Ch\$/share(2) | Per ADR Ch\$/ADR(3) | % over earnings(4) | % over 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.

Table of Contents

· 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.

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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.”

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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).

Table of Contents

Market practices and documentation for derivative transactions in Chile may differ from those in other countries. For example, documentation may not incorporate terms and conditions of derivatives transactions as commonly understood in other countries. In addition, the execution and performance of these transactions depends on our ability to 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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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 (Ch\$) at year end | Devaluation (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,

Table of Contents

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%.

Table of Contents

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.

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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

You may be unable to exercise preemptive rights.

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

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

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.

Table of Contents

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.

Table of Contents

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. 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

Table of Contents

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.

Table of Contents

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 receivable from customers (1) Ch\$m | Net interest income Ch\$m | Net fee and commission income Ch\$m | Financial transactions, net (2) Ch\$m | Provision for loan losses Ch\$m | Support expenses (3) Ch\$m | Segment's net contribution Ch\$m |
| Segments | | | | | | | |

**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 |
| Subtotal | 13,660,916 | 866,230 | 186,785 | 13,530 | (315,617) | (430,176) | 320,752 |
| Companies and institutional | | | | | | | |
| 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 |
| Subtotal | 5,031,752 | 193,749 | 29,249 | 14,236 | (41,497) | (69,828) | 125,909 |
| Subtotal | | | | | | | |
| Commercial Banking | 18,692,668 | 1,059,979 | 216,034 | 27,766 | (357,114) | (500,004) | 446,661 |
| Global Banking and Markets | | | | | | | |
| 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 |
| Subtotal | 2,219,045 | 72,932 | 18,022 | 50,717 | (14,739) | (37,728) | 89,204 |
| Other | 149,048 | (56,149) | (4,220) | 45,954 | 391 | (20,121) | (34,145) |
| Total | 21,060,761 | 1,076,762 | 229,836 | 124,437 | (371,462) | (557,853) | 501,720 |
| 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) |
| Net income for the year | | | | | | | 444,429 |

(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.

Table of Contents

Operations through Subsidiaries

Today, the General Banking Law permits us to directly provide the leasing and financial advisory services that we could formerly offer only through our subsidiaries, to offer investment advisory services outside of Chile and to undertake activities 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 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

Table of Contents

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, unless otherwise noted | |
|----------------------------|--|------|
| | Market Share | Rank |
| Commercial loans | 17.4% | 2 |
| Consumer loans | 24.6% | 1 |
| Residential mortgage loans | 20.7% | 1 |
| Total loans ⁽¹⁾ | 19.1% | 2 |
| Deposits | 16.6% | 3 |
| Credit card accounts | 27.5% | 1 |
| Checking accounts | 23.3% | 2 |
| Branches ⁽³⁾ | 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.

Table of Contents

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 December 31, 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.

Table of Contents

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 loans ⁽¹⁾ 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.

Table of Contents

Regulation and Supervision

General

In Chile, only banks may maintain checking accounts for their customers, conduct foreign trade operations, and, together with non-banking financial institutions, accept time deposits. The principal authorities that regulate financial institutions in Chile are the 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;

Table of Contents

- 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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

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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 |

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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:

| | Closing balance | | Adjusted balance |
|--|------------------------|--------------------|-------------------------|
| | as of | Adjustments | as of |
| | December 31, | | December 31, |
| Consolidated Statement of Financial Position | 2012 | | 2012 |
| | Ch\$mnn | Ch\$mnn | Ch\$mnn |
| 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:

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

(*) 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)

Table of Contents

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, 2012 | | December 31, 2012 |
| | Ch\$mnn | Ch\$mnn | Ch\$mnn |
| ASSETS | | | |
| 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 |
| TOTAL ASSETS | 24,759,888 | (786) | 24,759,102 |
| LIABILITIES | | | |
| 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 |
| TOTAL LIABILITIES | 22,562,505 | 96 | 22,562,601 |
| EQUITY | | | |
| Attributable to the Bank's shareholders: | 2,163,118 | (882) | 2,162,236 |
| Capital | 891,303 | - | 891,303 |

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| | | | |
|--|-------------------|--------------|-------------------|
| Reserves | 976,561 | (1,101) | 975,460 |
| Valuation adjustments | (3,781) | - | (3,781) |
| Retained earnings | 299,035 | 219 | 299,254 |
| 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) |
| Non-controlling interest | 34,265 | - | 34,265 |
| TOTAL EQUITY | 2,197,383 | (882) | 2,196,501 |
| TOTAL LIABILITIES AND EQUITY | 24,759,888 | (786) | 24,759,102 |

Table of Contents

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

| | Closing balance as of December 31 2012 Ch\$mnn | IAS 19 adjustments Ch\$mnn | Adjusted balance as of December 31 2012 Ch\$mnn |
|--|--|--------------------------------------|---|
| OPERATING INCOME | | | |
| Interest income | 1,890,953 | - | 1,890,953 |
| Interest expense | (848,219) | - | (848,219) |
| Net interest income | 1,042,734 | - | 1,042,734 |
| Fee and commission income | 360,427 | - | 360,467 |
| Fees and commissions expense | (89,855) | - | (89,855) |
| Net fee and commission income | 270,572 | - | 270,572 |
| 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 |
| Net operating profit before provision for loan losses | 1,408,710 | - | 1,408,710 |
| Provisions for loan losses | (403,692) | - | (403,692) |
| NET OPERATING PROFIT | 1,005,018 | - | 1,005,018 |
| 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) |
| TOTAL OPERATIONAL EXPENSES | (599,773) | 394 | (599,379) |
| OPERATING INCOME | 405,245 | 394 | 405,639 |
| Income from investments in associates and other companies | 267 | - | 267 |
| Income before tax | 405,512 | 394 | 405,906 |
| Income tax expense | (44,394) | (79) | (44,473) |
| NET INCOME FOR THE PERIOD | 361,118 | 315 | 361,433 |
| Attributable to: | | | |
| 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 |

Table of Contents

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

| | Closing balance as of December 31, 2011 | IAS 19 adjustments | Adjusted balance as of December 31, 2011 |
|--|--|-----------------------|--|
| | MCh\$ | MCh\$ | MCh\$ |
| OPERATING INCOME | | | |
| Interest income | 1,768,735 | - | 1,768,735 |
| Interest expense | (796,435) | - | (796,435) |
| Net interest income | 972,300 | - | 972,300 |
| Fee and commission income | 363,041 | - | 363,041 |
| Fees and commissions expense | (85,205) | - | (85,205) |
| Net fee and commission income | 277,836 | - | 277,836 |
| 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 |
| Net operating profit before provision for loan losses | 1,363,082 | - | 1,363,082 |
| Provisions for loan losses | (316,137) | - | (316,137) |
| NET OPERATING PROFIT | 1,046,945 | - | 1,046,945 |
| 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) |
| TOTAL OPERATIONAL EXPENSES | (565,228) | 573 | (564,655) |
| OPERATING INCOME | 481,717 | - | 482,290 |
| Income from investments in associates and other companies | 2,140 | - | 2,140 |
| Income before tax | 483,857 | 573 | 484,430 |
| Income tax expense | (77,193) | (115) | (77,308) |
| NET INCOME FOR THE PERIOD | 406,664 | 458 | 407,122 |
| Attributable to: | | | |
| 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 |

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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 |
| CONSOLIDATED INCOME STATEMENT DATA | | | | | |
| IFRS: | | | | | |
| Interest income and expense | | | | | |
| 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% |
| Net interest income | 2,054,106 | 1,076,807 | 1,156,741 | 3.3% | 7.2% |
| Fees and income from services | | | | | |
| 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% |
| Total net fees and commission income | 438,451 | 229,837 | 277,836 | (15.1%) | (2.6%) |
| Other operating income | | | | | |
| 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%) |
| Total other operating income | 405,554 | 212,592 | 112,946 | 122.8% | (15.5%) |
| Net operating profit before loan losses | 2,898,111 | 1,519,908 | 1,363,082 | 7.8% | 3.3% |
| Provision for loan losses | (708,626) | (371,462) | (316,137) | (8.0%) | 27.7% |
| Net operating profit | 2,189,485 | 1,148,446 | 1,046,945 | 14.2% | (4.0%) |
| Operating expenses | | | | | |
| 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%) |
| Total operating expenses | (1,164,043) | (610,117) | (564,655) | 1.8% | 6.1% |
| Operating income | 1,025,442 | 538,329 | 482,290 | 32.5% | (15.9%) |
| Other non-operating results | | | | | |
| Income from investments in associates and other companies | 2,713 | 1,422 | 2,140 | 432.6% | (87.5%) |
| Total other non-operating results | 2,713 | 1,422 | 2,140 | 432.6% | (87.5%) |
| Income before tax | 1,028,155 | 539,751 | 484,430 | 32.8% | (16.2%) |
| Income tax | (180,332) | (94,530) | (77,308) | 112.6% | (42.5%) |
| Net income for the year | 847,823 | 445,221 | 407,122 | 23.0% | (11.2%) |
| Net income for the period attributable to: | | | | | |

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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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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% |
| Total commercial banking | 1,059,979 | 1,032,736 | 944,975 | 2.6% | 9.3% |
| Global banking & markets | 72,932 | 50,477 | 48,942 | 44.5% | 3.1% |
| Other (1) | (56,149) | (40,479) | (21,617) | 38.7% | 87.3% |
| Net interest income | 1,076,762 | 1,042,734 | 972,300 | 3.3% | 7.2% |
| 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% |
| Net interest margin (2) | 4.63% | 4.82% | 4.78% | | |
| 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.

Table of Contents

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% |
| Total | 8.0% | 8.8% | 8.7% |

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% |
| Total | 4.6% | 5.3% | 5.1% |

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.

Table of Contents

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% |
| Total loans | 21,060,761 | 18,966,652 | 17,434,782 | 11.1% | 8.8% |

(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% |
| Total | 8.0% | 8.7% | 8.7% |

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.

Table of Contents

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% |
| Total fees and commission income, net | 229,836 | 270,572 | 277,836 | (15.1%) | (2.6%) |

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.

Table of Contents

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) | –% | –% |
| Total fees and commission income, net | 229,836 | 270,572 | 277,836 | (15.1%) | (2.6%) |

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.

Table of Contents

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%) -% |
| Total financial transactions, net | 124,437 | 82,299 | 94,197 | 51.2% (12.6%) |

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

Table of Contents

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%) |
| Net income (loss) from financial operations | (20,289) | (64,079) | 170,857 | (68.3%) -% |

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 | -% | -% |
| Net results from foreign exchange profit (loss) | 144,726 | 146,378 | (76,660) | (1.1%) | -% |

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

Table of Contents

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, 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% |
| Client treasury services | 79,118 | 87,694 | 88,555 | (9.8%) | (1.0%) |
| 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%) |
| Non-client treasury income (loss) | 45,319 | (5,395) | 5,642 | -% | -% |
| Total financial transactions, net | 124,437 | 82,299 | 94,197 | 51.2% | (12.6%) |

(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

Table of Contents

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.

Table of Contents

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\$) | | | | |
| Income from assets received in lieu of payment | 6,571 | 2,654 | 5,629 | 147.6% | (52.9%) |
| Net results from sale of investment in other companies | 78,122 | 599 | - | 12942.1% | 100.0% |
| 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%) |
| Sub-total other income | 3,462 | 9,852 | 13,120 | (64.9%) | (24.9%) |
| Total other operating income | 88,155 | 13,105 | 18,749 | 572.7% | (30.1%) |

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.

Table of Contents

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 branches (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%) |
| Provision for loan losses, net | (371,462) | (403,692) | (316,137) | (8.0%) | 27.7% |
| 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.

Table of Contents

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%) |
| Total (1) | (418,675) | (431,237) | (343,821) | (2.9%) | 25.4% |

(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

Table of Contents

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 December 31, | | | % Change | % Change |
|---|----------------------------|---------------|---------------|--------------|---------------|
| | 2013 | 2012 | 2011 | 2013/2012 | 2012/2011 |
| | (in millions of Ch\$) | | | | |
| Recovery of loans previously charged-off | | | | | |
| 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% |
| Total recoveries | 55,284 | 33,015 | 35,825 | 67.5% | (7.8%) |

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.