BANCO SANTANDER CHILE
Form 20-F
March 24, 2017

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 1934
For the fiscal year ended December 31, 2016

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 and Banco Santander)
(Exact name of Registrant as specified in its charter)

SANTANDER-CHILE BANK
(d/b/a Santander and Banco Santander)
(Translation of Registrant's name into English)

Chile
(Jurisdiction of incorporation or organization)

Bandera 140, 20^{th} floor
Santiago, Chile
Telephone: 011-562-320-2000
(Address of principal executive offices)

Robert Moreno Heimlich

Tel: 562-2320-8284, Fax: 562-696-1679, email: robert.moreno@santander.cl

Bandera 140, 20^{th} 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, 2016, was:

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

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

Yes No

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

Yes No

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

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

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

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

Item 17 Item 18

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

Yes No

TABLE OF CONTENTS

	Page
CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS	2
CERTAIN TERMS AND CONVENTIONS	4
PRESENTATION OF FINANCIAL INFORMATION	4
PART I	7
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	7
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	7
ITEM 3. KEY INFORMATION	7
ITEM 4. INFORMATION ON THE COMPANY	39
ITEM 4A. UNRESOLVED STAFF COMMENTS	56
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	57
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	132
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	144
ITEM 8. FINANCIAL INFORMATION	150
ITEM 9. THE OFFER AND LISTING	151
ITEM 10. ADDITIONAL INFORMATION	152
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	170
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	190
PART II	192
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	192
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	192
ITEM 15. CONTROLS AND PROCEDURES	192
ITEM 16. [RESERVED]	194
ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT	194
ITEM 16B. CODE OF ETHICS	194
ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	194
ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	195
ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	195
ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT	195
ITEM 16G. CORPORATE GOVERNANCE	195
ITEM 16H. MINE SAFETY DISCLOSURE	197
PART III	198
ITEM 17. FINANCIAL STATEMENTS	198
ITEM 18. FINANCIAL STATEMENTS	198
ITEM 19. EXHIBITS	198

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—B. Business Overview—Competition,” “Item 5. Operatin 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,’ 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;
- deflation;
- unemployment;

2

Table of Contents

- 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.

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.

Table of Contents

CERTAIN TERMS AND CONVENTIONS

As used in this annual report (the “Annual Report”), “Santander-Chile”, “the Bank”, “we,” “our” and “us” or similar terms refe 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 “the Group,” “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 “CN or “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 the Compendium of Accounting Standards issued by the SBIF the Chilean regulatory agency ("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—Accounting Standards Applied in 2016."

This Annual Report contains our consolidated financial statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 (the "Audited Consolidated Financial Statements"). Such Audited Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB, and have been audited by the independent registered public accounting firm PricewaterhouseCoopers Consultores, Auditores y Compañía Limitada for the year ended December 31, 2016 and by the independent registered accounting firm Deloitte Auditores y Consultores Limitada for the years ended December 31, 2015 and 2014. See page F-2 of the Audited Consolidated Financial Statements for the 2016 audit report prepared by PricewaterhouseCoopers Consultores, Auditores y Compañía Limitada and page F-4 of the Audited Consolidated Financial Statements for the 2015 and 2014 audit report prepared by Deloitte Auditores y Consultores Limitada. The Audited Consolidated Financial Statements have been prepared from accounting records maintained by the Bank and its subsidiaries.

Table of Contents

The notes to the Audited Consolidated Financial Statements form an integral part of the Audited Consolidated Financial Statements and contain additional information and narrative descriptions or details of these financial statements.

We have formatted our financial information according to the classification format for banks in Chile for purposes of IFRS. 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 Chilean pesos (Ch$) into U.S. dollars (U.S.$) using the rate as indicated below under "Exchange Rates," for the financial information included in this Annual Report. See "Note 1—Summary of Significant Accounting Principles—e) Functional and presentation currency."

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. 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—C. 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 an individually significant loan recorded at amortized cost which has experienced objective evidence of impairment is calculated as the difference between the recorded amount of the loan and the fair value of the collateral less costs to sell (practical expedient as allowed under IAS 39, “Financial Instruments”, Application Guidance paragraph 84).

Those loans individually assessed for impairment and found not to be individually impaired are included in the loans collectively assessed for impairment (so that the collective assessment includes both the remainder of the loans not individually assessed and those not found to be individually impaired) where grouping of such loans on a collective basis is performed using similar credit 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—C. 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—B. 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—C. 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, 2016 and 2015, the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$666.00and Ch$707.80 respectively, or 0.19% less and 0.06% more, respectively, than the observed exchange rate published by the Central Bank for such date of Ch$667.29 and Ch$707.34 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, 2016 and 2015, one UF was equivalent to Ch$26,347.98 and Ch$25,629.09, respectively. The U.S. dollar equivalent of one UF was U.S.$39.49 as of December 31, 2016, using the observed exchange rate reported by the Central Bank as of December 30, 2015 of Ch$36.23 per U.S.$1.00.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

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, 2016, 2015, 2014, 2013, and 2012 has been derived from our audited consolidated financial statements prepared in accordance with IFRS. In the F-pages of this Annual Report on Form 20-F, our audited financial statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 are presented. The audited financial statements for 2013 and 2012 are not included in this document, but they can be found in our previous Annual Reports on Form 20-F. These consolidated financial statements differ in some respects from our locally filed financial statements as of and for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 prepared in accordance with Chilean Bank GAAP. See "Item 4. Information on the Company—Differences between IFRS and 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,					
	2016	2016	2015	2014	2013	2012
	In U.S.$ thousands(1)	In Ch$ millions (2)				

CONSOLIDATED STATEMENT OF INCOME DATA (IFRS)						
Net interest income	1,923,973	1,281,366	1,255,206	1,317,104	1,076,762	1,042,734
Net fee and commission income	382,018	254,424	237,627	227,283	229,836	270,572
Financial transactions, net (3)	210,748	140,358	145,499	112,565	124,437	82,299
Other operating income	9,650	6,427	6,439	6,545	88,155	13,105
Net operating profit before provision for loan losses	2,526,389	1,682,575	1,644,771	1,663,497	1,519,190	1,408,710
Provision for loan losses	(513,638)	(342,083)	(399,277)	(354,903)	(371,462)	(403,692)
Net operating profit	2,012,751	1,340,492	1,245,494	1,308,594	1,147,728	1,005,018
Total operating expenses	(1,135,197)	(756,041)	(719,958)	(683,819)	(610,191)	(599,379)
Operating income	877,554	584,451	525,536	624,775	537,537	405,639
Income from investments in associates and other companies	4,523	3,012	2,588	2,165	1,422	267
Income before tax	882,077	587,463	528,124	626,940	538,959	405,906
Income tax expense	(163,710)	(109,031)	(76,395)	(51,050)	(94,530)	(44,473)
Net income for the year	718,366	478,432	451,729	575,890	444,429	361,433
Net income for the period attributable to:						
Equity holders of the Bank	714,815	476,067	448,466	569,910	442,294	356,808
Non-controlling interests	3,551	2,365	3,263	5,980	2,135	4,625
Net income attributable to Equity holders of the Bank per share	3.79	2.53	2.38	3.02	2.35	1.89
Net income attributable to Equity holders of the Bank per ADS	1,517.28	1,010.51	951.92	1,208.00	938.83	757.37
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)	471.1	471.1	471.1	471.1	471.1	471.1

7

Table of Contents

	As of and for the years ended December 31,					
	2016	2016	2015	2014	2013	2012
	In U.S.$ thousands(1)	In Ch$ millions (2)				
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA (IFRS)						
Cash and deposits in banks	3,422,506	2,279,389	2,064,806	1,608,888	1,571,810	1,250,414
Cash items in process of collection	743,668	495,283	724,521	531,373	604,077	520,267
Trading investments	596,077	396,987	324,271	774,815	287,567	338,287
Investments under resale agreements	10,114	6,736	2,463	—	17,469	6,993
Financial derivative contracts	3,754,928	2,500,782	3,205,926	2,727,563	1,494,018	1,293,212
Interbank loans, net	403,411	268,672	9,711	11,942	124,954	90,414
Loans and accounts receivable from customers, net	39,259,991	26,147,154	24,528,745	22,196,390	20,320,874	18,326,190
Available-for-sale investments	5,088,447	3,388,906	2,044,411	1,651,598	1,700,993	1,826,158
Investments in associates and other companies	35,706	23,780	20,309	17,914	9,681	7,614
Intangible assets	87,215	58,085	51,137	40,983	66,703	87,347
Property, plant, and equipment	386,455	257,379	240,659	211,561	180,215	162,214
Current taxes	—	—	—	2,241	1,643	10,227
Deferred taxes	539,940	359,600	320,527	272,118	227,285	181,875
Other assets	1,272,180	847,272	1,100,174	927,961	514,938	657,890
TOTAL ASSETS	55,600,638	37,030,025	34,637,660	30,975,347	27,122,227	24,759,102
Deposits and other demand liabilities	11,320,293	7,539,315	7,356,121	6,480,497	5,620,763	4,970,019
Cash items in process of being cleared	433,143	288,473	462,157	281,259	276,379	284,953
Obligations under repurchase agreements	318,974	212,437	143,689	392,126	208,972	304,117
Time deposits and other time liabilities	19,747,311	13,151,709	12,182,767	10,413,940	9,675,272	9,112,213
Financial derivative contracts	3,441,683	2,292,161	2,862,606	2,561,384	1,291,785	1,146,161
Interbank borrowing	2,877,429	1,916,368	1,307,574	1,231,601	1,682,377	1,438,003
Issued debt instruments	11,000,559	7,326,372	5,957,095	5,785,112	5,198,658	4,571,289
Other financial liabilities	360,384	240,016	220,527	205,125	189,781	192,611
Current taxes	43,985	29,294	17,796	1,077	50,242	525
Deferred taxes	11,541	7,686	3,906	7,631	26,753	9,544
Provisions	438,754	292,210	274,998	285,970	217,310	191,892
Other liabilities	1,194,872	795,785	1,045,869	654,557	311,479	341,274
TOTAL LIABILITIES	51,188,928	34,091,826	31,835,105	28,300,279	24,749,771	22,562,601
Capital	1,338,293	891,303	891,303	891,303	891,303	891,303
Reserves	2,462,631	1,640,112	1,527,893	1,307,761	1,130,991	975,460
Valuation adjustments	9,970	6,640	1,288	25,600	(5,964)	(3,781)
Retained earnings	556,761	370,803	351,890	417,321	327,622	299,254

Attributable to Equity holders of the Bank	4,367,655	2,908,858	2,772,374	2,641,985	2,343,952	2,162,236
Non-controlling interest	44,056	29,341	30,181	33,083	28,504	34,265
TOTAL EQUITY (4)	4,411,710	2,938,199	2,802,555	2,675,068	2,372,456	2,196,501
TOTAL LIABILITIES AND EQUITY	55,600,638	37,030,025	34,637,660	30,975,347	27,122,227	24,759,102

	As of and for the years ended December 31,				
	2016	2015	2014	2013	2012
CONSOLIDATED RATIOS (IFRS)					
Profitability and performance:					
Net interest margin (5)	4.3 %	4.4 %	4.9 %	4.6 %	4.8 %
Return on average total assets (6)	1.4 %	1.3 %	1.8 %	1.6 %	1.4 %
Return on average equity (7)	16.8 %	16.0 %	21.4 %	18.9 %	16.5 %
Capital:					
Average equity as a percentage of average total assets (8)	8.1 %	8.2 %	8.2 %	8.7 %	8.7 %
Total liabilities as a multiple of equity (9)	11.6	11.4	10.6	10.4	10.3
Credit Quality:					
Non-performing loans as a percentage of total loans (10)	2.1 %	2.5 %	2.8 %	2.9 %	3.2 %
Allowance for loan losses as percentage of total loans	2.9 %	3.0 %	2.9 %	2.9 %	2.9 %
Operating Ratios:					
Operating expenses /operating revenue (11)	44.9 %	43.8 %	41.1 %	40.2 %	42.5 %
Operating expenses /average total assets	2.1 %	2.1 %	2.1 %	2.3 %	2.4 %
OTHER DATA					
CPI Inflation Rate (12)	2.7 %	4.4 %	4.7 %	3.0 %	1.5 %
Revaluation (devaluation) rate (Ch$/U.S.$) at year end (12)	5.7 %	(16.5 %)	(16.0 %)	(9.4 %)	8.2 %
Number of employees at period end	11,354	11,723	11,478	11,516	11,713
Number of branches and offices at period end	423	471	474	493	504

8

Table of Contents

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2016 have been translated from Chilean pesos at the interbank market exchange rate of Ch$666.00 = U.S.$1.00 as of December 31, 2016 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) Net income (expense) from financial operations and net foreign exchange gain.

(4) Total equity includes equity attributable to Equity holders of the Bank plus non-controlling interests.

(5) Net interest income divided by average interest earning assets (as presented in "Item 5. Operating and Financial Review and Prospects— C. Selected Statistical Information").

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

(7) Net income for the year divided by average equity (as presented in "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information").

(8) This ratio is calculated using total average equity (as presented in "Item 5. Operating and Financial Review and Prospects— C. Selected Statistical Information") including non-controlling interest.

(9) Total liabilities divided by equity.

(10) 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.

(11) The efficiency ratio is equal to operating expenses over operating income. Operating expenses includes personnel salaries and expenses, administrative expenses, depreciation and amortization, impairment and other operating expenses. Operating income includes net interest income, net fee and commission income, net income from financial operations (net trading income), foreign exchange profit (loss), net and other operating income.

(12) Based on information published by the Central Bank.

Exchange Rates

Chile has two currency markets, the *Mercado Cambiario Formal*, or the Formal Exchange Market, and the *Mercado Cambiario Informal*, or the Informal Exchange Market. According to Law 18,840, the organic law of the Central Bank and the Central Bank Act (*Ley Orgánica Constitucional del Banco Central de Chile*), the Central Bank determines which purchases and sales of foreign currencies must be carried out in the Formal Exchange Market. Pursuant to Central Bank regulations 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.

Table of Contents

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, 2015 and 2016 the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$707.80 and Ch$666.00 respectively, or 0.06% more and 0.19% less, respectively, than the Central Bank's published observed exchange rate for such date of Ch$707.34 and Ch$667.29, respectively, per U.S.$1.00.

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
2012	469.65	519.69	494.99	478.60
2013	466.50	533.95	495.09	523.76
2014	524.61	621.41	570.01	607.38
2015	597.10	715.66	654.25	707.34
2016	645.22	730.31	676.83	667.29

	Daily Observed Exchange Rate Ch$ Per U.S.$(1)			
Month	Low(2)	High(2)	Average(3)	Period End
October 2016	651.65	670.88	663.92	651.65
November 2016	650.72	679.24	666.12	675.48
December 2016	649.40	677.11	667.17	667.29

January 2017	648.31	673.36	661.19	648.87
February 2017	638.35	646.97	643.21	645.19
March 2017 (through March 22, 2017)	648.88	669.52	660.29	657.83

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 2016 dividend must be proposed and approved during the first four months of 2017. 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.

Table of Contents

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 The Bank of New York Mellon, 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."

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

Year	Dividend Ch$ millions (1)	Dividend U.S.$ millions (2)	Per share Ch$/share (3)	Per ADS U.S.$/ADS (4)	% over earnings (5)	% over earnings (6)
2013	232,780	493.1	1.24	1.05	60	65
2014	265,156	476.0	1.41	1.01	60	60
2015	330,198	540.4	1.75	1.15	60	58
2016	336,659	503.7	1.79	1.07	75	75
2017(7)	330,646	496.5	1.75	1.05	70	69

(1) Millions of nominal pesos.

(2) Millions of U.S.$ using the observed exchange rate of the day the dividend was approved at the annual shareholders' meeting, except for 2017 when the exchange rate used is Ch$666.00.

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

(4) Dividend in U.S.$ million divided by the number of ADS, which was calculated on the basis of 1,039 shares per ADS for 2012. For 2013, 2014, 2015 and 2016, it is calculated on the basis of 400 shares per ADS.

(5) Calculated by dividing dividend paid in the year by net income attributable to the equity holders of the Bank for the previous year under Chilean Bank GAAP. This is the payment ratio determined by shareholders.

(6) Calculated by dividing dividend paid in the year by net income attributable to the equity holders of the Bank for the previous year under IFRS.

(7) Dividend proposed by the Board for shareholders' approval on April 26, 2017.

B. Capitalization and Indebtedness

Not applicable.

11

Table of Contents

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 disruptions and volatility in the global financial markets.

In the recent past, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity and greater volatility (such as volatility in spreads). Global economic conditions deteriorated significantly between 2007 and 2009, and many countries fell into recession. Although most countries have begun to recover, this recovery may not be sustainable. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced, and some continue to experience, 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:

- Reduced demand for our products and services.

- Increased regulation of our industry. Compliance with such regulation will continue to increase our costs and may affect the pricing for our products and services, increase our conduct and regulatory risks to non-compliance and limit our ability to pursue business opportunities.

- Inability of our borrowers to timely or fully comply with their existing obligations. Macroeconomic shocks may negatively impact the household income of our retail customers and may adversely affect the recoverability of our retail loans, resulting in increased loan losses.

- 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.

Despite recent improvements in certain segments of the global economy, uncertainty remains concerning the future economic environment. Such economic uncertainty 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.

Table of Contents

Increased volatility in the global financial markets could have a material adverse effect on us, including on our ability to access capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers 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 our financing availability and terms and, more generally, on our results, financial condition and prospects.

Additionally, the results of the 2016 United States presidential and congressional elections have generated volatility in the global capital and currency markets and have created uncertainty about the relationship between the United States and Latin American countries. Any material change to United States trade policy with respect to Chile could have a material adverse effect on the economy, which could in turn materially harm our financial condition and results of operations.

Credit, market and liquidity risk may have an adverse effect on our credit ratings and our cost of funds. Any downgrade in Chile’s, our controlling shareholders 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 debt are based on a number of factors, including our financial strength and conditions affecting the financial services industry generally. 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.

In December 2016, Moody’s Investors Services (“Moody’s”) concluded a review of the Bank’s ratings and downgraded the baseline credit assessments from a2 to a3 due to their belief that the prospects of a continued slowdown in the Chilean economy and relevant market shift have changed the competitive landscape. Moody’s confirmed our other ratings, maintaining a stable outlook. Also in December 2016, Fitch changed their outlook on the Bank from stable to negative due to concerns over the sovereign ratings for Chile. Standard and Poor’s Ratings Services (“S&P”) announced the same action in January 2017.

In addition, our ratings may be adversely affected by any downgrade in the ratings of our parent company, Santander Spain. The long-term debt of Santander Spain is currently rated investment grade by the major rating agencies: A3 (stable) by Moody's, A- (positive) by S&P and A- (stable) by Fitch Ratings Ltd. ("Fitch").

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 and other financial commitments we may be required to maintain a minimum credit rating or terminate such contracts or post collateral. Any of these results of a ratings downgrade could reduce our liquidity and have an adverse effect on us, including our operating results and financial condition.

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 our long-term credit rating precipitates downgrades to our short-term credit rating, and assumptions about the potential behaviors of various customers, investors and counterparties. Actual outflows could be higher or lower than the preceding hypothetical examples, 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, a credit rating downgrade could still have a material adverse effect on us.

Table of Contents

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.

There can be no assurance that the rating agencies will maintain the current ratings or outlooks. Failure to maintain favorable ratings and outlooks could increase our cost of funding and adversely affect interest margins, which could have a material adverse effect on us.

Increased competition, including from non-traditional providers of banking services such as financial technology providers, 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 de Chile, 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. In addition, there has been a trend towards consolidation in the Chilean banking industry in recent years, which has created larger and stronger banks 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. 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.

Non-traditional providers of banking services, such as internet based e-commerce providers, mobile telephone companies and internet search engines may offer and/or increase their offerings of financial products and services directly to customers. These non-traditional providers of banking services currently have an advantage over traditional providers because they are not subject to banking regulation. Several of these competitors may have long operating histories, large customer bases, strong brand recognition and significant financial, marketing and other resources. They may adopt more aggressive pricing and rates and devote more resources to technology, infrastructure and marketing. New competitors may enter the market or existing competitors may adjust their services with unique product or service offerings or approaches to providing banking services. If we are unable to successfully compete with current and new competitors, or if we are unable to anticipate and adapt our offerings to changing banking industry trends, including technological changes, our business may be adversely affected. In addition, our failure to effectively anticipate or adapt to emerging technologies or changes in customer behavior, including among younger customers, could delay or prevent our access to new digital-based markets, which would in turn have an adverse effect on our competitive position and business.

The rise in customer use of internet and mobile banking platforms in recent years could negatively impact our investments in bank premises, equipment and personnel for our branch network. The persistence or acceleration of this shift in demand towards internet and mobile banking may necessitate changes to our retail distribution strategy, which may include closing and/or selling certain branches and restructuring our remaining branches and work force. These actions could lead to losses on these assets and may lead to increased expenditures to renovate, reconfigure or close a number of our remaining branches or to otherwise reform our retail distribution channel. Furthermore, our failure to swiftly and effectively implement such changes to our distribution strategy could have an adverse effect our competitive position.

Increasing competition could also require that we increase our rates offered on deposits or lower the rates we charge on 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.

Table of Contents

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 that they will be successful. 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. Our success is also dependent on our ability to anticipate and leverage new and existing technologies that may have an impact on products and services in the banking industry. Technological changes may further intensify and complicate the competitive landscape and influence client behavior. 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 sufficient. Our employees and our risk management systems may not be sufficient to enable us to properly manage 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 2020 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.

While we have successfully increased our customer service levels in recent years, should these levels ever be 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.

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

Market turmoil and economic recession could materially and adversely affect the liquidity, credit ratings, businesses and/or financial conditions of our borrowers, which could in turn increase our 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. We may also be adversely affected by the negative effects of the heightened regulatory environment on our customers due to the high costs associated with regulatory compliance and proceedings. 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. Our customers may significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds for a number of reasons, including a market downturn, which would adversely affect us, including our fee and commission income.

Table of Contents

Banco Santander Chile sold its asset management business in 2013 and signed a management service agreement for a 10 year-period with the acquirer of this business in which we sell asset management funds on their behalf. Therefore, even in the absence of a market downturn, below-market performance by the mutual funds of the firm we broker for may result in a reduction in revenue we receive from selling asset management funds and adversely affect our results of operations.

Market conditions have resulted, 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 recent past, 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, loans 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.

The credit quality of our loan portfolio may deteriorate and our loan loss reserves could be insufficient to cover our actual loan losses, which 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 negatively impacted our results of operations and could do so in the future. 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 (the credit quality of which may turn out to be worse than we had anticipated), 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 in global economic and political conditions. If we were unable to control the level of our non-performing or poor credit quality loans, this could have a material adverse effect on us.

As of December 31, 2016, our non-performing loans were Ch$564,131 million, and the ratio of our non-performing loans to total loans was 2.1%. As of December 31, 2016, our allowance for loan losses was Ch$790,605 million, and the ratio of our allowance for loan losses to total loans was 2.9%. For additional information on our asset quality, see "Item 5. Operating and Financial Review and Prospects—C. 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 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—A. Operating Results–Results of Operations for the Years ended December 31, 2016, 2015 and 2014—Provision for loan losses, net of recoveries."

Table of Contents

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 small and medium enterprises, 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 fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting Chile's economy. The value of the collateral securing our loan portfolio 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 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 any of the above 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.

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 8—Interbank Loans" and "Note 9—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."

Retail customers represent 68.4% of the value of the total loan portfolio as of December 31, 2016. As part of our business strategy, we seek to increase lending and other services to retail clients, which are more likely to be adversely affected by downturns in the Chilean economy. In addition, as of December 31, 2016, our residential mortgage loan portfolio totaled Ch$8,619,355 million, representing 31.7% of our total loans. See "Note 9—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.

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.

Table of Contents

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 and our profitability.

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, inflation, 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;
- credit spreads;
- the market value of our securities holdings;
- the value of our loans and deposits; and
- the value of our derivatives transactions.

Interest rates are 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 and domestic and international economic and political conditions. Variations in interest rates could affect the interest earned on our assets and interest paid on our borrowings, thereby affecting our net interest income, which comprises the majority of our revenue, reducing our growth rate and potentially resulting in losses. 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 may not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of our portfolio.

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 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 as we implement strategies to reduce interest rate exposure in the future (which, in turn, will impact our results). 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 to avoid significant mismatches between assets and liabilities due to foreign currency exposure, from time to time, we may have mismatches. “See Item 11. Quantitative and Qualitative Disclosure About Market Risks— E. Market Risks—Foreign exchange fluctuations.”

Table of Contents

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. We could face adverse consequences as a result of decisions, which may lead to actions by management, based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood or the use of such information for purposes for which it was not designed. In addition, if existing or potential customers or counterparties believe our risk management is inadequate, they could take their business elsewhere or seek to limit their transactions with us. This could have a material adverse effect on our reputation, operating results, financial condition and prospects.

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 or IT systems errors. In exercising their judgment on current or future credit risk behavior of our customers, our employees may not always be able to assign an accurate credit rating, which may result in our exposure to higher credit risks than indicated by our risk rating system.

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.

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 make it difficult to eliminate completely these risks. Continued constraints in the supply of liquidity, including in inter-bank lending, has affected and may materially and adversely affect the cost of

Table of Contents

funding our business, and extreme liquidity constraints may affect our current operations and our ability to fulfill regulatory liquidity requirements as well as limit growth possibilities.

Increases in prevailing market interest rates and in our credit spreads can significantly increase the cost of our funding. Changes in our credit spreads 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.

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 and in the financial services industry, and the availability and extent of deposit guarantees, as well as competition between banks or with other products, such as mutual funds, 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, 2016, 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 35.5% and 35.2% of our total liabilities and equity as of December 31, 2016 and 2015, 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, 2016, the Bank's top 20 time deposits represented 29.5% of total time deposits, or 10.5% of total liabilities and equity, and totaled U.S.$5.8 billion. 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.

Central banks have taken extraordinary measures to increase liquidity in the financial markets as a response to the financial crisis. If current facilities were rapidly removed or significantly reduced, this could have an adverse effect on our ability to access liquidity and on our funding costs.

We cannot assure that in the event of a sudden or unexpected shortage of funds in the banking system, we will be able to maintain levels of funding without incurring high 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.

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 ("core 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 with a relevant market share in the Chilean market, we are currently required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. As of December 31, 2016, the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 13.4% and our core capital ratio was 10.5%. 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;

Table of Contents

- losses resulting from a deterioration in our asset quality;
- declines in the value of our investment instrument portfolio;
- changes in accounting standards;
- 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.

Chilean banks are gradually being required to 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 in 2017 or 2018. Following this approval, Chilean banks will most likely have to fully comply with Basel III requirements by 2018 or 2019. 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 12.2% as of December 31, 2016. Additionally, for the purposes of reporting to our parent company, we calculate this ratio using a model approved by the European Central Bank standards. In this scenario our core capital ratio is 12.1% and our regulatory capital ratio is 15.5 % as of December 31, 2016. No assurance can be given that the adoption of the Basel III 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.

The SBIF and the Central Bank published new liquidity standards in 2015 and ratios that must be implemented and calculated by all banks. These will eventually replace the current regulatory limits imposed by the SBIF and the

Central Bank described above. These new liquidity standards are in line with those established in Basel III. The most important liquidity ratios that will eventually be adopted by Chilean banks are:

- Liability concentration per institutional and wholesale counterparty. Banks will have to calculate the percentage of their liabilities coming from institutional and wholesale counterparties, including ratios regarding renovation, renewals, restructurings, maturity and product concentration of these counterparties.

- Liquidity coverage ratio (LCR), which measures the percentage of liquid Assets over net cash outflows. The new guidelines also define liquid assets and the formulas for calculating net cash outflows.

- Net Stable Funding Ratio (NSFR) which will measure a bank's available stable funding relative to its required stable funding. Both concepts are also defined in the new regulations.

Beginning on March 30, 2016, banks began reporting these ratios to the Central Bank and the SBIF. The evolution of these indicators will be monitored for a 12 month period and adjustments to the required ratios could be made. The final limits and results should begin to be published in the first half of 2017. The initial limits banks must meet in order to comply with these new ratios have not been published yet. For this reason, we cannot yet determine the effect that the implementation of these models will have on our business. Such effect could be material and adverse if it materially increases the liquidity we are required to maintain.

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% 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.

Changes to the pension fund system may affect the funding mix of the Bank

The current pension fund system dates from the 1980's when pension saving went from being state-funded to private funds which require Chilean employees to set aside 10% of their wages. While the system is widely regarded as a success, the demographics of the Chilean society have changed and there have been some modifications to the system. As of December 31, 2016, the Chilean pension fund management companies (*Administradora de Fondos de Pensión*, or "AFPs") had US$6,270 million invested in the Bank via equity, deposits and fixed income. There is no assurance that in the future there will not be significant reforms that may affect our funding mix which may have an adverse effect on our financial condition and results of operations.

Table of Contents

The legal restrictions on the exposure of Chilean pension funds to different asset classes 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. According to our estimates in December 2016, the AFPs still had the possibility of being able to invest another US$9,338 million in the Bank via equity, deposits and fixed income. 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.

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, valuation of financial instruments, valuation of derivatives, impairment of available-for-sale financial assets, deferred tax assets and liabilities and provision for liabilities.

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. For example IFRS 9 will be adopted as of January 1, 2018 and will establish a new model of expected loss and make changes to the classification and measurement requirements for financial assets. In addition, IFRS 16 will be adopted as of January 1, 2019 and will specify new standards for recognition, measurement, presentation and disclosure of leases. Changes made to accounting standards 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. For further information about developments in financial accounting and reporting standards, see Note 1 to our Audited Consolidated Financial Statements.

We are subject to review by taxing authorities, and an incorrect interpretation by us of tax laws and regulations may have a material adverse effect on us.

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 adverse effect on our results of operations. In some jurisdictions, the interpretations of the taxing authorities are unpredictable and frequently involve litigation, which introduces further uncertainty and risk as to tax expense.

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 provide reasonable assurance 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.

These disclosure controls and procedures have inherent limitations, which include the possibility that judgments in decision-making can be faulty and that breakdowns can occur because of errors or mistakes. Additionally, controls can be circumvented 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, civil claims 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. 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 and our bylaws provide for several procedures designed to ensure that the transactions entered into with or among our financial subsidiaries and/or affiliates do not deviate from prevailing market conditions for those types of transactions, including the requirement that our board of directors approve such transactions. Furthermore, all significant related party transactions must be approved by the Audit Committee and the Board. These significant transactions are also reported in our annual shareholders meeting. Please see Note 34 of our Audited Consolidated Financial Statements and "Item 7. Major Shareholders and Related Party 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.

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.

Risks relating to data collection, processing and storage systems and security are inherent in our business.

Like other financial institutions, we manage and hold confidential personal information of customers in the conduct of our banking operations, as well as a large number of assets. Accordingly, our business depends 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 sensitive personal data and other information using 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 such that our data and/or client records are incomplete, not recoverable or not securely stored. Although we work with our clients, vendors, service providers, counterparties and other third parties to develop secure data and information processing, storage and transmission capabilities to prevent against information security risk, we routinely manage personal, confidential and proprietary information by electronic means, and we may be the target of attempted cyber-attack. If we cannot maintain an effective and secure electronic data and information, management and processing system or we fail to maintain complete physical and electronic records, this could result in regulatory sanctions and serious reputational or financial harm to us.

We take protective measures and continuously monitor and develop our systems to protect our technology infrastructure, data and information 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, reputational harm and financial loss. There can be no absolute assurance that we will not suffer material losses from operational risk in the future, including those relating to any security breaches.

We have seen in recent years computer systems of companies and organizations being targeted, not only by cyber criminals, but also by activists and rogue states. We have been and continue to be subject to a range of cyber-attacks, such as denial of service, malware and phishing. Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could disrupt our electronic systems used to service our customers. As attempted attacks continue to evolve in scope and sophistication, we may incur significant costs in order to modify or enhance our protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cyber-attacks to our customers. If we fail to effectively manage our cyber security risk, e.g. by failing to update our systems and processes in response to new threats, this could harm our reputation and adversely affect our operating results, financial condition and prospects through the payment of customer compensation, regulatory penalties and fines and/or through the loss of assets. In addition, we may also be impacted by cyber-attacks against national critical infrastructures of the countries where we operate; for example the telecommunications network. Our information technology systems are dependent on such national critical infrastructure and any cyber-attack against such critical infrastructure could negatively affect our ability to service our customers. As we do not operate such national critical infrastructure, we have limited ability to protect our information technology systems from the adverse effects of such a cyber-attack. For further information see "Item 11. Quantitative and Qualitative Disclosures about Market Risk—2. Non-financial risks—Cyber-security and data security plans."

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 and reputational harm that could materially and adversely affect our operating results, financial condition and prospects. Further, our business is 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. It is not always possible to deter or prevent employee misconduct, and the precautions we take to detect and prevent this activity may not always be effective. In addition, we may be required to report events related to information security issues (including any cyber security issues), events where customer information may be compromised, unauthorized access and other security breaches, to the relevant regulatory authorities. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products, could produce customer claims and could materially and adversely affect us.

We rely on third parties and affiliates for important products and services.

Third party vendors and certain affiliated companies provide key components of our business infrastructure such as loan and deposit servicing systems, back office and business process support, information technology production and support, internet connections and network access. Relying on these third parties and affiliated companies can be a source of operational and regulatory risk to us, including with respect to security breaches affecting such parties. We are also subject to risk with respect to security breaches affecting the vendors and other parties that interact with these service providers. As our interconnectivity with these third parties and affiliated companies increases, we increasingly face the risk of operational failure with respect to their systems. We may be required to take steps to protect the integrity of our operational systems, thereby increasing our operational costs and potentially decreasing customer satisfaction. In addition, any problems caused by these third parties or affiliated companies, including as a result of them not providing us their services for any reason, or performing their services

Table of Contents

poorly, could adversely affect our ability to deliver products and services to customers and otherwise conduct our business, which could lead to reputational damage and regulatory investigations and intervention. Replacing these third party vendors could also entail significant delays and expense. Further, the operational and regulatory risk we face as a result of these arrangements may be increased to the extent that we restructure such arrangements. Any restructuring could involve significant expense to us and entail significant delivery and execution risk which could have a material adverse effect on our business, operations and financial condition.

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

Maintaining a positive reputation is critical to protect our brand, attract and retain customers, investors and employees and conduct business transactions with counterparties. 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, including the possibility of fraud perpetrated by our employees, litigation or regulatory enforcement, 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 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 identify and manage potential conflicts of interest properly. The failure, or 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 senior executive team and other key employees. The ability to continue to attract, train, motivate and retain highly qualified and talented professionals is a key element of our strategy. The successful implementation of our strategy and culture depends on the availability of skilled and appropriate 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 or other key employees 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.

We may not be able to detect or prevent money laundering and other financial crime 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 ("AML"), anti-terrorism, anti-bribery and corruption, sanctions and other laws and regulations applicable to us. These laws and regulations require us, among other things, to conduct full customer due diligence (including sanctions and politically-exposed person screening), keep our customer, account and transaction information up to date and have implemented effective financial crime policies and procedures detailing what is required from those responsible. We are also required to conduct AML training for our employees and to report suspicious transactions and activity to appropriate law enforcement following full investigation by our AML team.

Financial crime has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. AML, anti-bribery and corruption and sanctions laws and regulations are increasingly complex and detailed and have become the subject of enhanced regulatory supervision, requiring improved systems, sophisticated monitoring and skilled compliance personnel.

Table of Contents

We have developed policies and procedures aimed at detecting and preventing the use of our banking network for money laundering and other financial crime related activities. These require implementation and embedding within our business effective controls and monitoring, which in turn requires on-going changes to systems and operational activities. Financial crime is continually evolving and, as noted is subject to increasingly stringent regulatory oversight and focus. This requires proactive and adaptable responses from us so that we are able to deter threats and criminality effectively. Even known threats can never be fully eliminated, and there will be instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, we rely heavily on our employees to assist us by spotting such activities and reporting them, and our employees have varying degrees of experience in recognizing criminal tactics and understanding the level of sophistication of criminal organizations. Where we outsource any of our customer due diligence, customer screening or anti financial crime operations, we remain responsible and accountable for full compliance and any breaches. If we are unable to apply the necessary scrutiny and oversight, there remains a risk of regulatory breach.

If we are unable to fully comply with applicable laws, regulations and expectations, our regulators and relevant law enforcement agencies have the ability and authority to impose significant fines and other penalties on us, including requiring a complete review of our business systems, day-to-day supervision by external consultants and ultimately the revocation of our banking license.

The reputational damage to our business and global brand would be severe if we were found to have breached AML, anti-bribery and corruption or sanctions requirements. Our reputation could also suffer if we are unable to protect our customers' bank products and services from being used by criminals for 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 compliance procedures and internal policies. Such measures, procedures and internal policies may not be completely effective in preventing third parties from using our (and our relevant counterparties') services as a conduit for illicit purposes (including illegal cash operations) without our (and our relevant counterparties') knowledge. If we are associated with, or even accused of being associate with, breaches of AML, anti-terrorism or sanctions requirements, 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.

Any such risks 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 and tax enforcement environment in the jurisdictions in which we operate reflects an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, and may lead to material operational and compliance costs.

We are from time to time subject to certain claims and party 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. The amount of our reserves in respect of these matters 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.

Table of Contents

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).

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 depend on our ability to maintain adequate control and administration systems. Moreover, our ability to adequately monitor, analyze and report derivative transactions continues to depend, largely, on our information technology systems. These factors further increase 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, 2016 short-term funding from institutional investors totaled US$ 3.7 billion or 6.7% of total liabilities and equity. Although our results of operations and financial position have not suffered a significant impact as a consequence of the 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.

Table of Contents

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 our ability to benefit from any such acquisitions and partnerships will depend in part on our successful integration of those businesses. Any such integration entails significant risks such as unforeseen difficulties in integrating operations and systems and unexpected liabilities or contingencies relating to the acquired businesses, including legal claims. We can give no assurances that our expectations with regard 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, including local regulation that can reduce or eliminate expected synergies;
- finance strategic investments or acquisitions;
- 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 could have a material adverse effect on our operating results, financial condition and prospects.

In addition, any acquisition or venture could result in the loss of key employees and inconsistencies in standards, controls, procedures and policies.

Moreover, the success of the acquisition or venture will at least in part be subject to a number of political, economic and other factors that are beyond our control. Any of these factors, individually or collectively, could have a material adverse effect on us.

Risks Relating to Chile

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

A substantial number of our loans are 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. The Chilean economy may not continue to grow at similar rates as in the past or future developments may negatively affect Chile’s overall levels of economic activity.

Negative and fluctuating economic conditions, such as slowing or negative growth and a changing interest rate and inflationary environment, impact our profitability by causing lending margins to decrease and credit quality to decline 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.

Table of Contents

Our revenues are also 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.

The recent fall and subsequent fluctuation in oil prices may give rise to volatility in the global financial markets and further economic instability in oil-dependent regions, such as Chile. In addition, the ability of borrowers in or exposed to the oil sector has been and may be further adversely affected by such price fluctuations.

Our growth, asset quality and profitability may be adversely affected by volatile macroeconomic and political conditions in 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 enacted in 2014 and again in 2015 a reform to the tax and other assessment regimes to which we are subject in order to finance greater expenditure in education. The most important changes approved were:

1. A corporation such as Banco Santander Chile with a majority of shareholders that are incorporated entities is obliged to adhere to the *sistema integrado parcial* (SIP or partially integrated tax system). The statutory tax rate rose to 25.5% in 2016 and will rise to 27% in 2017 and onward, with personal taxes paid on a dividend basis, therefore retaining some benefits for shareholders of companies that reinvest profits.

2. The Taxable Profits Fund (FUT), a mechanism that gives shareholders tax exemptions on reinvested profits, will be eliminated in fiscal 2018.

3. Decree-Law 600, which gives foreign investors certain tax and other guarantees, will be replaced by a new law, yet to be designed.

4. The maximum personal income tax rate will be reduced from 40% to 35%, starting in 2018.

5. An increase in stamp tax from 0.45% to 0.8% in 2016.

6. Lowering of VAT exemption for construction of houses up to 2,000 UF to 225 UF per dwelling.

7. Charge VAT tax on real estate transactions beginning in 2016. VAT tax is 19% in Chile.

8. Extension of certain tax benefits and simplified accounting for companies with annual sales lower than 50,000 UF.

9. Withholding tax on dividends paid to ADR holders remains unchanged at 35% with the statutory corporate tax rate paid by the company still available as credit to the withholding tax.

In general, these reforms may have an adverse effect on the growth rate of mortgage loans and could slow down the rate of economic growth if tax receipts are not spent efficiently or for their intended purposes. We cannot predict at this time if these reforms will have a material impact on our business or clients or if further tax reforms will be implemented in the future. Banco Santander Chile's effective corporate tax rate should rise in the future, which may have an adverse impact on our results of operations. Please see "Item 10—Additional information—E. Taxation" for more information regarding the impacts of this tax reform on ADR holders.

Table of Contents

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. 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, 2016, approximately 5.9% of our assets were held abroad. There can be no assurance that the ongoing effects of the global financial crisis will not negatively impact growth, consumption, unemployment, investment and the price of exports in Chile. Crises and political uncertainties in other Latin American countries could also have an adverse effect on Chile, the price of our securities or our business.

Chile has considerable economic ties with China, the United States and Europe. In 2016, approximately 24.1% 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 exported approximately 17.8% of total exports to the United States and 18.7 % to Europe in 2016.

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 2016, CPI inflation was 2.7% compared to 4.4% in 2015.

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—A. 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.

Table of Contents

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) (%)
2012	478.60	(8.2)
2013	523.76	9.4
2014	607.38	16.0
2015	707.34	16.5
2016	667.29	(5.7)
2017 (through March 22, 2017)	657.83	(1.4)

Source: Central Bank.

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

We are subject to substantial regulation and regulatory and governmental oversight which could adversely affect our business, operations and financial condition.

As a financial institution, we are subject to extensive regulation, which materially affects our businesses. The statutes, regulations and policies to which we are subject may be changed at any time. In addition, the interpretation and the application by regulators of the laws and regulations to which we are subject may also change from time to time. In the wake of the global financial crisis, the financial services industry continues to experience significant financial regulatory reform in jurisdictions outside of Chile that directly or indirectly affect our business, including Spain, the European Union, the United States, Latin America and other jurisdictions. Changes to current legislation and their implementation through regulation (including additional capital, leverage, funding, liquidity and tax requirements), policies (including fiscal and monetary policies established by central banks and financial regulators, and changes to global trade policies), and other legal and regulatory actions may impose additional regulatory burden on Santander Group, including Santander-Chile, in these jurisdictions. The manner in which these 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 we may face higher compliance costs.

Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation and regulations, as well as any deficiencies in our compliance with such legislation and regulation, could result in significant loss of revenue, limit our ability to 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 compliance and other costs on us or otherwise adversely affect our businesses. In particular, legislative or regulatory actions resulting in enhanced prudential standards, in particular with respect to capital and liquidity, could impose a significant regulatory burden on the Bank or on its bank subsidiaries and could limit the bank subsidiaries' ability to distribute capital and liquidity to the Bank, thereby negatively impacting the Bank. Future liquidity standards could require the Bank to maintain a greater proportion of its assets in highly-liquid but lower-yielding financial instruments, which would negatively affect its net interest margin. Moreover, the Bank's regulatory authorities, as part of their supervisory function, periodically review the Bank's allowance for loan losses. Such regulators may require the Bank to increase its allowance for loan losses or to recognize further losses. Any such additional provisions for loan losses, as required by these regulatory agencies, whose views may differ from those of the Bank's management, could have an adverse effect on the Bank's earnings and financial condition. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect us.

The wide range of regulations, actions and proposals which most significantly affect the Bank, or which could most significantly affect the Bank in the future, relate to capital requirements, funding and liquidity and regulatory reforms in Chile, and are discussed in further detail below. These and other regulatory reforms adopted or proposed in the wake of the financial crisis have increased and may continue to materially increase our operating costs and negatively impact our business model. Furthermore, regulatory authorities have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulators, have been increasing during recent years. Regulation may be imposed on an ad hoc basis by governments and regulators in response to a crisis. In addition, the volume, granularity, frequency and scale of regulatory and other reporting requirements necessitate a clear data strategy to enable consistent data aggregation, reporting and management. Inadequate management information systems or processes, including those relating to risk data aggregation and risk reporting, could lead to a failure to meet regulatory reporting requirements or other internal or external information demands and we may face supervisory measures as a result.

The main regulations and regulatory and governmental oversight that can adversely impact us include but are not limited to the following (see more details on “Item 4. Information on the Company—B. Business Overview—Regulation and Supervision”):

We are subject to regulation by the SBIF and by the Central Bank with regard to certain matters, including reserve requirements, interest rates, foreign exchange mismatches and market risks. Chilean laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions are continually evolving and changing. Any 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.

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.$7,241) 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. By year-end 2016 the maximum rate was 36.64%, close to the 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$1,810) and UF 200 (US$7,241). The objective was to lower the maximum rate to a level closer to the average interest rate for loans between UF 200 (US$7,241) to UF 5,000 (US$181,047) 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. By year-end 2016 the maximum rate was 29.64%, close to the level the authorities are seeking for loans of this size.

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. The government is currently discussing with the Chilean Congress a bill to again reform the SERNAC Financiero and its powers. No assurance can be given that these changes will not have a material impact on our fee income.

The SBIF and the Ministry of Finance have drafted a new General Banking Law that is expected to be submitted to the Chilean Congress in 2017. Among other things, the new banking law is expected to include clearer guidelines for the adoption of Basel III regulations in Chile and new regulations regarding the SBIF's corporate governance. Although we currently have a regulatory capital ratio of 13.4% as of December 31, 2016 and a core capital ratio of 10.5%, 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 12.2% as of December 31, 2016. Additionally, for the purposes of reporting to our parent company, we calculate this ratio using a model approved by the European Central Bank standards. In this scenario our core capital ratio is 12.1% and our regulatory capital ratio is 15.5% as of December 31, 2016. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

A change in labor laws in Chile or a worsening of labor relations in the Bank could impact our business.

As of December 31, 2016 on a consolidated basis, we had 11,354 employees, of which 72.2% were unionized. In March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on January 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.

Congress passed a new labor law in 2016 that becomes effective April 1, 2017. The main points included in this law are:

- Expands the scope of collective bargaining. Currently some groups of workers are excluded from the collective bargaining process.
- Expands workers ability to switch unions and gives workers the same rights under a collective bargaining agreement if they affiliate themselves post-negotiations.
- Expand the right to greater information of unions including the wages of each worker included in a collective bargaining agreement.
- Simplifies the standard collective bargaining process.
- Collective bargaining agreements must last maximum three years instead of four.
- Eliminate the ability of the employer to replace workers on strike and establishes minimum service guidelines that workers must respect.

· Establishes the current collective bargaining agreement as the bargaining floor for future collective bargaining agreements.

· Amplifies the matters that can be negotiated in collective bargaining.

· Greater hours for training of union representatives.

· Strengthen the participation of women in unions.

The Bank currently has a high unionization level and good labor relations. At this time, we are unable to estimate the impact these new regulations will have on labor relations and costs. The current project may also suffer additional modification will being discussed in Congress.

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 other countries, including the United States. 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 as issued by 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, 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 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 of 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 67.06%.

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
- 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.

Table of Contents

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 July 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, 2016, 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 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 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 Depository 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, you may not be able to exercise the same shareholder rights as a direct holder of ordinary shares;
- 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.

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 loans. As of December 31, 2016, we had total assets of Ch$37,030,025 million (U.S.$55,601 million), outstanding loans, net of allowances for loan losses of Ch$26,147,154 million (U.S.$39,260 million), total deposits of Ch$20,691,024 million (U.S.$31,068 million) and equity of Ch$2,938,199 million (U.S.$4,412 million). As of December 31, 2016, we employed 11,354 people. We have a leading presence in all the major business segments in Chile, and the largest distribution network with national coverage spanning across all the country, including the only privately owned bank with a branch in Easter Island. We offer unique transaction capabilities to clients through our 423 branches and 1,295 ATMs. 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”). Old Santander-Chile was established as a subsidiary of Santander Spain in 1978. 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, 20th floor, 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, our parent company, 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.

Table of Contents

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 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. Business Overview

We have 423 total branches, 274 of which are operated under the Santander brand name, with the remaining branches under certain specialty brand names, including 39 under the *Santander Banefe* brand name, 53 under the Select brand name, 8 specialized branches for the Middle Market and 49 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 groups: (i) Retail banking, (ii) Middle-market, (iii) Global Corporate Banking and (iv) Corporate Activities ("Other").

The Bank has the reportable segments noted below (see "Segmentation Criteria" for further information):

Retail Banking

Consists of individuals and small to middle-sized entities (SMEs) with annual sales less than Ch$2,000 million (U.S.$3.0 million). This segment gives customers a variety of services, including consumer loans, credit cards, auto loans, commercial loans, foreign exchange, mortgage loans, debit cards, checking accounts, savings products, mutual funds, stock brokerage, and insurance brokerage. Additionally, the SME clients are offered government-guaranteed loans, leasing and factoring.

Middle-market

This segment serves companies and large corporations with annual sales exceeding Ch$2,000 million (U.S.$3.0 million). It also serves institutions such as universities, government entities, local and regional governments and companies engaged in the real estate industry who carry out projects to sell properties to third parties and annual sales exceeding Ch$800 million (U.S.$1.2 million) with no upper limit. The companies within this segment have access to many products including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, savings products, mutual funds, and insurance brokerage. Also companies in the real estate industry are offered specialized services to finance projects, chiefly residential, with the aim of expanding sales of mortgage loans.

Global Corporate Banking

This segment consists of foreign and domestic multinational companies with sales over Ch$10,000 million (U.S.$15.0 million). The companies within this segment have access to many products including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, investments, savings products, mutual funds and insurance brokerage.

This segment also consists of a Treasury Division which provides sophisticated financial products, mainly to companies in the Middle-market segment and Global Corporate Banking. These include products such as short-term financing and fund raising, brokerage services, derivatives, securitization and other tailor-made products. The Treasury Division may act as broker to transactions and also manages the Bank’s investment portfolio.

40

Table of Contents

Corporate Activities ("Other")

This segment mainly includes our Financial Management Division, which develops global management functions, including managing inflation rate risk, foreign currency gaps, interest rate risk and liquidity risk. Liquidity risk is managed mainly through wholesale deposits, debt issuances and the Bank's available-for-sale portfolio. This segment also manages capital allocation by unit. These activities usually result in a negative contribution to income.

In addition, this segment encompasses all the intra-segment income and all the activities not assigned to a given segment or product with customers. The segments' accounting policies are those described in the summary of accounting policies. The Bank earns most of its income in the form of interest income, fee and commission income and income from financial operations. To evaluate a segment's financial performance and make decisions regarding the resources to be assigned to segments, the Chief Operating Decision Maker (CODM) bases his or her assessment on the segment's interest income, fee and commission income, and expenses.

The tables below show the Bank's results by reporting segment for the year ended December 31, 2016, in addition to the corresponding balances of loans and accounts receivable from customers:

	As of December 31, 2016						
	Loans and accounts receivable from customers (1)	**Net interest income**	**Net fee and commission income**	**Financial transactions, net (2)**	**Provision for loan losses**	**Support expenses (3)**	**Segment`s net contribution**
	Ch$mn						
Retail Banking	18,604,936	931,105	196,845	21,141	(323,888)	(529,909)	**295,294**
Middle-market	6,396,376	240,861	34,950	19,577	(26,748)	(83,412)	**185,228**
Global Corporate Banking	2,121,513	95,105	25,077	55,927	7,579	(53,935)	**129,753**
Other	83,606	10,696	1,151	43,713	974	(19,649)	**36,885**
Total	**27,206,431**	**1,281,466**	**254,324**	**140,358**	**(342,083)**	**(686,905)**	**647,160**
Other operating income							6,427
Other operating expenses and impairment							(69,136)
Income from investments in associates and other companies							3,012
Income tax expense							(109,031)
Net income for the year							**478,432**

(1) Corresponds to loans and accounts receivable from customers, without deducting their allowances for loan losses.

(2) Corresponds to the sum of the net income from financial operations and the foreign exchange profit or loss.

(3) Corresponds to the sum of personnel salaries and expenses, administrative expenses, depreciation and amortization.

41

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, 2016, our subsidiaries collectively accounted for 0.6% of our total consolidated assets.

		Percent ownership share As of December 31,								
		2016			2015			2014		
Name of the Subsidiary	Main activity	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 Corredores de Bolsa Limitada(*)	Financial instruments brokerage	50.59	0.41	51.00	50.59	0.41	51.00	50.59	0.41	51.00
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 business, making and receiving payments	—	—	—	—	—	—	99.90	0.1	100.00

(*) On June 19, 2015, Santander Corredores de Bolsa Limitada, our stock brokerage company changed its corporate structure to that of a limited liability company.

(**) As of May 1, 2014, this entity was absorbed by the Bank pursuant to authorization obtained from the SBIF on March 25, 2014.

The following companies have been consolidated based on the determination that they are controlled by the Bank, in accordance with IFRS 10 Consolidated Financial Statements:

- Santander Gestión de Recaudación y Cobranza Limitada (collection services)

- Bansa Santander S.A. (management of repossessed assets and leasing of properties)

During 2015, Multinegocios S.A. (management of sales force), Servicios Administrativos y Financieros Limitada (management of sales force) and Multiservicios de Negocios Limitada (call center) have ceased rendering sales services to the Bank and the Bank no longer controls their relevant activities. Therefore as of June 30, 2015, these entities have been excluded from our consolidated results. As of August 1, 2014, Servicios de Cobranza Fiscalex Limitada was absorbed by Santander Gestión de Recaudación y Cobranza Limitada.

Table of Contents

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 de Chile (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 comprised of 22 banks, including one public-sector bank. The four largest banks accounted for 69.1% of all outstanding loans by Chilean financial institutions as of December 31, 2016 (excluding assets held abroad by Chilean banks).

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* (private, non-profitable corporations whose aim is to administer social welfare benefits, including payroll loans, to their members) 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 the competition 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, 2016 (excluding assets held by Chilean banks abroad).

	As of December 31, 2016, unless otherwise noted	
	Market Share	Rank
Commercial loans	17.3%	2
Consumer loans	23.4%	1
Residential mortgage loans	21.6%	1
Total loans	19.4%	1
Deposits	18.8%	1

Credit card issued	15.5%	1
Checking accounts (1)	21.8%	1
Branches	19.3%	1

Source: SBIF

(1) As of November 2016, the latest available information

43

Table of Contents

Loans

As of December 31, 2016, our loan portfolio was the largest among Chilean banks. Our loan portfolio, including interbank loans, represented 19.4% 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 assets held by Chilean banks abroad).

	As of December 31, 2016 (Chilean Bank GAAP)		
Loans	Ch$ million	U.S.$ million	Market Share
Santander-Chile	27,206,431	40,850	19.4 %
Banco de Chile	25,858,639	38,827	18.4 %
Banco de Crédito e Inversiones	18,183,165	27,302	13.0 %
Banco del Estado de Chile	20,208,686	30,343	14.4 %
BBVA, Chile	9,271,674	13,921	6.6 %
Itaú Corpbanca	15,503,610	23,279	11.1 %
Others	51,232,466	76,926	36.5 %
Chilean financial system	140,258,239	210,598	100.0%

Source: SBIF

Deposits

We had a 18.8% market share in deposits, ranking first among banks in Chile as of December 31, 2016. 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 assets held by Chilean banks abroad).

	As of December 31, 2016 (Chilean Bank GAAP)		
Deposits	Ch$ million	U.S.$ million	Market Share
Santander-Chile	20,691,024	31,068	18.8 %
Banco de Chile	18,874,049	28,339	17.2 %
Banco de Crédito e Inversiones	13,492,879	20,260	12.3 %
Banco del Estado de Chile	19,744,842	29,647	18.0 %
BBVA, Chile	6,876,369	10,325	6.3 %
Itaú Corpbanca	10,648,447	15,989	9.7 %

Others	19,573,689	29,390	17.8 %
Chilean financial system	109,901,300	165,017	100.0%

Source: SBIF.

Total equity

With Ch$2,898,047 million (U.S.$4,351 million) in equity in Chilean Bank GAAP as of December 31, 2016, we were the second largest commercial bank in Chile in terms of shareholders' equity. The following table sets forth our and our peer group's shareholders' equity.

	As of December 31, 2016 (Chilean Bank GAAP)		
Total Equity	Ch$ million	U.S.$ million	Market Share
Santander-Chile	2,898,047	4,351	16.3 %
Banco de Chile	2,887,411	4,335	16.2 %
Banco de Crédito e Inversiones	2,518,677	3,782	14.1 %
Banco del Estado de Chile	1,572,861	2,362	8.8 %
BBVA, Chile	829,494	1,245	4.7 %
Itaú Corpbanca	3,404,296	5,112	19.1 %
Others	3,692,173	5,544	20.7 %
Chilean financial system	17,802,959	26,731	100.0%

Source: SBIF.

Table of Contents

Efficiency

As of December 31, 2016, 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 each case under Chilean Bank GAAP.

Efficiency ratio as defined by the SBIF	As of December 31, 2016 (Chilean Bank GAAP)
Santander-Chile	44.4%
Banco de Chile	45.2%
Banco de Crédito e Inversiones	53.8%
Banco del Estado de Chile	61.3%
BBVA, Chile	61.5%
Itaú Corpbanca	71.2%
Chilean financial system	53.9%

Source: SBIF.

Net income for the period attributable to equity holders

In 2016, we were the second largest bank in Chile in terms of net income attributable to shareholders of Ch$472,351 million (U.S.$709 million) measured under Chilean Bank GAAP. The following table sets forth our and our peer group's net income.

Net income attributable to equity holders	As of December 31, 2016 (Chilean Bank GAAP)		
	Ch$ million	U.S.$ million	Market Share
Santander-Chile	472,351	709	24.3 %
Banco de Chile	552,249	829	28.4 %
Banco de Crédito e Inversiones	340,121	511	17.5 %
Banco del Estado de Chile	147,090	221	7.6 %
BBVA, Chile	80,440	121	4.1 %
Itaú Corpbanca	2,059	3	0.1 %

Others	349,001	524	18.0 %
Chilean financial system	1,943,311	2,918	100.0%

Source: SBIF.

Return on equity

As of December 31, 2016, we were the second most profitable bank in our peer group (as measured by return on period-end equity under Chilean Bank GAAP) and the most capitalized bank as measured by the Chilean 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, 2016 (Chilean Bank GAAP)	BIS Ratio as of December 31, 2016 (Chilean Bank GAAP)
Santander-Chile	16.4 %	13.4 %
Banco de Chile	19.1 %	13.9 %
Banco de Crédito e Inversiones	13.5 %	13.4 %
Banco del Estado de Chile	10.2 %	11.3 %
BBVA, Chile	9.7 %	12.3 %
Itaú Corpbanca	(0.1)%	14.0 %
Chilean Financial System	11.0 %	13.8 %

Source: SBIF.

Table of Contents

Asset Quality

As of December 31, 2016, 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, 2016.

	Non-performing loans / total loans[1] as of December 31, 2016 (Chilean Bank GAAP)
Santander-Chile	2.07%
Banco de Chile	1.12%
Banco de Crédito e Inversiones	1.42%
Banco del Estado de Chile	3.34%
BBVA, Chile	1.30%
Itaú Corpbanca	1.66%
Chilean financial system	1.85%

Source: SBIF.

(1) Excluding interbank loans.

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

Table of Contents

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 acquirer 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;
- 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 15.0% but less than 20.0%, the authorization will be conditioned on the bank or banks maintaining a regulatory capital not lower than 10.0% 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 Depositary the identity of beneficial owners of ADSs registered under such holders' names;
- the Depositary is required to notify the bank as to the identity of beneficial owners of ADSs which such Depositary has registered and the bank, in turn, is required to notify the 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.

Table of Contents

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 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$3,161,758 or U.S.$4,747 as of December 31, 2016) 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 100.0% "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$21,078 million or U.S.$31.6 million as of December 31, 2016) of paid-in capital and reserves, calculated in accordance with Chilean Bank GAAP, regulatory capital of at least 8.0% of its risk weighted assets, net of required allowances, and paid in capital and reserves of at least 3.0% of its total assets, net of required allowances, as calculated in accordance with Chilean Bank GAAP.

Table of Contents

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 core 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 2017 the Basel III capital standards in Chile, which will 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.

Banks should also have *capital básico*, or core capital, of at least 3.0% of their total assets, net of allowances. Core capital is defined to include shareholders' equity.

Within the scope of Basel III in Chile, further changes in regulation may occur. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Chile—We are subject to substantial regulation and regulatory and governmental oversight which could adversely affect our business, operations and financial condition."

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 during such employee's term of employment.

Table of Contents

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.

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. This difference does not materially impact our Audited Consolidated 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. Accordingly, this difference does not materially impact our Audited Consolidated 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 Bank has adjusted the Audited Consolidated Financial Statements accordingly.

Loan loss allowances

The main difference between Chilean bank GAAP and IFRS regarding loan loss allowances is that under Chilean Bank GAAP, these are calculated based on specific guidelines set by the SBIF, which are in turn based on an expected losses approach, and under IFRS, we use an incurred loss approach. The Bank has adjusted the Audited Consolidated Financial Statements.

Provisions for country risk and for contingent loan risk

Under Chilean GAAP, the Bank provisions for country risk to cover the risk taken when holding or committing resources with any foreign country. These allowances are established according to country risk classifications established by the SBIF and therefore are not in accordance with IFRS as issued by the IASB. Our Audited Consolidated Financial Statements have been adjusted accordingly.

Also under Chilean GAAP, the Bank has established allowances related to the undrawn available credit lines and contingent loans in accordance with the SBIF. As IFRS only permits allowances following its internal models based on incurred debt, the Bank has adjusted the Audited Consolidated Financial Statements accordingly.

Table of Contents

These differences do not materially impact our financial statements.

Deferred taxes

The Bank records, when appropriate, deferred tax assets and liabilities for the estimated future tax effects attributable to differences between the carrying amount of assets and liabilities and their tax bases. Due to the adjustments made to the consolidated financial statements, we adjust deferred taxes accordingly.

Provision for mandatory dividends

This provision is made in accordance with the Bank's internal policy, pursuant to which at least 30% of net income for the period is distributed, except in the case of a contrary resolution adopted at the respective shareholders' meeting by unanimous vote of the outstanding shares. While the Bank uses the same policy under Chilean GAAP and IFRS, the net income used to calculate the provision is adjusted in accordance with IFRS principles.

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

Table of Contents

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

Obligations Denominated in Foreign Currencies

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

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 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 70.0% of regulatory capital, the amount that exceeds 70.0% is subject to a mandatory reserve of 100.0%.

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 20.0% (and 30.0% 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 100.0%.

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) demand 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 30.0% and 50.0%, 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 10.0% of regulatory capital.

Table of Contents

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 25.0% 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.

“Mortgage Bonds”

In 2012, the mortgage-covered bond legislation was approved by the Chilean Congress. These 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, are available for immediate liquidity in the Central Bank liquidity window and have other restrictions as to the type of mortgage they will be funding, *i.e.* mortgage loans with loan-to-values of maximum 80.0%.

U.S. Banking Regulation—Volcker Rule

Section 13 of the U.S. Bank Holding Company Act of 1956, as amended, and its implementing rules (collectively, the “Volcker Rule”) prohibit “banking entities” from engaging in certain forms of proprietary trading or from sponsoring, investing in or entering into certain credit-related transactions with related “covered funds,” in each case subject to certain limited exceptions. The term “covered fund” is defined very broadly to include traditional hedge funds, private equity funds, certain securitization vehicles and other entities that must rely on Section 3(c)(1) or 3(c)(7) of the U.S. Investment Company Act of 1940 for an exemption under that Act, as well as certain similar foreign funds. The Volcker Rule also contains exclusions and certain exemptions for market-making, hedging, underwriting, trading in

U.S. government and agency obligations as well as certain foreign government obligations, and trading solely outside the United States, and also permit certain ownership interests in certain types of funds to be retained. 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 applicable to each requirement.

In general, all banking entities were required to conform to the requirements of the Volcker Rule, except for provisions related to certain funds, and to implement a compliance program by July 21, 2015. In December 2014, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") issued an order extending the Volcker Rule's general conformance period until July 21, 2016 for investments in and relationships with covered funds and certain foreign funds that were in place on or prior to December 31, 2013 ("legacy covered funds"). In July 2016, the Federal Reserve Board granted a final one-year extension of the general conformance period to July 21, 2017 for banking entities to conform ownership interests in and relationships with legacy covered funds. Santander Spain has assessed how the Volcker Rule affects the businesses of Santander Group and Santander Group, including Santander-Chile, generally has brought its activities into compliance, with the exception of certain legacy covered funds activities. Santander Group, including Santander-Chile, has further adopted the necessary measures to bring these legacy covered funds activities into compliance prior to July 21, 2017. Santander Group's non-U.S. banking organizations, such as Santander-Chile, are largely able to continue their activities outside the United States in reliance on the "solely outside the U.S." exemptions under the Volcker Rule. Santander Group, including Santander-Chile, will monitor the financial regulatory reform developments in the United States, including with respect to the Volcker Rule, and make appropriate adjustments, if necessary, to ensure continued regulatory compliance of its operations.

Table of Contents

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.

The following activities are disclosed in response to Section 13(r) with respect to affiliates of Santander U.K. within the Group. During the period covered by this annual report:

(a) Santander U.K. holds two savings accounts and one current account for two customers resident in the U.K. who are currently designated by the U.S. under the Specially Designated Global Terrorist (SDGT) sanctions program. Revenues and profits generated by Santander U.K. on these accounts in the year ended December 31, 2016 were negligible relative to the overall revenues and profits of Banco Santander S.A.

(b) Santander U.K. held a savings account for a customer resident in the U.K. who is currently designated by the U.S. under the SDGT sanctions program. The savings account was closed on July 26, 2016. Revenue generated by Santander U.K. on this account in the year ended December 31, 2016 was negligible relative to the overall revenues of Banco Santander S.A.

(c) Santander U.K. held a current account for a customer resident in the U.K. who is currently designated by the U.S. under the SDGT sanctions program. The current account was closed on December 22, 2016. Revenue generated by Santander U.K. on this account in the year ended December 31, 2016 was negligible relative to the overall revenues of Banco Santander S.A.

(d) Santander U.K. holds two frozen current accounts for two U.K. nationals who are designated by the U.S. under the SDGT sanctions program. The accounts held by each customer have been frozen since their designation and have remained frozen through the year ended December 31, 2016. The accounts are in arrears (£1,844.73 in debit combined) and are currently being managed by Santander U.K. Collections & Recoveries department. Revenues and profits generated by Santander U.K. on these accounts in the year ended December 31, 2016 were negligible relative to the overall revenues and profits of Banco Santander S.A.

(e) In addition, during the year ended December 31, 2016, Santander U.K. had an OFAC match on a power of attorney account. The power of attorney listed on the account is currently designated by the U.S. under the SDGT and the Iranian Financial Sanctions Regulations (IFSR) sanctions program. The power of attorney was removed from the account on July 29, 2016. During the year ended December 31, 2016, revenues and profits generated by Santander U.K. were negligible relative to the overall revenues and profits of Banco Santander S.A.

Table of Contents

(f) An Iranian national, resident in the U.K., who is currently designated by the U.S. under the Iranian Financial Sanctions Regulations and the Non-Proliferation of Weapons of Mass Destruction (NPWMD) designation, held a mortgage with Santander U.K. that was issued prior to such designation. The mortgage account was redeemed and closed on April 13, 2016. No further drawdown has been made (or would be allowed) under this mortgage although we continued to receive repayment instalments prior to redemption. Revenues generated by Santander U.K. on this account in the year ended December 31, 2016 were negligible relative to the overall revenues of Banco Santander S.A. The same Iranian national also held two investment accounts with Santander ISA Managers Limited. The funds within both accounts were invested in the same portfolio fund. The accounts remained frozen until the investments were closed on May 12, 2016 and bank checks issued to the customer. Revenues generated by Santander U.K. on these accounts in the year ended December 31, 2016 were negligible relative to the overall revenues of Banco Santander S.A.

(g) In addition, during the year ended December 31, 2016, Santander U.K. held a basic current account for an Iranian national, resident in U.K., previously designated under the OFAC Iran designation. The account was closed in September 2016. Revenues generated by Santander U.K. on this account in the year ended December 31, 2016 were negligible relative to the overall revenues of Banco Santander S.A.

In addition, the Group has an outstanding legacy export credit facility with Bank Mellat. In 2005 Banco Santander S.A. participated in a syndicated credit facility for Bank Mellat of €15.5 million, which matured on July 6, 2015. As of December 31, 2016, the Group was owed €0.1 million not paid at maturity under this credit facility, corresponding to the 5% that was not covered by official export credit agencies.

Banco Santander has not been receiving payments from Bank Mellat under this or other credit facilities in recent years. Banco Santander has been and expects to continue to be repaid any amounts due by official export credit agencies. No funds have been extended by Santander under this facility since it was 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.

In the aggregate, all of the transactions described above resulted in gross revenues and net profits in the year ended December 31, 2016, which were negligible relative to the overall revenues and profits of Banco Santander, S.A. 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 (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.

C. Organizational Structure

Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A. which are controlled subsidiaries. Santander Spain control over 67.18% of our shares and actual participation when excluding non-controlling interests participating in Santander Chile Holding S.A. of 67.06%.

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

Table of Contents

The chart below sets forth the names and areas of responsibility of our senior managers as of March 2017.

D. Property, Plant and Equipment

We are domiciled in Chile and own our principal executive offices located at Bandera 140, 20th floor, Santiago, Chile. At December 31, 2016, we owned the locations at which 23.5% 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, 2016	**Number**
Central Offices	
Owned	4
Rented	5
Total	9
Branches(1)	
Owned	98
Rented	319
Total	417
Other property(2)	
Owned	49
Rented	5
Total	54

(1) Some branches are located inside central office buildings and other properties. Including these branches, the total number of branches is 423. Special payment centers are included in Other property.

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

Accounting Standards Applied in 2016

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 in Item 4. Therefore, our locally-filed consolidated financial statements have been adjusted according to IFRS as issued by the IASB.

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 most 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—C. 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—(p) Provisions for loan losses" of our Audited Consolidated Financial Statements.

- Group assessment of debtors: when there is no evidence of impairment for individually-assessed debtors and debtors with loans grouped collectively—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—C. 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—(p) Provisions for loan losses" of our Audited Consolidated Financial Statements.

Valuation of financial instruments

Fair value is the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 provides a hierarchy that separates the inputs and/or valuation technique assumptions used to measure the fair value of financial instruments. The hierarchy reflects the significance of the inputs used in making the measurement.

Table of Contents

The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The Bank uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

For financial instruments with no available market prices, fair values are estimated using recent transactions in analogous instruments, and in the absence thereof, the present values or other valuation techniques based on mathematical valuation models sufficiently accepted by the international financial community. In the use of these models, consideration is given to the specific particularities of the asset or liability to be valued, and especially to the different kinds of risks associated with the asset or liability.

These techniques are significantly influenced by the assumptions used, including the discount rate, the estimates of future cash flows and prepayment expectations. See "Note 36— Fair value of financial assets and liabilities" in our Audited Consolidated Financial Statements

Derivative activities

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. Within the fair value of derivatives are included Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA), all with the objective that the fair value of each instrument includes the credit risk of its counterparty and Bank's own risk. The CVA is a valuation adjustment to OTC derivatives as a result of the risk associated with the credit exposure assumed by each counterparty in each future period. The DVA is a valuation adjustment similar to the CVA but, in this case, it arises as a result of the Bank's own risk assumed by its counterparties. The following inputs are used to calculate the CVA and DVA:

- Expected exposure: Including for each transaction the mark-to-market (MtM) value plus an add-on for the potential future exposure for each period. Mitigating factors such as collateral and netting agreements are taken into account, as well as a temporary impairment factor for derivatives with interim payments.
- LGD: percentage of final loss assumed in a counterparty credit event/default.
- Probability of default: for cases where there is no market information, proxies based on comparable companies in the same industry and with the same external rating as the counterparty, are used.

· Discount factor curve.

Impairment of available-for-sale financial assets,

Available for sale financial assets are evaluated for impairment throughout the year and at each reporting date in order to assess whether events or changes in circumstances indicate that these assets are impaired, such as an adverse change in business climate or observable market data, indicate that these assets may be impaired. If there is objective evidence of an impairment of an asset, an impairment test is performed by comparing the investments' recoverable amount, which is the higher of its value in use and fair value less costs to sell, with its carrying amount.

The Bank evaluates available-for-sale financial assets with unrealized losses as of the end of each period and concludes if these were impaired. This review consist of evaluating the economic reasons for any declines, the credit ratings of the securities' issuers, and the Bank's intention and ability to hold the securities until the unrealized loss is recovered. See "Note 10— Available for sale investments" in our Audited Consolidated Financial Statements.

Deferred tax assets and liabilities

The Bank records, when appropriate, deferred tax assets and liabilities for the estimated future tax effects attributable to differences between the carrying amount of assets and liabilities and their tax bases. The measurement of deferred tax assets and liabilities is based on the tax rate, in accordance with the applicable tax laws, using the tax rate that applies to the period when the deferred asset and liability will be settled. The future effects of changes in

Table of Contents

tax legislation or tax rates are recorded in deferred taxes beginning on the date on which the law is enacted or substantially enacted. See "Note 14—Current and deferred taxes" of our Audited Consolidated Financial Statements.

Provision for liabilities

Provisions for liabilities such as contingencies associated to pending signature of contracts, potential clients claims, operational risk arise from financial transactions and potential property tax associated to leasing contracts, and personnel salaries and expenses are quantified using the best available information on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year. See "Note 20—Provisions" of our Audited Consolidated Financial Statements.

A. 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 2016, the Chilean economy grew approximately 1.6% compared to 2.1% in 2015 and 1.9% in 2014. In the same period, the Central Bank of Chile reported that internal demand increased 1.1% compared to an increase of 1.8% in 2015 and a decrease of 0.3% in 2014. The growth of internal demand was led by growth of total consumption, which was up 2.8% while growth in the mining sector contracted due to concerns regarding global economic growth, especially growth in China.

As of December 2016, the unemployment rate was 6.1% compared to 5.8% in 2015 and 6.0% in 2014. The exchange rate appreciated in 2016 by 5.7% compared to a depreciation of 16.5% in 2015. As a result of this appreciation of the peso, CPI inflation reached 2.7% in 2016 compared to 4.4% in 2015 and 4.7% in 2014. Given the slower economic growth in 2016 and the lower inflation rate, the Central Bank decided to reduce the rate to 3.00% in the first quarter of 2017. Economic activity is expected to increase by approximately 2.0% in 2017, but with continued uncertainty regarding global growth, especially in growth in China, which impacts Chile's mining sector, and internal political issues.

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, 2016 in the Chilean financial system were Ch$140,258,239 million (U.S.$211 billion), excluding loans held by subsidiaries of Chilean banks abroad, grew 5.7% in 2016. Total customer deposits (defined as time deposits plus checking accounts), excluding loans held by subsidiaries of Chilean banks abroad grew 3.4% in 2016 and totaled Ch$109,901,300 million (U.S.$165 billion) as of December 31, 2016. The non-performing loan (defined as loans with an installment that is at least 90 days past-due) to total loans ratio remained stable at year end for both 2016 and 2015.

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$26,347.98 at December 31, 2016, Ch$25,629.09 at December 31, 2015 and Ch$24,627.10 at December 31, 2014. 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 2.8% in 2016, 4.1% in 2015 and 5.7% in 2014. 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:

Table of Contents

· *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 positively affected by deflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. 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.

· *Inflation and interest rate hedge*. A key component of our asset and liability policy is the management of interest rate risk. The Bank's assets generally have a longer maturity than our liabilities. As the Bank's mortgage portfolio grows, the maturity gap tends to rise as these loans, which are contracted in UF, have a longer maturity than the average maturity of our funding base. As most of our long term financial instruments and mortgage loans are contracted in UF and most of our deposits are in nominal pesos, the rise in mortgage lending increases the Bank's exposure to inflation and to interest rate risk. The size of this gap is limited by internal and regulatory guidelines in order to avoid excessive potential losses due to strong shifts in interest rates. 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 2016, 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$42,420 million compared to a loss of Ch$107,867 million in 2015 and of Ch$130,254 million in 2014. The average gap between our interest earnings assets and total liabilities linked to the inflation, including hedging, was Ch$4,534,665 million in 2016, Ch$3,507,250 million in 2015 and Ch$4,193,701 million in 2014.

· The financial impact of the gap between our interest earning assets and liabilities denominated in UFs including hedges was in the results of the Bank Ch$133,702 million in 2016, Ch$130,666 million in 2015 and Ch$229,946 million in 2014. The 2.3% rise in the results from our UF gap was due to the higher gap in 2016 compared to 2015, which was partially offset by the lower UF inflation rate in 2016 compared to 2015.

Impact of inflation on net interest income	As of December 31, 2016	2015	2014	% Change 2016 /2015	% Change 2015 /2014
	(in millions of Ch$)				
Results from UF GAP (1)	133,702	130,666	229,946	2.3 %	(43.2%)
Annual UF inflation	2.8 %	4.1 %	5.7 %		

(1) UF GAP is net interest income from asset and liabilities denominated in UFs and include the results from hedging the size of this gap via interest rate swaps.

· *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—A. 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. The ratio of the average of such demand deposits and average shareholder’s equity to average interest-earning assets was 29.0%, 29.9%, and 30.2% for the years ended December 31, 2016, 2015, and 2014, 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—A. 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 or expected inflation exceeds the previous period’s inflation, customers often switch funds from UF-denominated deposits to peso-denominated deposits, which generally bear higher interest rates, thereby adversely affecting our net interest margin.

Foreign Exchange Fluctuations

The Chilean government’s economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. The Central Bank exchange rate appreciated 5.7% in 2016 and 16.5% in 2015. 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 2016, 2015 and 2014, the Bank, in its spot position, 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. As of December 31, 2016, the net difference between assets and liabilities in foreign currency was a net asset position of U.S.105.4 million. The average gap, be it a net asset or liability position in foreign currency, in 2016 was U.S.$121.6 million. Both figures include derivatives used to hedge foreign currency risk. 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.

Table of Contents

Segmentation criteria

The accounting policies used to determine the Bank's income and expenses by reporting 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 and make decisions regarding the resources to be assigned to segments, the Chief Operating Decision Maker (CODM) bases his or her assessment on the segment's interest income, fee and commission income, and expenses. Due to changes aimed at improving relations with its customers, streamlining processes and saving costs, the Bank simplified its internal structure in 2015. For this reason, the disclosure has been simplified to reflect how the Bank is currently managed. The Bank's reporting segments have three Chief Operating Decision Makers: (i) Director of Retail banking, (ii) the Director of the Middle-market segment and (iii) the Director of Global corporate banking, each of which report to our Chief Executive Officer. All reporting segment information is presented following this structure.

Due to changes aimed at allocating customers to the segment best capable of servicing them and streamlining processes, the Bank modified its internal structure in 2015. This change in composition of the segments resulted in the following:

· commissions paid in "Net fee and commission income "were reassigned among segments to more appropriately reflect the distributions in accordance with the management of each segment;

· the effects of changes in foreign exchange rates of provisions were reallocated to the line item "Other" to more appropriately reflect the effects directly attributable to the respective segments; and

· the improvement of the allocation of interest costs at the time of placement of the loan.

Under IFRS 8, the Bank has aggregated operating segments with similar economic characteristics according to the aggregation criteria specified in the standard. A reporting segment consists of clients that are offered differentiated but, considering how their performance is measured, homogenous services based on IFRS 8 aggregation criteria, thus they form part of the same reporting segment. Overall, this aggregation has no significant impact on the understanding of the nature and effects of the Bank's business activities and the economic environment. The information relating to 2015 and 2014 has been prepared using the above-mentioned current criteria so that the figures presented are comparable.

The Bank’s reportable segments are (i) Retail banking, (ii) Middle-market, (iii) Global Corporate Banking and (iv) Corporate Activities (“Other”).

Table of Contents

Results of Operations for the Years Ended December 31, 2016, 2015 and 2014

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, 2016, 2015 and 2014.

	2016	2016	2015	2014	% Change	% Change
CONSOLIDATED INCOME STATEMENT DATA	(ThU.S.$)(1)	(Ch$ million)			2016/2015	**2015/2014**
IFRS:						
Interest income and expense						
Interest income	3,208,775	2,137,044	2,085,988	2,227,018	2.4 %	(6.3 %)
Interest expense	(1,284,802)	(855,678)	(830,782)	(909,914)	3.0 %	(8.7 %)
Net interest income	1,923,973	1,281,366	1,255,206	1,317,104	2.1 %	(4.7 %)
Fees and income from services						
Fees and commission income	647,423	431,184	402,900	366,729	7.0 %	9.9 %
Fees and commission expense	(265,405)	(176,760)	(165,273)	(139,446)	7.0 %	18.5 %
Total net fees and commission income	382,018	254,424	237,627	227,283	7.1 %	4.6 %
Financial transactions, net						
Net income (expense) from financial operations	(551,102)	(367,034)	(457,897)	(159,647)	(19.8 %)	186.8 %
Net foreign exchange gain (loss)	761,850	507,392	603,396	272,212	(15.9 %)	121.7 %
Financial transactions, net	210,748	140,358	145,499	112,565	(3.5 %)	29.3 %
Other operating income	9,650	6,427	6,439	6,545	(0.2 %)	(1.6 %)
Net operating profit before provision for loan losses	2,526,389	1,682,575	1,644,771	1,663,497	2.3 %	(1.1 %)
Provision for loan losses	(513,638)	(342,083)	(399,277)	(354,903)	(14.3 %)	12.5 %
Net operating profit	2,012,751	1,340,492	1,245,494	1,308,594	7.6 %	(4.8 %)
Operating expenses						
Personnel salaries and expenses	(593,293)	(395,133)	(387,063)	(338,888)	2.1 %	14.2 %
Administrative expenses	(339,959)	(226,413)	(220,531)	(205,149)	2.7 %	7.5 %
Depreciation and amortization	(98,137)	(65,359)	(53,614)	(44,172)	21.9 %	21.4 %
Impairment of property, plant and equipment	(351)	(234)	(21)	(36,664)	1014.3 %	(99.9 %)
Other operating expenses	(103,456)	(68,902)	(58,729)	(58,946)	17.3 %	(0.4 %)
Total operating expenses	(1,135,197)	(756,041)	(719,958)	(683,819)	5.0 %	5.3 %
Net Operating income	877,554	584,451	525,536	624,775	11.2 %	(15.9 %)
Income from investments in associates and other companies	4,523	3,012	2,588	2,165	16.4 %	19.5 %
Income before tax	882,077	587,463	528,124	626,940	11.2 %	(15.8 %)
Income tax expense	(163,710)	(109,031)	(76,395)	(51,050)	42.7 %	49.6 %
Consolidated Net income for the year	718,366	478,432	451,729	575,890	5.9 %	(21.6 %)
Net income for the year attributable to:						
Equity holders of the Bank	714,815	476,067	448,466	569,910	6.2 %	(21.3 %)
Non-controlling interests	3,551	2,365	3,263	5,980	(27.5 %)	(45.4 %)

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2016 have been translated from Chilean pesos at the exchange rate of Ch$666.00 = U.S.$1.00 as of December 31, 2016. 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, 2016 and 2015. Consolidated net income for the year ended December 31, 2016 increased 5.9% to Ch$478,432 million. Our return on annualized average equity was 16.8% in 2016 compared to 16.0% in 2015.

In 2016, *net operating profit before loan losses* was Ch$1,682,575 million, an increase of 2.3% compared to 2015. Our net interest income increased 2.1% to Ch$1,281,366 million in 2016 compared to 2015. Our net interest margin decreased to 4.32% in 2016 from 4.40% in 2015. Net interest margins were negatively affected by the lower UF inflation rate in 2016 compared to 2015.

Net fees and commission income increased 7.1% to Ch$254,424 million in the twelve-month period ended December 31, 2016 compared to the same period in 2015. In 2016, the Bank continued to experience positive client base and product usage growth. This has driven growth of fees in Global Corporate Banking that rose 64.6% in 2016 as the Bank won an important share of the investment banking, cash management and advisory services for the large projects being developed in Chile. The Middle-market segment increased fees by 8.1% and Retail banking increased 3.4% in 2016, mainly due to greater product usage.

Total financial transactions, net, which is the sum of net income from financial operations and foreign exchange gain (loss), totaled Ch$140,358 million in the year ended December 31, 2016, a decrease of 3.5% compared to the same period in 2015. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well as the results of our non-client treasury operations, mainly the Financial Management Division. The results from our client treasury business increased 7.1% in 2016 and totaled Ch$89,786 million. 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 2016, the results from Santander Global Connect increased 2.3%. The high market volatility led to a larger demand for hedging from our Corporate and Middle-market clients, driving this income line. The results from market-making with client services increased 19.8% in 2016, mainly due to higher business volumes with specific corporate clients, especially in our cash management services.

Results from non-client treasury income in 2016 decreased 18.0% and totaled Ch$50,572 million. This decrease was mainly due to lower realized gains on the available-for-sale portfolio in 2016.

Other operating income totaled a gain of Ch$6,427 million in the year ended December 31, 2016, a 0.2% decrease compared to 2015. The main reasons for this decrease was lower income received from assets received in lieu of payment which decreased 32.3%.

Provisions for loan losses, net of recoveries totaled Ch$342,083 million in 2016 and decreased 14.3% compared to the amount of provisions recorded in 2015. Provisions for loan losses totaled Ch$409,159 million in 2016 compared to Ch$454,462 million in 2015 and decreased 10.0%. Improvements in asset quality and higher loan loss recoveries drove this decrease in provisions for loan losses. Non-performing loans as a percentage of the loan portfolio decreased from 2.6% in 2015 to 2.1% in 2016 and the non-performing loans coverage ratio increased from 118.5% to 140.2%. This environment also led to a decrease in the loans charged-off during 2016 to Ch$11,222 million.

The provision expense for loan loss for commercial loans decreased from Ch$197,247 million in 2015 to Ch$137,242 million in 2016. This was mainly due to an improvement in asset quality in commercial loans. The non-performing loan ratio of commercial loans reached 2.3% in 2016 compared to 2.6% in 2015. This improvement in asset quality was due to two factors. First, the NPL ratio among small to middle-sized entities in retail banking decreased from 6.8% in 2015 to 5.8% in 2016. Second, there was an improvement in asset quality among loans evaluated on an individual basis, which resulted in a provision expense of Ch$17,819 million in 2016 compared to an expense of Ch$78,354 million in 2015. This was due to (i) a 2.6% decrease in loan volumes in global corporate banking, (ii) an unusually high provision expense in 2015 for specific corporate clients that were downgraded and (iii) an increase in 2016 in the number of clients that either improved their risk status or paid their loans.

Provisions for mortgage loans decreased by 38.7% from Ch$27,168 million in 2015 compared to Ch$16,646 million in 2016. During 2016, the Bank lowered its exposure to the lower end of the market and lowered the loan-to-value of residential mortgages at origination, which led to an improvement in mortgage loan asset quality and in April 2016 the mortgage loan allowance model was recalibrated resulting in a decrease in mortgage loan allowance of approximately Ch$3,500 million. The non-performing ratio for mortgage loans decreased from 2.1% in 2015 to 1.7% in 2016 and the impaired mortgage loans ratio also improved from 5.1% in 2015 to 4.6% in 2016.

The provision expense for consumer loans increased 8.2% during 2016, primarily attributable to growth of 7.1% in the loan portfolio in 2016. During 2016, the Bank lowered its exposure to the lower end of the consumer market and restricted renegotiations for consumer clients presenting payment difficulties, which led to an increase in charge-offs in 2016 and improvements in consumer loan asset quality. This was partially offset by recoveries from loans previously charged-off that increased from Ch$35,565 million in 2015 to Ch$41,072 million in 2016. The consumer non-performing loans ratio was 2.2% in 2016 compared to 2.7% in 2015 and the impaired consumer loan ratio decreased from 8.9% in 2015 to 6.5% in 2016.

Recoveries on loans previously charged-off increased 14.9% in 2016 compared to 2015. This was due to higher recoveries from charged-off consumer and residential mortgage loans mainly due to improved recovery efforts.

As a result of the factors mentioned above, *net operating profit* increased 7.6% in 2016 compared to 2015 and totaled Ch$1,340,492 million.

Operating expenses increased 5.0% compared to 2015. The efficiency ratio was 44.9% in 2016 compared to 43.8% in 2015. The increase in 2016 is explained by the digital transformation undertaken by the Bank that involves developing technology capabilities and branch formats in order to achieve greater efficiencies in the long term.

The 2.1% increase in personnel salaries and expenses was mainly due to an increase in personnel compensation due to all salaries being indexed to inflation. During the year the Bank made changes to the management structure and the total headcount was reduced 3.1% to 11,354 employees in December 2016, in line with the Bank's strategy of reducing mid-upper management levels and the sales force.

Administrative expenses increased 2.7% in the year ended December 31, 2016 compared to the corresponding period in 2015, mainly due to IT and communication expenses that increased from Ch$28,420 million in 2015 to Ch$37,351 million in 2016 as part of technological innovation to maintain and develop the Bank's digital platform. This also led to an increase in impairment charges to Ch$234 million in 2016 compared to Ch$21 million in 2015, primarily due to impairments in the ATM network.

Depreciation and amortization expense increased 21.9% in 2016 compared to 2015 and totaled Ch$65,359 million. This is in line with the greater investments in hardware and other equipment made by the Bank as it modernizes its branch network and systems.

Other operating expenses were Ch$68,902 million in 2016, a 17.3% increase compared to 2015. This was mainly due to a one time severance pay of Ch$10,789 million in April 2016 as the Bank made changes to the management structure in line with the strategy of reducing mid-upper management levels.

Total income tax expense in 2016 totaled Ch$109,031 million a 42.7% increase compared to 2015. This rise was mainly due to the higher effective tax rate paid by the Bank, which in 2016 reached 18.6% compared to 14.5% in 2015. The higher effective tax rate was mainly due to the higher statutory corporate tax rate in Chile, which increased from 22.5% in 2015 to 24.0% in 2016. Also, the lower CPI inflation rate in 2016 compared to 2015 resulted in higher income tax expense since the Bank, for Chilean tax purposes, must re-measure its capital each year for the variation in CPI inflation.

Results of operations for the years ended December 31, 2015 and 2014. Consolidated net income for the year ended December 31, 2015 decreased 21.6% to Ch$451,729 million. Our return on annualized average equity was 16.0% in 2015 compared to 21.4% in 2014.

In 2015, *net operating profit before loan losses* was Ch$1,644,771 million, a decrease of 1.1% compared to 2014. Our net interest income decreased 4.7% to Ch$1,255,206 million in 2015 compared to 2014. Our net interest margin decreased to 4.40% in 2015 from 4.92% in 2014. Net interest margins were negatively affected by the lower UF inflation rate in 2015 compared to 2014.

Net fees and commission income increased 4.6% to Ch$237,627 million in the twelve-month period ended December 31, 2015 compared to the same period in 2014. In 2015, the Bank continued to experience positive client base and product usage growth. This has driven growth of fees in Retail banking that rose 8.8% in 2015 and the Middle-market segment in which fees increased 5.5% in the period being analyzed. This was partially offset by the 31.8% decrease in fees from Global corporate banking which were negatively affected by the slower economic growth environment that lowered investment banking revenue.

Total financial transactions, net, which is the sum of net income from financial operations and foreign exchange gain (loss), totaled Ch$145,499 million in the year ended December 31, 2015, an increase of 29.3% compared to the same period in 2014. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well as the results of our non-client treasury operations, mainly the Financial Management Division. The results from our Client treasury business were flat compared to 2014 and totaled Ch$83,845 million. 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 2015, the results from Santander Global Connect increased 20.2%. The depreciation of the peso and higher market volatility led to a larger demand for hedging from our Corporate and Middle-market clients, driving this income line. The results from market-making with client services decreased 31.0% in 2014, mainly due to lower business volumes of tailor-made treasury services sold to specific corporate clients.

Table of Contents

Results from non-client treasury income in 2015 increased 114.6% and totaled Ch$61,654 million. This higher result was mainly due to larger realized gains from the available-for-sale portfolio. The results from our available-for-sale portfolio increased 241.1% in 2015 compared to 2014 and totaled Ch$23,655 million. This higher gain arose from the decline in long-term interest rates, especially in the first quarter of 2015.

Other operating income totaled a gain of Ch$6,439 million in the year ended December 31, 2015, a 1.6% decrease compared to 2014. The main reasons for this decrease was lower income received from assets received in lieu of payment which decreased 12.7%.

Provisions for loan losses, net of recoveries totaled Ch$399,277 million in 2015 and increased 12.5% compared to the amount of provisions recorded in 2014. Provision for loan losses totaled Ch$454,462 million in 2015 compared to Ch$403,069 million in 2014 and increased 12.8%.

Provisions established for the Bank's consumer loans increased by 27.8% to Ch$230,811 million in 2015 compared to 2014. This rise was mainly due to the release of consumer provisions of Ch$26,563 million during the second half of 2014 as a result of a re-calibration of the allowances model for consumer loans. Excluding this effect in 2014, consumer loan loss provisions grew 11.4%. This rise was mainly due to: (i) consumer loan growth, which reached 5.9% year over year in 2015 compared to 2014, and (ii) greater charge-offs of consumer loans assessed on a group basis. In light of lower economic growth, the Bank restricted renegotiations of consumer loans for customers presenting payment difficulties and this resulted in higher charge-offs.

Provision expense in commercial lending decreased 3.1% in 2015 compared to 2014. During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for commercial loans analyzed on a group basis. This resulted in the recognition of Ch$45,141 million in provisions for our commercial loan book in 2014. Excluding this impact, provisions for commercial loans grew 24.6% in the period being analyzed. This rise was mainly due to higher provisions in Global corporate banking as the Bank downgraded various corporate clients affected by the slower economic environment, but which have not yet entered non-performing status. On the other hand, improvements in asset quality of middle-market and SME customers in the retail banking segment led to an improvement in commercial NPLs and impaired loans. The total NPL ratio in commercial loans decreased from 3.0% in 2014 to 2.6% in 2015 mainly due to improvements in asset quality of the middle-market customers and SMEs in the retail banking segment. The impaired commercial loan ratio reached 7.1% in 2015 compared to 7.2% at year-end 2014 due to improvements in asset quality among SME clients in retail banking.

Provisions for mortgage loans increased 48.1% in 2015 compared to 2014. This rise was mainly due to: (i) mortgage loan growth, which increased 17.8% in the period being analyzed, and (ii) greater charge-offs of mortgage loans. In light of lower economic growth, the Bank has been restricting the renegotiations of mortgage loans for customers presenting payment difficulties and this resulted in higher charge-offs. This is also leading to higher recoveries, which in the case of mortgage loans, increased 27.7% in 2015 compared to 2014. The Bank also focused mortgage loan growth on higher income earners that in general are less risky. As a result of the change in the loan mix and the higher charge-offs, mortgage loan asset quality improved in 2015 compared to 2014. Mortgage loan asset quality improved in 2015 compared to 2014. The non-performing ratio for mortgage loans declined from 2.7% in 2014 to 2.1% in 2015. The impaired mortgage loans ratio also improved from 5.6% in 2014 to 5.1% in 2015.

Additionally, the lower economic growth in 2015 resulted in a rise in charge-off of loans analyzed on an individual basis that totaled Ch$12,955 million in 2015 and rose 19.8% compared to 2014.

Recoveries on loans previously charged-off increased 15.5% in 2015 compared to 2014 (see "Provision for loan losses" in the table above). This was due to higher recoveries of charged-off commercial and residential mortgage loans mainly due to improved recovery efforts, especially in the Middle-market segment. As the Bank has improved the asset quality in consumer lending, the growth rate of recoveries has also diminished.

As a result of the factors mentioned above, *net operating profit* decreased 4.8% in 2015 compared to 2014 and totaled Ch$1,245,494 million.

Operating expenses increased 5.3% compared to 2014. The efficiency ratio was 43.8% in 2015 compared to 41.1% in 2014. The 14.2% increase in personnel salaries and expenses was mainly due to an increase in personnel compensation, higher severance payments and greater costs related to benefits included in the Bank's collective bargaining agreement. Severance payments increased 222.4% to Ch$34,051 million. The Bank in 2015 executed a program to eliminate high level management positions in order to mitigate cost growth which entailed greater severance payments. In March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on October 1, 2014, and which will expire on December 31, 2018. This resulted in an increase in certain benefits related to the Bank's health insurance fund and other benefits.

Administrative expenses increased 7.5% in the year ended December 31, 2015 compared to the corresponding period in 2014. The increase in administrative expenses was mainly due to the 14.3% increase in maintenance, repair of property, plant and equipment, which totaled Ch$20,002 million. In 2015, the Bank continued to refurbish branches, open new Santander Select branches, expand the number of Middle-market centers and close Santander Banefe branches and other payment centers.

Impairment charges totaled Ch$21 million in 2015 compared to Ch$36,664 million in 2014. In 2014, the Bank initiated a plan to transform its business and operating model with a better focus on the client. In 2014, the Bank evaluated a number of applications that were in use or in development and tested them for impairment. Following the testing, in accordance with IAS 36, the Bank has recognized an impairment of Ch$36,556 million in 2014 due to the abandonment of unnecessary systems.

Depreciation and amortization expense increased 21.4% in 2015 compared to 2014 and totaled Ch$53,614 million. This rise was mainly due to the increase in depreciation of equipment that reached Ch$18,417 million in 2015 compared to Ch$12,331 million in 2014. This is in line with the greater investments in hardware and other equipment as the Bank modernizes its branch network and systems.

Other operating expenses were Ch$58,729 million in 2015, a 0.4% decrease compared to 2014. In 2015, customer service expenses, which are related to our phone banking service, decreased 60.6% due to cost restructurings. Additionally in 2015, the Bank had less expenses related to adopting chip technology on cards. These lower other operating expenses were offset by greater provisions for assets received in lieu of payment.

Total income tax expense in 2015 totaled Ch$76,395 million a 49.6% increase compared to 2014. This rise was mainly due to the higher effective tax rate paid by the Bank, which in 2015 reached 14.5% compared to 8.1% in 2014. The higher effective tax rate was mainly due to the higher statutory corporate tax rate which increased from 21% in 2014 to 22.5% in 2015. In 2015, the Bank also recognized lower credits from deferred tax assets that totaled Ch$10,600 million in 2015 compared to Ch$39,262 million in 2014. Finally, the lower CPI inflation rate in 2015 compared to 2014 also resulted in higher income tax expense since the Bank, for Chilean tax purposes, must re-value its capital each year for the variation in CPI inflation.

Net interest income

	Year ended December 31,			% Change	
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch$, except percentages)				
Retail banking	931,105	873,026	833,139	6.7 %	4.8 %
Middle-market	244,960	229,812	200,675	6.6 %	14.5 %
Total commercial banking	1,176,065	1,102,838	1,033,814	6.6 %	6.7 %
Global corporate banking	95,105	85,553	71,992	11.2 %	18.8 %
Total reporting segments	1,271,170	1,188,391	1,105,806	7.0 %	7.5 %
Other (1)	10,196	66,815	211,298	(84.7%)	(68.4 %)
Net interest income	1,281,366	1,255,206	1,317,104	2.1 %	(4.7 %)
Average interest-earning assets	29,671,311	28,523,005	26,759,696	4.0 %	6.6 %
Average non-interest-bearing demand deposits	5,753,622	5,719,889	5,386,272	0.6 %	6.2 %
Net interest margin (2)	4.32 %	4.40 %	4.92 %		
Average shareholders' equity and average non-interest-bearing demand deposits to total average interest-earning assets	29.0 %	29.9 %	30.2 %		

(1) 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 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. This segment also includes intra-segment income and activities not assigned to a given segment or product line.

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

Table of Contents

For the years ended December 31, 2016 and 2015. Our net interest income totaled Ch$1,281,366 million in the year ended December 31, 2016, an increase of 2.1% from Ch$1,255,206 million in 2015. Average interest earning assets increased 4.0% in the same period, driven mainly by lending in the Retail banking and Middle-market segments. While interest income from our reporting segments grew 7.0% during 2016 , net interest margin in 2016 decreased to 4.3% compared to 4.4% in 2015 due to the lower UF inflation in 2016. Because the Bank has more interest earning assets indexed to the UF than interest bearing liabilities, the lower inflation rate in 2016 compared to 2015 caused our average nominal interest rate earned on interest earning assets indexed to the UF to decrease from 7.6% in 2015 to 6.6% in 2016.

The average nominal interest rate for interest earning assets denominated in pesos increased from 9.6% in 2015 to 9.9% in 2016, while the average nominal rate for interest bearing liabilities denominated in pesos also increased from 4.4% in 2015 to 4.7% in 2016.

Average nominal interest rate earned on interest earning assets	2016	2015	2014
Ch$	9.9%	9.6%	10.3%
UF	6.6%	7.6%	9.3 %
Foreign currencies	2.1%	1.8%	1.5 %
Total	7.2%	7.3%	8.3 %

The average rate paid on our interest bearing liabilities decreased to 3.9% in 2016 from 4.0% in 2015. This was mainly due to a lower rate paid on UF denominated liabilities as a result of the lower UF inflation in the year, which decreased to 5.6% in 2016 compared to 7.2% in 2015. This partially offset the negative impact of inflation on the interest earning assets.

Average nominal interest rate paid on interest bearing liabilities	2016	2015	2014
Ch$	4.7%	4.4%	6.0%
UF	5.6%	7.2%	8.4%
Foreign currencies	1.1%	1.3%	0.7%
Total	3.9%	4.0%	4.7%

The changes in net interest income by segment in 2016 as compared to 2015 were as follows:

- Net interest income from Retail banking increased 6.7%, mainly as a result of the 9.2% 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 2016 economic growth continued to slow. As a result, the highest growing loan product was residential mortgage loans that have a lower yield compared to other retail loans.

- Net interest income from the Middle-market segment increased 6.6% in 2016, mainly as a result of stable loan growth of 6.5% in this segment. Loan growth has been more selective, focusing on the potential return net of risk with a focus on non-lending products which are positive for margin growth, such as the spread between the rate on deposits and the Central Bank rate.

- The focus for Global corporate banking was on growth of non-lending products especially cash management which generates a higher return than lending in this segment. This led to an increase in net interest income of 11.2% in 2016 despite a 2.6% decrease in loan volumes.

- Other net interest income consists mainly of net interest income from the Bank’s ALCO, which includes the available-for-sale investment portfolio, deposits in the Central Bank, 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 result of the Bank’s inflation gap is also included in this line. The net interest income included as “other” decreased from a gain of Ch$66,815 million in 2015 to a gain of Ch$10,196 million in 2016. This was due to the lower inflation rate in 2016 and lower interest income from the Bank’s liquidity position as well as the gradual introduction of Basel III liquidity requirements, which led the Bank to take more investments with higher liquidity and shorter maturities that have a lower yield.

Table of Contents

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

	At December 31,			% Change	
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch$, except percentages)				
Retail banking	18,604,936	17,034,707	15,191,808	9.2 %	12.1 %
Middle-market	6,396,376	6,006,282	5,443,983	6.5 %	10.3 %
Global corporate banking	2,121,513	2,178,643	2,201,913	(2.6%)	(1.1 %)
Other (1)	83,606	81,125	54,945	3.1 %	47.6 %
Total loans	27,206,431	25,300,757	22,892,649	7.5 %	10.5 %

(1) Includes interbank loans.

For the years ended December 31, 2015 and 2014. Our net interest income totaled Ch$1,255,206 million in the year ended December 31, 2015, a decrease of 4.7% from Ch$1,317,104 million in 2014. Average interest earning assets increased 6.6% in the same period, driven mainly by lending in the Retail banking and Middle-market segments. Net interest margin in 2015 was 4.40% compared to 4.92% in 2014. 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 a decrease in the UF inflation rate in 2015 compared to 2014, which in turn lowered the average nominal rate earned on UF denominated interest earning assets. This impact is more relevant than the decrease in funding cost of liabilities linked to the UF since the Bank has more assets than liabilities linked to the UF. We also earned a lower nominal rate on our peso-denominated interest earning assets. This was mainly due to loan growth focused in lower yielding, but less risky loans. This was reflected in the decrease in the average nominal interest rate earned on our peso denominated consumer loans that decreased from 17.2% in 2014 to 14.0% in 2015.

The average rate paid on our interest bearing liabilities decreased from 4.7% in 2014 to 4.0% in 2015. This was mainly due to a lower rate paid on UF denominated liabilities as a result of the lower UF inflation in the year. As a result, the average nominal rate paid on interest bearing liabilities denominated in UF decreased to 7.2% in 2015 compared to 8.4% in 2014. At the same time and despite rising short-term interest rates, the average nominal rate paid on peso denominated interest bearing liabilities also decreased from 6.0% in 2014 to 4.4% in 2015, reflecting positive management of time deposits costs with our clients.

The changes in net interest income by segment in 2015 as compared to 2014 were as follows:

- Net interest income from Retail banking increased 4.8%, mainly as a result of the 12.1% 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 2015 economic growth slowed. As a result, the highest growing loan product was residential mortgage loans that have a lower yield compared to consumer loans. At the same time, the focus on high income earners also resulted in a reduction of the rate earned on consumer loans.

- Net interest income from the Middle-market segment increased 14.5% in 2015, mainly as a result of the 10.3% increase in loans in this segment. This segment was of significant strategic focus in 2015 as the Bank increased business volumes in this segment both in lending and non-lending services.

- Net interest income from Global corporate banking increased 18.8% in 2015 despite a 1.1% decrease in loan volumes. Loan yields in this segment improved as alternative sources of funds for Chilean corporates, especially from foreign sources, became more expensive. This segment also saw an improvement in cash management services that improved the funding mix.

- 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 result of the Bank's inflation gap is also included in this line. The net interest income included as "other" totaled a gain of Ch$66,815million in 2015 compared to a gain of Ch$211,298 million in 2014. The gain in 2015 can be explained by the lower UF inflation in 2015 compared to the previous period and the greater UF gap in 2014. The lower variation of the UF gap resulted in Ch$99,280 million less net interest income (See "Item 5A—Impact of Inflation"). Other net

Table of Contents

interest income was also negatively affected by lower net interest income from the Bank's liquidity position, especially the portion denominated in U.S. dollars. This was mainly due to the low interest rate environment observed globally.

Fee and commission income

For the years ended December 31, 2016 and 2015. Net fees and commission income increased 7.1% to Ch$254,424 million in the twelve-month period ended December 31, 2016 compared to the same period in 2015. In 2016, the Bank continued to experience positive client base and product growth that drove fee growth in various products. Internally, we measure the quantity of products that a client uses and identify them as a loyal customer when they meet certain internal criteria for their segment. For example, loyal individual customers use four products and have a minimum profitability level and a minimum usage indicator. For SMEs and Middle-market customers, cross-selling is differentiated by client size using a point system that depends on the number of products, usage of products and income net of risk. According to this measurement, the number of loyal high-income clients increased 6.5% and the number of loyal SMEs and middle-market clients increased by 13.8% during 2016

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, 2016, 2015 and 2014.

	Year ended December 31,			% Change	
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch$)				
Credit, debit and ATM cards	52,057	46,066	43,161	13.0 %	6.7 %
Collections	31,376	30,399	35,355	3.2 %	(14.0 %)
Insurance brokerage	40,882	39,252	34,695	4.2 %	13.1 %
Letters of credit	35,911	35,276	32,403	1.8 %	8.9 %
Checking accounts	31,540	30,291	29,031	4.1 %	4.3 %
Custody and brokerage services	8,358	8,685	8,307	(3.8 %)	4.6 %
Lines of credit	5,754	6,597	7,015	(12.8 %)	(6.0 %)
Others	48,546	41,061	37,316	18.2 %	10.0 %
Total fees and commission income, net	254,424	237,627	227,283	7.1 %	4.6 %

Fees from credit, debit and ATM cards increased by 13.0% in 2016, reflecting the positive growth of the usage of the Bank's credit and debit cards. Active credit cards totaled 2,002,998 as of November 2016, the latest market data available, and increased 3.3% compared to the same period in 2015. In the second half of 2015, our contract with Redbank, an ATM services provider, was renegotiated, which led to higher interbank fees charged for ATM usage for the second half of 2015 and the year 2016.

Fees from collections increased by 3.2% in 2016 compared to 2015 due to a growth in loan volumes, particularly in mortgage loans. This line item includes, among other items, fees collected on behalf of insurance companies for fire and earthquake insurance that are mandatory with mortgage loans.

Insurance brokerage fees increased 4.2% due to higher sales volume from cross-selling of insurance products to customers.

Fees from letters of credit and other contingent operations increased 1.8% in 2016. This increase was mainly due to growth of our international and foreign trade financing businesses with clients.

Fees from checking accounts increased 4.1% in 2016 compared to 2015. This was mainly due to a rise in the Bank's checking account base. The amount of retail banking clients with a checking account rose 4.3% in 2016, totaling 844,971. Combined with this an increase in corporate cash management services also boosted fee growth in this product.

Brokerage and custody fees decreased 3.8% in 2016 as compared to 2015 due to weak trading volumes in local equity market during 2016.

Table of Contents

Fees from lines of credit decreased 12.8% as there was a switch from clients using credit lines to credit cards and other facilities offered by online banking.

The rise in other fee income of 18.2% in 2016 compared to 2015 was mainly due to higher fees from the brokerage of asset management services. In December 2013, our Asset Management business was sold. The Bank is no longer in the asset management business, but serves as an exclusive broker for Santander Asset Management, the acquirer of our asset management business. In 2016, asset management brokerage fees totaled Ch$38,244 million and increased 5.7% compared to 2015. Other fees also include fees from our Global corporate banking segment. The positive growth of our client loyalty in this segment led to higher advisory fees in global transactional banking.

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
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch$)				
Retail banking	196,845	190,380	175,007	3.4 %	8.8 %
Middle-market	30,851	28,537	27,055	8.1 %	5.5 %
Global corporate banking	25,077	15,231	22,338	64.6 %	(31.8 %)
Other	1,651	3,479	2,883	(52.5 %)	20.7 %
Total fees and commission income, net	254,424	237,627	227,283	7.1 %	4.6 %

Fees from Retail banking increased 3.4% in 2016 compared to 2015. Since mid-2013, the Bank has been executing a profound overhaul of its Client Relationship Management (CRM) systems, client service and other changes to its commercial team front-office functions, which has continued to increase product sales and usage. This has led to high fee growth among retail bank clients, especially cards, insurance brokerage, brokerage of asset management products and checking accounts. Total retail clients reached 3.58 million at year-end 2016 and total retail clients with a checking account increased 4.3% to 844,971. Loyal retail clients increased 7.7% to 600,132 by year-end 2016.

The 8.1% increase in fees from the Middle-market segment was mainly due to the positive expansion of business volumes in this segment from greater client loyalty and product usage.

Fees from the Global corporate banking segment increased 64.6% in 2016 compared to 2015. In 2016, the Bank won an important share of the investment banking, cash management and advisory services for the large projects being developed in Chile.

Fees in Other decreased 52.5% from Ch$3,479 million in 2015 to Ch$1,651 million in 2016 due to distributing more fee and commission income among segments.

For the years ended December 31, 2015 and 2014. Net fees and commission income increased 4.6% to Ch$237,627 million in the twelve-month period ended December 31, 2015 compared to the same period in 2014. In 2015, the Bank continued to experience positive client base and product growth that drove fee growth in various products.

Fees from credit, debit and ATM cards increased by 6.7% in 2015, reflecting the positive growth of the usage of the Bank's credit and debit cards. Active credit cards totaled 1,936,697 as of October 2015, the latest market data available and increased 3.1% compared to the same period in 2014.

Fees from collections decreased by 14.0% in 2015 compared to 2014. In 2015, we once again 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.

Insurance brokerage fees increased 13.1% as business volumes recovered in line with a recovery in client and product growth.

Fees from letters of credit and other contingent operations increased 8.9% in 2015. This increase 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.

Table of Contents

Fees from checking accounts increased 4.3% in 2015 compared to 2014. This was mainly due to a rise in the Bank's checking account base. According to the latest data published by the SBIF as of December 2015, the Bank's checking accounts totaled 852,492 compared to 815,182 in 2014 or a growth of 5.5%. Higher checking account balances both in retail banking as well as an increase in corporate cash management services also boosted fee growth in this product.

Brokerage and custody fees increased 4.6% in 2015 as compared to 2014. Despite lack luster performance of local equity markets, which hurt brokerage activity, the depreciation of the peso against the dollar positively affected brokerage and custody fees. The Bank also saw an increase in custody services with corporate clients.

Fees from lines of credit decreased 6.0% in 2015 compared to 2014. Lower spending on behalf of individuals resulted in less usage of lines of credit attached to checking accounts. At the same time, as the Bank continued to de-risk its retail loan book, it reduced its exposure of lines of credit among low income earners.

Fees from our asset management business totaled Ch$0 in 2015 and 2014. In December 2013, our Asset Management business was sold. In 2014 and 2015, the Bank continued to broker asset management products for Santander Asset Management. These brokerage fees are included as other income from fees.

The rise in other fee income of 10.0% in 2015 compared to 2014 was mainly due to higher fees from the brokerage of asset management services. As mentioned in the paragraph above, the Bank is no longer in the asset management business, but serves as an exclusive broker for Santander Asset Management, the acquirer of our asset management business. In 2015, asset management brokerage fees totaled Ch$36,182 million and increased 16.8% compared to 2014. The positive growth of our client base among high income earners led to higher brokerage fees of asset management products.

Fees from Retail banking increased 8.8% in 2015 compared to 2014. Since mid-2013, the Bank has been executing a profound overhaul of its Client Relationship Management (CRM) systems, client service and other changes to its commercial team front-office functions, which has continued to increase product sales and usage. This has led to high fee growth among retail bank clients, especially cards, insurance brokerage, brokerage of asset management products and checking accounts. Total retail clients reached 3.38 million at year-end 2015 and increased 1.6%. Total retail clients with a checking account increased 6.4% to 692,359 and loyal retail clients (a new internal measure that considers the amount of products a client has, uses and their profitability) increased 4.8% to 519,889 by year-end 2015.

The 5.5% increase in fees from the Middle-market segment was mainly due to the positive expansion of business volumes in this segment, which led to greater product usage.

Fees from the Global corporate banking segment decreased 31.8% in 2015 compared to 2014. In 2015, this segment saw a reduction in investment banking activities such as bond issuances and financial advisory, mainly due to the slower economic growth.

Financial transactions, net

The following table sets forth information regarding our income (loss) from financial transactions for the years ended December 31, 2016, 2015 and 2014.

	Year ended December 31,			% Change	% Change
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch$)				
Net income from financial operations	(367,034)	(457,897)	(159,647)	19.8 %	(186.8%)
Foreign exchange profit (loss), net	507,392	603,396	272,212	(15.9 %)	121.7 %
Total financial transactions, net	140,358	145,499	112,565	(3.5 %)	29.3 %

For the years ended December 31, 2016 and 2015. Total financial transactions, net, which is the sum of net income from financial operations and foreign exchange profit (loss), totaled Ch$140,358 million in the year ended December 31, 2016, a decrease of 3.5% compared to the same period in 2015. These results include the results of our Treasury Division’s trading business and financial transactions with customers, as well as the results of our Financial Management Division.

Table of Contents

Internal Bank policy does not allow significant foreign currency mismatches and requires that the results included in Total financial transactions, net include not only the market-to-market of our foreign currency spot position, but also the results of the derivatives used to hedge currency risk. The mark-to-market of our spot position is included in the line item Foreign exchange profit (loss), net. This line item also includes the effect of those derivatives accounted for under hedge accounting rules. The derivatives used to hedge foreign currency risk but which are classified as trading are included in the line item Net income from financial operations. For more details regarding our management and exposure to foreign currency risk, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management— Market risk – local and foreign financial management."

The results from net income (loss) from financial operations totaled a loss of Ch$367,034 million in 2016 compared to a loss of Ch$457,897 million in 2015.

	Year ended December 31,			% Change	% Change
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch$)				
Derivatives classified as trading	(395,209)	(503,981)	(224,015)	21.6 %	(125.0%)
Trading investments	18,229	21,505	45,952	(15.2 %)	(53.2 %)
Sale of loans	4,190	863	6,070	385.5 %	(85.8 %)
Available-for-sale instruments sales	14,598	23,655	6,934	(38.3 %)	241.1 %
Other results	(8,842)	61	5,412	(14,595.1%)	(98.9 %)
Net income (loss) from financial operations	(367,034)	(457,897)	(159,647)	19.8 %	186.8 %

The lower loss from financial operations in 2016 compared to 2015 was mainly due to:

(i) Lesser losses in the sub-item derivatives classified as trading. In 2016, the average yearly exchange rate depreciated 3.5% compared to 14.8% in 2015. Movements in foreign currency affect this line item because it includes the valuation adjustments of our derivatives classified as trading. The Bank's spot foreign currency position includes all assets and liabilities in foreign currency and assets and liabilities in Ch$ linked to U.S.$ that are not derivatives. Internal policy prohibits us from opening a large exposure in foreign currency, but we usually have more liabilities in foreign currency (mainly U.S.$) in our spot position than assets due to our long-term funding in foreign currency and deposits denominated in foreign currencies from Chilean exporters. This net foreign currency liability spot position is hedged using different instruments. We use derivatives classified as trading, mainly forwards and cross-currency swaps, to hedge the net foreign currency spot position between short-term assets and liabilities. On average, the Bank has more short-term assets, such as U.S. dollars invested in overnight, than short-term deposits in U.S. dollars. The average exchange rate depreciated 3.5% in 2016, producing a loss in derivatives classified as trading. This loss was lower than in 2015, since the average depreciation rate was lower in 2016 against 2015.

(ii) The 15.2% lower gain from trading investments was mainly due to the lower UF inflation rate in 2016 compared to 2015. In this line item the mark-to-market and interest income of the trading fixed income portfolio are recognized. In 2016, the lower UF inflation decreased interest from this portfolio, which is mainly comprised of Central Bank instruments denominated in UF.

(iii) The results from our available-for-sale portfolio decreased 38.3% in 2016 compared to 2015. The results for 2015 were very high due to gains realized when interest rates fell abruptly in the first quarter of 2015; this situation was not repeated in 2016.

(iv) The loss in other results of Ch$8,842 million in 2016 was due to the effect of depreciation in the average exchange rate on the partial repurchase of senior bonds during the year. See Note 18 – issued debt instruments and other financial liabilities – b) Senior bonds in the Audited Consolidated Financial Statements.

The net result from foreign exchange transactions totaled a gain of Ch$507,392 million in 2016 compared to Ch$603,396 million in 2015.

Table of Contents

	Year ended December 31, 2016	2015	2014	% Change 2016/2015	% Change 2015/2014
	(in millions of Ch$)				
Net profit or loss from foreign currency exchange differences	116,117	(197,875)	(370,282)	158.7 %	46.6 %
Hedge-accounting derivatives	399,875	777,254	621,767	(48.6 %)	25.0 %
Translation gains and losses over assets and liabilities indexed to foreign currencies, net	(8,600)	24,017	20,727	(135.8 %)	15.9 %
Net results from foreign exchange profit (loss)	507,392	603,396	272,212	(15.9 %)	121.7 %

Included in these results is the sub-item Net profit or loss from foreign currency exchange differences which totaled a gain of Ch$116,117 million in 2016 compared to a loss of Ch$197,875 million in 2015. This result includes the mark-to-market of the Bank's spot position and results from our client foreign currency business, such as currency transactions and market making. The lower rate of average depreciation of the peso in 2016 compared to 2015 and the increase in client currency transactions resulted in a higher result in this sub-item compared to 2015.

Results from the sub-item hedge-accounting derivative that are used to hedge the foreign currency risk of our long-term foreign currency funding. These are mainly cross-currency swaps that are accounted under hedge accounting rules. These derivatives produced a gain of Ch$399,875 million in 2016 attributable to the average depreciation of the peso in the year. This gain was lower than in 2015 due to the lower rate of depreciation in 2016 compared to 2015.

Finally, the Bank has some assets and liabilities that are in Chilean pesos, but indexed to foreign currency. This position produced a translation loss in 2016 of Ch$8,600 million. This exposure is also hedged.

In order to more easily compare the results from financial transactions, net, we present the following table that separates the results by lines of business for 2016, 2015 and 2014.

	Year ended December 31, 2016	2015	2014	% Change 2016/2015	2015/2014
	(in millions of Ch$)				
Santander Global Connect (1)	62,404	60,995	50,740	2.3 %	20.2 %
Market-making with clients	27,382	22,850	33,097	19.8 %	(31.0 %)
Client treasury services	89,786	83,845	83,837	7.1 %	— %
Sale of loans and charged-off loans	4,190	863	6,070	3 85.5 %	(85.8 %)
Proprietary trading	(94)	(567)	(1,113)	83.5 %	49.0 %
Financial Management Division and others (2)	46,475	61,358	23,771	(24.3 %)	158.1 %
Non-client treasury income (loss)	50,572	61,654	28,728	(18.0 %)	114.6 %
Total financial transactions, net	140,358	145,499	112,565	(3.5 %)	29.3 %

(1) Santander Global Connect is the Bank's commercial platform for selling treasury products to its clients.

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

Client treasury services totaled Ch$89,786 million, a gain of 7.1% compared to 2015. 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 2016, the results from Santander Global Connect increased 2.3%. The depreciation of the peso and high market volatility led to a larger demand for hedging from our Corporate and Middle-market clients, driving this income line. The results from market-making with client services increased 19.8% in 2015, mainly due to a growth in business volumes of tailor-made treasury services and cash management 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.

The results from non-client treasury income decreased 18.0% and totaled a gain of Ch$50,572 million in 2016 compared to Ch$61,654 million in 2015. These results include the income from sale of loans, including charged-off loans, proprietary trading and the results from our Financial Management Division.

The results from the sale of loans increased to Ch$4,190 million in 2016. The results from proprietary trading totaled a loss of Ch$94 million. Since year-end 2012, the Bank no longer has a proprietary trading area and these results are from residual positions that are being closed.

In 2016, income from the Bank's Financial Management Division decreased 24.3% to Ch$46,475 million. This department 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. This decrease in results was mainly due to lower realized gains from our available-for-sale portfolio. The results from our available-for-sale portfolio decreased 38.3% in 2016 compared to 2015 and totaled Ch$14,598 million due to the significant decrease in long-term interest rates in the first quarter of 2015. The results from Financial Management Division also include the offset of the foreign currency exposure hedging on provision expenses for loans denominated in U.S. dollars.

For the years ended December 31, 2015 and 2014. Total financial transactions, net, which is the sum of net income from financial operations and foreign exchange profit (loss), totaled Ch$145,499 million in the year ended December 31, 2015, an increase of 29.3% compared to the same period in 2014. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well as the results of our Financial Management Division.

Net income from financial operations was a loss of Ch$457,897 million in 2015 compared to a loss of Ch$159,647 million in 2014.

The higher loss from financial operations in 2015 compared to 2014 was mainly due to:

(i) Higher losses from derivatives classified as trading. In 2015, the average yearly exchange rate depreciated 14.8%. Movements in foreign currency affect this line item because it includes the valuation adjustments of our derivatives classified as trading. The Bank's spot position includes all assets and liabilities in foreign currency and assets and liabilities in Ch$ linked to U.S.$ that are not derivatives. Internal policy prohibits us from opening a large exposure in foreign currency, but we usually have more liabilities in foreign currency (mainly U.S.$) than assets in our spot position due to our long-term funding in foreign currency and deposits denominated in foreign currencies from Chilean exporters. This net foreign currency liability spot position is hedged using different instruments. Our long-term foreign currency funding is hedged with cross-currency swaps that are matched and are accounted under hedge accounting rules. Therefore, the liability and the corresponding hedge are recognized in foreign exchange profits, described below and not in this line item. Excluding this part of our funding in foreign currency, we are left with the foreign currency deposits and other short-term foreign currency funding mechanisms, which are smaller than the foreign currency assets, mainly cash. This difference is hedged with derivatives that are accounted as trading derivatives and since the size of our cash position in U.S. dollars (see Note 4a of our Audited Consolidated

Financial Statements) increased, the amount of derivatives hedging this position also rose and the loss from derivatives classified as trading rose. 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.”

(ii) The 53.2% lower gain from trading investments was mainly due to the lower UF inflation rate in 2015 compared to 2014. In this line item the mark-to-market and interest income of the trading fixed income portfolio are recognized. In 2015, the lower UF inflation decreased interest from this portfolio. This explains the 53.2% increase in results from the trading portfolio compared to 2014, which totaled Ch$21,505 million.

(iii) The results from our available-for-sale portfolio increased 241.1% in 2015 compared to 2014. This was mainly due to higher realized gains from our available-for-sale fixed income portfolio, especially in the first quarter of 2015 when long-term interest rates declined sharply.

The net result from foreign exchange transactions totaled a gain of Ch$603,396 million in 2015 compared to Ch$272,212 million in 2014.

Table of Contents

Included in these results is the sub-item Net profit or loss from foreign currency exchange differences which totaled a loss of Ch$197,875 million in 2015. Since the Bank, in its spot position has more liabilities than asset in foreign currency, the depreciation of the peso in 2015 resulted in a net loss in this sub-item.

Included in the net results from foreign exchange profit (loss) are the results from hedge-accounting derivative that are used to hedge the foreign currency risk of our long-term foreign currency funding. These are mainly cross-currency swaps that are accounted under hedge accounting rules. These derivatives produced a gain of Ch$777,254 million in 2015.

Finally, the Bank has assets and liabilities that are in Chilean pesos, but indexed to foreign currency. In this case, we have more asset than liabilities linked to foreign currency and when the peso depreciates this produces a translation gain which in 2015 totaled Ch$24,017 million. This exposure is also hedged.

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."

Client treasury services totaled Ch$83,845 million and were flat compared to 2014. 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 2015, the results from Santander Global Connect increased 20.2%. The depreciation of the peso and higher market volatility led to a larger demand for hedging from our Corporate and Middle-market clients, driving this income line. The results from market-making with client services decreased 31.0% in 2014, mainly due to lower business volumes of 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.

The results from non-client treasury income increased 114.6% and totaled a gain of Ch$61,654 million in 2015 compared to Ch$28,728 million in 2014. These results include the income from sale of loans, including charged-off loans, proprietary trading and the results from our Financial Management Division.

The results from the sale of loans decreased 85.8% to Ch$863 million in 2015. The results from proprietary trading totaled a loss of Ch$567 million. The Bank since year-end 2012, no longer has a proprietary trading area and these results are from residual positions that are being closed.

In 2015, income from the Bank's Financial Management Division increased 158.1% to Ch$61,358 million. This department 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. This higher result was mainly due to larger realized gains from our available-for-sale portfolio. The results from our available-for-sale portfolio increased 241.1% in 2015 compared to 2014 and totaled Ch$23,655 million. This higher gain arose from the decline in long-term interest rates, especially in the first quarter of 2015. The results from Financial Management Division also include the offset of the foreign currency impact on provision expenses in foreign currency. As the peso depreciated against the U.S. dollar, the provision expenses in pesos for dollar denominated loans increased. This exchange rate exposure is hedged and the offsetting gain is recognized here.

Other operating income

	Year ended December 31,			% Change	% Change
	2016	2015	2014	2016/2015	2015/2014
	(In millions of Ch$)				
Income from assets received in lieu of payment	1,663	2,455	2,811	(32.3 %)	(12.7 %)
Net results from sale of investment in other companies	—	617	—	—%	—%
Operational leases (as lessor)	519	708	805	(26.7 %)	(12.0 %)
Gain on sale of Bank property, plant and equipment	2,017	381	687	429.4 %	(44.5 %)
Compensation from insurance companies due to damages	1,530	435	661	251.7 %	(34.2 %)
Other	698	1,843	1,581	(62.1 %)	16.6 %
Sub-total other income	4,764	3,367	3,734	41.5 %	(9.8 %)
Total other operating income	6,427	6,439	6,545	(0.2 %)	(1.6 %)

For the years ended December 31, 2016 and 2015. Total other operating income fell by 0.2% in 2016 compared to 2015 and totaled a gain of Ch$6,427 million mainly due to less income from assets received in lieu of payment partially offset by a larger gain from the sale of property as a result of the consolidation of our branch network. Also during 2016, there was a greater gain from the compensation from insurance companies due to damages claimed from natural disasters such as earthquakes.

For the years ended December 31, 2015 and 2014. Total other operating income fell 1.6% in 2015 compared to 2014 and totaled a gain of Ch$6,439 million. Other operating income was negatively affected by lower gains from income received from assets in lieu of payment, lower income from operational leases and less payments from insurance coverage for earthquake damages.

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
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch$)				
Provision for loan losses	(409,159)	(454,462)	(403,069)	(10.0%)	12.8%
Charge-off of loans analyzed on an individual basis	(11,222)	(12,955)	(10,811)	(13.4%)	19.8%
Recoveries on loans previously charged-off	78,298	68,140	58,977	14.9%	15.5%
Provision for loan losses, net	(342,083)	(399,277)	(354,903)	(14.3%)	12.5%
Year end loans (1)	27,206,431	25,300,757	22,892,649	7.5%	10.5%
Non-performing loans (2)	564,131	643,468	644,327	(12.3%)	(0.1%)
Impaired loans (3)	1,615,441	1,669,340	1,617,251	(3.2%)	3.2%
Allowance for loan losses (4)	790,605	762,301	684,317	3.7%	11.4%
Impaired loans / Year end loans (5)	5.94%	6.60%	7.06%		
Non-performing loans / Year end loans (2)	2.07%	2.54%	2.81%		
Allowances for loan losses / Total loans	2.91%	3.01%	2.99%		
Coverage ratio non-performing loans (5)	140.15%	118.47%	106.21%		

(1) Loans and accounts receivable from customers, including Ch$272,807 million in 2016, Ch$10,877 million in 2015 and Ch$11,943 million in 2014 in interbank loans.

(2) 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.

(3) Impaired loans include: (a) for loans individually evaluated for impairment: (i) the carrying amount of all loans to clients that are rated C1 through C4, D1 and D2 and (ii) the carrying amount of all loans to an individual client with at least one non-performing loan (which is not a residential mortgage loan past due less than 90 days), regardless of category; and (b) for loans collectively evaluated for impairment, the carrying amount of all loans to a client, when at least one loan to that client is not performing or has been renegotiated. See "Note 9—Loans and Accounts Receivables from Customers—(a) Loans and accounts receivables from customers" in the Audited Consolidated Financial Statements.

(4) Allowance for loan losses for loans and accounts receivable from customers, including Ch$4,135 million in 2016, Ch$1,166 million in 2015 and Ch$1 million in 2014 in allowance for loan losses for interbank loans.

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

For the years ended December 31, 2016 and 2015. Provisions for loan losses, net of recoveries totaled Ch$342,083 million in 2015 and decreased 14.3% compared to the amount of provisions recorded in 2015.

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$409,159 million in 2016 compared to Ch$454,462 million in 2015 and decreased 10.0%. The following table breaks down provision for loans losses by loan product for the years ended December 31, 2016, 2015 and 2014.

77

	2016	2015	2014	% Change 2016/2015	2015/2014
	(in millions of Ch$)				
Interbank loans	(2,969)	(1,165)	494	154.8 %	— %
Commercial loans	(137,242)	(197,247)	(203,454)	(30.4 %)	(3.1 %)
Mortgage loans	(16,646)	(27,168)	(18,346)	(38.7 %)	48.1 %
Consumer loans	(249,754)	(230,811)	(180,666)	8.2 %	27.8 %
Contingent loans	(2,548)	1,929	(1,097)	(232.1 %)	(275.8 %)
Total(1)	(409,159)	(454,462)	(403,069)	(10.0 %)	12.8 %

(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

In general, there was a decrease in the provision expense for commercial loans due to improving asset quality. Non-performing loans as a percentage of the loan portfolio decreased from 2.5% in 2015 to 2.1% in 2016 and the non-performing loans coverage ratio increased from 118.5% to 140.2%. This environment also led to a decrease in the loans charged-off during 2016 to Ch$11,222 million.

The provision expense for loan loss for commercial loans decreased from Ch$197,247 million in 2015 to Ch$137,242 million in 2016. This was mainly due to an improvement in asset quality in commercial loans. The non-performing loan ratio of commercial loans reached 2.3% in 2016 compared to 2.6% in 2015. This improvement in asset quality was due to two factors. First, the NPL ratio among small to middle-sized entities in retail banking decreased from 6.8% in 2015 to 5.8% in 2016. Second, there was an improvement in asset quality among loans evaluated on an individual basis, which resulted in a provision expense of Ch$17,819 million in 2016 compared to an expense of Ch$78,354 million in 2015. This was due to (i) a 2.6% decrease in loan volumes in global corporate banking, (ii) an unusually high provision expense in 2015 for specific corporate clients that were downgraded and (iii) an increase in 2016 in the number of clients that either improved their risk status or paid their loans.

Provisions for mortgage loans decreased by 38.7% from Ch$27,168 million in 2015 compared to Ch$16,646 million in 2016. During 2016, the Bank lowered its exposure to the lower end of the market and lowered the loan-to-value of residential mortgages at origination, which led to an improvement in mortgage loan asset quality and in April 2016 the mortgage loan allowance model was recalibrated resulting in a decrease in mortgage loan allowance of approximately Ch$3,500 million. The Bank also focused mortgage loan growth on higher income earners with less risk and, as a result, mortgage loans for high income earners grew 10.3% in 2016. The non-performing ratio for mortgage loans decreased from 2.1% in 2015 to 1.7% in 2016 and the impaired mortgage loans ratio also improved from 5.1% in 2015 to 4.6% in 2016.

The provision expense for consumer loans increased 8.2% during 2016, primarily attributable to growth of 7.1% in the loan portfolio in 2016. During 2016, the Bank lowered its exposure to the lower end of the consumer market and restricted renegotiations for consumer clients presenting payment difficulties, which led to an increase in charge-offs in 2016 and improvements in consumer loan asset quality. This was partially offset by recoveries from loans previously charged-off that increased from Ch$35,565 million in 2015 to Ch$41,072 million in 2016. The consumer non-performing loans ratio was 2.2% in 2016 compared to 2.7% in 2015 and the impaired consumer loan ratio decreased from 8.9% in 2015 to 6.5% in 2016.

Recoveries on loans previously charged-off increased 14.9% in 2016 compared to 2015. This was due to higher recoveries from charged-off consumer and residential mortgage loans mainly due to improved recovery efforts.

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—C. 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."

Additionally, the provisions for interbank loans increased in 2016 to Ch$2,969 million, mainly due to the growth in the loan portfolio. In 2016, the Bank granted loans to Chinese banks due to Chilean foreign trade with China. See "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information-Classification of Loan Portfolio—Foreign Assets and loans." The contingent loans in 2016 registered a provision expense of Ch$2,548 million in 2016 compared to a release of Ch$1,929 million in 2015, due to an increase in preapproval of available credit lines.

Table of Contents

The following table shows recoveries of loans previously charged-off by type of loan.

	Year ended December 31, 2016	2015	2014	% Change 2016/2015	% Change 2015/2014
	(in millions of Ch$)				
Recovery of loans previously charged-off					
Consumer loans	41,072	35,565	36,908	15.5 %	(3.6 %)
Residential mortgage loans	10,041	6,543	5,122	53.5 %	27.7 %
Commercial loans	27,185	26,032	16,947	4.4 %	53.6 %
Total recoveries	78,298	68,140	58,977	14.9 %	15.5 %

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 as disclosed in "Note 27—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, 2016, 2015 and 2014.

	Year ended December 31, 2016	2015	2014	% Change 2016/2015	% Change 2015/2014
	(in millions of Ch$)				
Gains (losses) on sale of loans previously charged-off	2,720	(58)	4,809	—%	—%

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

	Year ended December 31, 2016	2015	2014	% Change 2016/2015	% Change 2015/2014
	(in millions of Ch$)				
Retail banking	(323,888)	(332,657)	(325,621)	(2.6 %)	2.2 %
Middle-market	(26,748)	(26,147)	(22,034)	2.3 %	18.7 %
Global corporate banking	7,579	(28,426)	1,924	(126.7 %)	— %
Other	974	(12,047)	(9,172)	(108.1 %)	31.3 %
Total provisions, net	(342,083)	(399,277)	(354,903)	(14.3 %)	12.5 %

Net provisions expense from retail banking decreased 2.6% in 2016 compared to 2015. This is in line with our strategy of focusing on higher income clients, net of risk for loans for individuals and SMEs, which has led to better asset quality in the loan portfolio.

Net provision expense from the Middle-market segment was stable in 2016, increasing 2.3% compared to 2015 due to an increase of 6.5% in the loan portfolio.

Net provision expense from Global corporate banking totaled a release of provisions of Ch$7,579 million, a 126.7% decrease from 2015 due to the significant increase of provisions in 2015 for specific clients that were downgraded and that in 2016 either improved their risk status or paid their loans.

Total provisions, net included in Others reached a gain of Ch$974 million compared to the loss of Ch$12,047 million. In Other provision expense, we mainly include the impact of the fluctuation of the exchange rate on our provision expense. Of our total loan book, 12.1% is in foreign currency, mainly in U.S. dollars and consisting of short-term foreign trade loans. When the peso depreciates, the amount of provisions set aside for these loans translated to local currency rises. In 2016 the average depreciation of the peso was 3.5%, considerably less than the depreciation in 2015 of 14.8% .This impact has a corresponding hedge recognized in the results from financial transactions and for this reason it is not assigned to any reporting segment.

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

For the years ended December 31, 2015 and 2014. Provisions for loan losses, net of recoveries totaled Ch$399,277 million in 2015 and increased 12.5% compared to the amount of provisions recorded in 2014.

Table of Contents

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$454,462 million in 2015 compared to Ch$403,069 million in 2014 and increased 12.8%.

Provisions established for the Bank's consumer loans increased by 27.8% to Ch$230,811 million in 2015 compared to 2014. During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for consumer loans. The models were calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of the advancement of the models' governance allowing technical and decisional approvals at different points of the approval process, more robust statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes in 2014 resulted in the release of consumer provisions of Ch$26,563 million in 2014. As this is a change in estimation, this improvement was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8. See "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information-Classification of Loan Portfolio— Classification of Loan Portfolio-Loans analyzed on a group basis—Allowances for consumer loans."

Excluding this effect in 2014, consumer loan loss provisions grew 11.4%. This rise was mainly due to: (i) consumer loan growth, which reached 5.9% year over year in 2015 compared to 2014, and (ii) greater charge-offs of consumer loans assessed on a group basis. In light of lower economic growth, the Bank restricted renegotiations of consumer loans for customers presenting payment difficulties and this resulted in higher charge-offs. As a result of this policy, the consumer non-performing loans ratio reached 2.7% in 2015 compared to 2.5% in 2014 as more clients became non-performing. Overall asset quality trends, measured according to the impaired consumer loan ratio, remained healthy in 2015. The impaired consumer loan ratio decreased from 9.3% in 2014 to 8.9% in 2015 as growth in the consumer loan book was focused on high income earners that are usually less risky.

Provision expense in commercial lending decreased 3.1% in 2015 compared to 2014. During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for commercial loans analyzed on a group basis. The models were calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of the advancement of the models' governance allowing technical and decisional approvals at different points of the approval process, more robust techniques of statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in an increase in commercial provisions of Ch$45,141 million. As this is a change in estimation, this impact was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8.

Excluding this impact, provisions for commercial loans grew 24.6% in the period being analyzed. This rise was mainly due to higher provisions in Global corporate banking as the Bank downgraded various corporate clients affected by the slower economic environment, but which have not yet entered non-performing status. On the other hand, asset quality in commercial loans in retail banking improved throughout 2015, as the Bank focused growth on less risky commercial retail customers. The NPL ratio in commercial loans decreased from 3.0% in 2014 to 2.6% in 2015 mainly due to improvements in asset quality in retail banking. The impaired commercial loan ratio reached 7.1% in 2015 compared to 7.2% at year-end 2014.

Provisions for mortgage loans increased 48.1% in 2015 compared to 2014. This rise was mainly due to: (i) mortgage loan growth, which increased 17.8% in the period being analyzed, and (ii) greater charge-offs of mortgage loans. In light of lower economic growth, the Bank has been restricting the renegotiations of mortgage loans for customers presenting some payment difficulties and this resulted in higher charge-offs. The Bank also focused mortgage loan growth on higher income earners that in general are less risky. As a result of the change in the loan mix and the higher charge-offs, mortgage loan asset quality improved in 2015 compared to 2014. The non-performing ratio for mortgage loans declined from 2.7% in 2014 to 2.1% in 2015. The impaired mortgage loans ratio also improved from 5.6% in 2014 to 5.1% in 2015.

Table of Contents

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—C. 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."

Additionally, the lower economic growth in 2015 resulted in a rise in charge-off of loans analyzed on an individual basis that totaled Ch$12,955 million in 2015 and rose 19.8% compared to 2014.

Recoveries on loans previously charged-off increased 15.5% in 2015 compared to 2014. This was due to higher recoveries of charged-off commercial and residential mortgage loans mainly due to improved recovery efforts, especially in the Middle-market segment. As the Bank has improved the asset quality in consumer lending, the growth rate of recoveries has also diminished.

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 as disclosed in "Note 27—Profit and Loss from Financial Operations" of our Audited Consolidated Financial Statements.

Net provisions expense from retail banking increased 2.2% in 2015 compared to 2014. Excluding the net impact of Ch$18,578 million as a result of modifications made to the provisioning models for loans assessed on a group basis done in 2014, provision expense in retail banking increased 8.3%. This rise was mainly due to: (i) retail loan growth that totaled 12.1% in 2015 compared to 2014, and (ii) greater charge-offs. The Bank, in light of slower economic growth, restricted renegotiations of retail loans, which resulted in a greater amount of loans being charged-off.

Net provision expense from in the Middle-market segment increased 18.7% compared to 2014. In 2015, the Bank performed various downgrades of specific clients mainly in the salmon industry.

Net provision expense from Global corporate banking totaled a loss of Ch$28,426 million compared to net reversal of Ch$1,924 million in 2014. In 2015, the Bank downgraded specific clients in the non-bank financial sectors and a client in the agro-industrial sector due to company specific weaknesses.

Total provisions, net included in Others reached Ch$12,047 million compared to the Ch$9,172 million. In Other provision expense we include the impact of the fluctuation of the exchange rate on our provision expense. Of our total loan book, 13.3% is in foreign currency, mainly in dollars and consisting of short-term foreign trade loans. When the peso depreciates, as was the case in 2015 and 2014, the amount of provisions set aside for these loans translated to local currency rises. This impact has a corresponding hedge recognized in the results from financial transactions and for this reason it is not assigned to any reporting segment.

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

Operating expenses

The following table sets forth information regarding our operating expenses in the years ended December 31, 2016, 2015 and 2014.

	Year ended December 31,			% Change	% Change
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch$)				
Personnel salaries and expenses	(395,133)	(387,063)	(338,888)	2.1 %	14.2 %
Administrative expenses	(226,413)	(220,531)	(205,149)	2.7 %	7.5 %
Depreciation and amortization	(65,359)	(53,614)	(44,172)	21.9 %	21.4 %
Impairment	(234)	(21)	(36,664)	1,014.3%	(99.9 %)
Other operating expenses	(68,902)	(58,729)	(58,946)	17.3 %	(0.4 %)
Total operating expenses	(756,041)	(719,958)	(683,819)	5.0 %	5.3 %
Efficiency ratio(1)	44.9 %	43.8 %	41.1 %		

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

81

Table of Contents

For the years ended December 31, 2016 and 2015. Operating expenses in the year ended December 31, 2016 decreased 5.0% compared to the corresponding period in 2015. The efficiency ratio was 44.9% in 2016, 43.8% in 2015 and 41.1% in 2014.

The 2.1% increase in personnel salaries and expenses was mainly due to an increase in personnel compensation and greater costs related to benefits included in the Bank's collective bargaining agreement. In 2016, CPI inflation was 2.7% and all salaries are indexed to inflation pursuant to the collective bargaining agreement. This was offset by the 3.1% reduction in headcount to 11,354 employees in December 2016, in line with the Bank's strategy of reducing mid-upper level management levels and the sales force.

Administrative expenses increased 2.7% in the year ended December 31, 2016 compared to the corresponding period in 2015, mainly due to IT and communication expenses that increased from Ch$28,420 million in 2015 to Ch$37,351 million in 2016 as part of technological innovation to maintain and develop the Bank's digital platform, which will allow the Bank to consolidate the branches and create efficiencies in the long term.

In 2016, the Bank began to transform the branch network, adopting two main formats (i) a multi-segment approach with smaller branches that are multi-segment with dedicated spaces for the different business segments (Select, SME Advance, Banefe, etc.) and: (ii) our Work Café spaces that are high tech / high touch branches with no human tellers or back offices.

	Year ended December 31,		% Change
	2016	2015	2016/2015
Traditional branches	274	276	(0.7 %)
Middle-market centers	8	8	— %
Santander Select	53	53	— %
Banefe and other payment centers	88	134	(34.4 %)
Total branches	434	471	(7.9 %)

Depreciation and amortization expense increased 21.9% in 2016 compared to 2015 and totaled Ch$65,359 million. This expense is in line with the greater investments in hardware and other equipment that the Bank has made as it modernizes its branch network and systems. This has also led to an increase in impairment charges to Ch$234 million in 2016 compared to Ch$21 million in 2015 mainly related to our ATM network.

Other operating expenses were Ch$68,902 million in 2016, a 17.3% increase compared to 2015. In April 2016, the Bank made changes to the management structure in line with the strategy of reducing mid-upper management levels, incurring a one-off expense of Ch$10,789 million due to severance payments .. See “Note 33—Other operating income and expenses” to our Audited Consolidated Financial Statements for more detail on Other operating expenses.

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

	Year ended December 31,			% Change	% Change
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch$)				
Retail banking	(529,909)	(533,086)	(479,954)	(0.6 %)	11.1 %
Middle-market	(83,412)	(77,261)	(66,321)	8.0 %	16.5 %
Global corporate banking	(53,935)	(49,533)	(44,195)	8.9 %	12.1 %
Other	(19,649)	(1,328)	2,261	1379.6%	— %
Total personnel, administrative expenses, depreciation and amortization (1)	(686,905)	(661,208)	(588,209)	3.9 %	12.4 %

(1) Excludes impairment and other operating expenses.

By business segment, the 3.9% increase in costs excluding impairment and other operating expenses in 2016 compared to the corresponding period in 2015 was mainly due to the 0.6% decrease in costs incurred in retail banking. In 2016, retail banking costs decreased mainly as a result of lower headcount partially offset by greater expenses related to the investment in better digital banking services. Costs in the Middle-market segment grew 8.0%

in 2016 compared to 2015 and 8.9% in the Global corporate banking segment in line with business growth in this segment, especially in transactional banking and cash management services that are intense in data processing.

For the years ended December 31, 2015 and 2014. Operating expenses in the year ended December 31, 2015 increased 5.3% compared to the corresponding period in 2014. The efficiency ratio was 43.8% in 2015, 41.1% in 2014 and 40.2% in 2013.

The 14.2% increase in personnel salaries and expenses was mainly due to an increase in personnel compensation, higher severance payments and greater costs related to benefits included in the Bank's collective bargaining agreement. The 9.5% increase in personnel compensation, which totaled Ch$233,707 million in 2015, was mainly due to: (i) growth in total headcount of 2.1% to 11,723 people, (ii) the impact of the Bank's meritocracy policies and (iii) the impact of CPI inflation on wages. In 2015, CPI inflation was 4.4% and all salaries are indexed to inflation per collective bargaining agreement. Severance payments increased 222.4% to Ch$34,051 million. The Bank in 2015 executed a program to eliminate high level management positions in order to mitigate cost growth which entailed greater severance payments. In March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on October 1, 2014, and which will expire on December 31, 2018. This resulted in an increase in certain benefits related to the Bank's health insurance fund and other benefits.

Administrative expenses increased 7.5% in the year ended December 31, 2015 compared to the corresponding period in 2014. The increase in administrative expenses was mainly due to the 14.3% increase in maintenance, repair of property, plant and equipment, which totaled Ch$20,002 million. In 2015, the Bank continued to refurbish branches, open new Santander Select branches, expand the number of Middle-market centers and close Santander Banefe branches and other payment centers.

The Bank's total Outsourced service expenses increased 21.8% in 2015 compared to 2014 and totaled Ch$39,286 million. The Bank outsources various functions especially data processing and IT services. These increased as a result of the depreciation of the peso against the Euro, since several of the firms that provide the Bank with IT services are in Spain. Imbedded in the Bank results from financial transactions, net is an offsetting result, since this exposure to foreign currency is hedged. Finally the Bank marketing expenses rose 12.6% to Ch$18,483 million as the Bank promoted more intensively various new products and was a sponsor for the Copa America tournament held in Chile in 2015.

Impairment charges totaled Ch$21 million in 2015 compared to Ch$36,664 million in 2014. In 2014, the Bank initiated a plan to transform its business and operating model with a better focus on the client. In 2014, the Bank evaluated a number of applications that were in use or in development and tested them for impairment. Following the testing, in accordance with IAS 36, the Bank has recognized an impairment of Ch$36,556 million in 2014 due to the abandonment of unnecessary systems.

Depreciation and amortization expense increased 21.4% in 2015 compared to 2014 and totaled Ch$53,614 million. This rise was mainly due to the increase in depreciation of equipment that reached Ch$18,417 million in 2015 compared to Ch$12,331 million in 2014. This is in line with the greater investments in hardware and other equipment as the Bank modernizes its branch network and systems.

Other operating expenses were Ch$58,729 million in 2015, a 0.4% decrease compared to 2014. In 2015, customer service expenses, which are related to our phone banking service, decreased 60.6% due to cost restructurings. Additionally in 2015, the Bank had less expenses related to adopting chip technology on cards. These lower other operating expenses were offset by greater provisions for assets received in lieu of payment. See “Note 33—Other operating income and expenses” to our Audited Consolidated Financial Statements for more detail on Other operating expenses.

By business segment, the 12.4% increase in costs excluding impairment and other operating expenses in 2015 compared to the corresponding period in 2014 was mainly due to the 11.1% increase in costs incurred in retail banking. In 2015, the Bank continued with its strategy of shifting its strategic focus away from retail clients attended in the Santander Banefe branch network and more towards high income earners and small and mid-sized enterprises. This implied additional costs mainly in our distribution network and technology. Costs in the Middle-market segment grew 16.5% in 2015 compared to 2014 as this segment was a growth priority during the year, increasing in terms of size of balance sheet and headcount. Finally, costs in Global corporate banking rose 12.1% in line with business growth in this segment, especially in transactional banking and cash management services that are intense in data processing. All segments costs were also affected by the depreciation of the peso against the euro in 2015, which has a negative impact on IT costs denominated in that currency.

Income tax

	Year ended December 31,			% Change	% Change
	2016	2015	2014	2016/2015	2015/2014
	(in millions of Ch$)				
Net income before tax	587,463	528,124	626,940	11.2 %	(15.8 %)
Income tax expense	(109,031)	(76,395)	(51,050)	42.7 %	49.6 %
Effective tax rate(1)	18.6 %	14.5 %	8.1 %		

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

For the years ended December 31, 2016 and 2015. Total income tax expense by the Bank in 2016 totaled Ch$109,031 million, a 42.7% increase compared to 2015. The Bank paid an effective tax rate of 18.6% in 2016 compared to 14.5% in 2015. The higher effective tax rate was mainly due to:

(i) the statutory corporate tax rate increased from 22.5% in 2015 to 24.0% in 2016. In 2017, the statutory corporate tax rate will rise to 25.5% in 2017 and 27.0% in 2018;

(ii) income tax expenses includes non-cash income of Ch$86 million in 2016 from the re-adjustments made to the Bank's deferred tax asset base following passage of the new tax law compared to an income of Ch$10,600 million in 2015. This gain arises from the difference between the Bank's accounting and tax books regarding how provisions and charge-offs are recognized. When the statutory rates were modified, the Bank's net deferred tax assets increased as the future tax rates used to calculate this asset were gradually increased from 20.0% to 27.0%;

(iii) the lower CPI inflation rate in 2016 compared to 2015 also resulted in lower losses for the revaluation of capital for inflation. The Bank, in its Chilean tax book accounting, must re-measure its capital each year for the variation in CPI inflation. See "Note 14—Current and Deferred Taxes" of the Audited Consolidated Financial Statements for more detail on income tax expense.

For the years ended December 31, 2015 and 2014. Total income tax expense by the Bank in 2015 totaled Ch$76,395 million, a 49.6% increase compared to 2014. The Bank paid an effective tax rate of 14.5% in 2015 compared to 8.1% in 2014. The higher effective tax rate was mainly due to:

(i) the statutory corporate tax rate increased from 21.0% in 2014 to 22.5% in 2015. In 2016, the statutory corporate tax rate rose to 24.0% in 2016 and will rise to 25.5% in 2017 and 27.0% in 2018;

(ii) income tax expenses in included non-cash income of Ch$10,600 million in 2015 from the re-adjustments made to the Bank's deferred tax asset base following passage of the new tax law compared to Ch$39,262 million in 2014. The Bank has more deferred tax assets than liabilities. This gain arises from the difference between the Bank's accounting and tax books regarding how provisions and charge-offs are recognized. When the statutory rates were modified, the Bank's net deferred tax assets increased as the future tax rates used to calculate this asset were gradually increased from 20.0% to 27.0%;

(iii) the lower CPI inflation rate in 2015 compared to 2014 also resulted in lower permanent differences since the Bank, for Chilean tax purposes, must re-value its capital each year for the variation in CPI inflation. See "Note 14—Current and Deferred Taxes" of the Audited Consolidated Financial Statements for more detail on income tax expense.

Table of Contents

B. Liquidity and Capital Resources

Sources of Liquidity

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

The following table sets forth our contractual obligations and commercial commitments by time remaining to maturity. As of the date of the filing of this Annual Report, the Bank does not have significant purchase obligations. As of December 31, 2016, the scheduled maturities of our contractual obligations and of other commercial commitments, including accrued interest, were as follows:

	Demand	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Subtotal up to 1 year	Betwee 1 and 3 years
As of December 31, 2016	**(in millions of Ch$)**					
Obligations under repurchase agreements	—	212,437	—	—	**212,437**	—
Checking accounts, time deposits and other time liabilities (1)	7,949,315	6,105,767	4,193,906	2,537,299	**20,786,287**	118,10
Financial derivatives contracts	—	92,335	122,565	263,893	**478,793**	494,53
Interbank borrowings	4,557	373,423	115,769	1,154,063	**1,647,812**	233,54
Issue debt instruments	—	43,141	185,425	922,705	**1,151,271**	1,168,1
Other financial liabilities (2)	153,049	1,461	1,161	2,817	**158,488**	58,641
Subtotal	**8,106,921**	**6,828,564**	**4,618,826**	**4,880,777**	**24,435,088**	**2,072,9**
Contractual interest payments (3)	2,273	56,121	170,861	537,941	**767,196**	1,762,8
Total	**8,109,194**	**6,884,685**	**4,789,687**	**5,418,718**	**25,202,284**	**3,835,8**

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

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

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

Operational Leases

Certain bank premises and equipment are leased under various operating leases. Future minimum rental commitments as of December 31, 2016 under non-cancelable leases are as follows:

	As of December 31, 2016 (in millions of Ch$)
Due within 1 year	26,455
Due after 1 year but within 2 years	24,903
Due after 2 years but within 3 years	20,582
Due after 3 years but within 4 years	17,321
Due after 4 years but within 5 years	14,569
Due after 5 years	53,694
Total	**157,524**

Table of Contents

Other Commercial Commitments

As of December 31, 2016, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

Other Commercial Commitments	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
	(in millions of Ch$)					
Guarantees	79,457	175,437	739,170	592,017	151,435	1,737,516
Confirmed foreign letters of credit	12,247	8,125	8,505	28,809	—	57,686
Letters of credit issued	36,662	82,342	39,768	27	—	158,799
Pledges and other commercial commitments	9,916	11,591	39,811	63,731	—	125,049
Total other commercial commitments	138,282	277,495	827,254	684,584	151,435	2,079,050

Risk-Weighted Assets and Regulatory Capital

We currently have regulatory capital in excess of the minimum requirement under the current Chilean regulations. According to the General Banking Law, a bank is required to have regulatory capital of at least 8.0% of its risk-weighted assets, net of required loan loss allowances, and paid-in capital and reserves (*i.e.*, core capital) of at least 3.0% of its total assets, net of required loan loss allowances. For these purposes, the regulatory capital of a bank is the sum of: (1) the bank's core capital; (2) subordinated bonds issued by the bank valued at their placement price for an amount up to 50.0% of its core capital, provided that the value of the bonds is required to be decreased by 20.0% for each year that elapses during the period commencing six years prior to their maturity; and (3) its voluntary allowances for loan losses, for an amount of up to 1.25% of its risk-weighted assets. Santander-Chile does not have goodwill, but if it did, this value would be required to be deducted from regulatory capital. When calculating risk weighted assets, we also include off-balance sheet contingent loans. The merger of Old Santander Chile and Santiago on August 1, 2002 required a special regulatory pre-approval of the SBIF, which was granted on May 16, 2002. The resolution granting this pre-approval imposed a regulatory capital to risk weighted assets ratio of 12.0% for the merged bank. This requirement was reduced to 11.0% by the SBIF effective January 1, 2005. For purposes of weighing the risk of a bank's assets, the General Banking Law considers five different categories of assets, based on the nature of the issuer, the availability of funds, and the nature of the assets and the existence of collateral securing such assets.

The following table sets forth our consolidated and risk-weighted assets and regulatory capital as of December 31, 2016 and 2015 as required by the SBIF.

	Consolidated assets as of		Risk-weighted assets(1)	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015

	(Ch$ million)			
Asset Balance (Net of allowances)				
Cash and deposits in bank	2,279,389	2,064,806	—	—
Unsettled transactions	495,283	724,521	80,623	80,447
Trading investments	396,987	324,271	24,709	57,796
Investments under resale agreements	6,736	2,463	6,736	493
Financial derivative contracts(2)	1,285,157	1,425,450	943,727	1,158,218
Interbank loans	272,635	10,861	80,200	1,505
Loans and accounts receivables from customers	26,113,485	24,535,201	22,655,553	21,480,044
Available-for-sale investments	3,388,906	2,044,411	263,016	222,784
Investments in other companies	23,780	20,309	23,780	20,309
Intangibles assets	58,085	51,137	58,085	51,137
Property, plant and equipment	257,379	240,659	257,379	240,659
Current taxes	—	—	—	—
Deferred taxes	372,699	331,714	37,270	33,171
Other assets	840,499	1,097,826	585,739	603,503
Off-balance sheet assets				
Contingent loans	3,922,023	4,516,319	2,221,018	2,507,530
Total	39,713,043	37,389,948	27,237,835	26,457,596

Table of Contents

	December 31, 2016	December 31, 2015	Ratio December 31, 2016	December 31, 2015
	(Ch$ million)		%	%
Core capital(3)	2,868,706	2,734,699	7.22	7.31
Regulatory capital(4)	3,657,707	3,538,216	13.43	13.37

(1) As required by local regulations.

(2) Derivatives are shown as required by Chapter 12-1 RAN of Chilean Bank GAAP guidelines

(3) As a percentage of total assets.

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

Financial Investments

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

Effective interest method

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

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

Financial assets at FVTPL — Trading investments

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

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

Held to maturity investments

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

Available-for-sale investments (AFS investments)

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

Financial instruments held by the Bank that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Bank also has investments in financial instruments that are not traded in an active market but that are also classified as AFS investments and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale investments are recognized in other comprehensive income and accumulated under the heading of Valuation Adjustment. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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

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

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

Detail regarding the financial investments discussed above is presented below.

a) Trading

	As of December 31,		
	2016	**2015**	**2014**
	(in millions of Ch$)		
Central Bank and Government Securities			
Chilean Central Bank bonds	158,686	159,767	270,004
Chilean Central Bank notes	—	—	—
Other Chilean Central Bank and government securities	237,325	123,468	461,340
Subtotal	396,011	283,235	731,344
Other Chilean Securities			
Time deposits in Chilean financial institutions	—	—	—
Mortgage bonds of Chilean financial institutions	—	—	—
Chilean financial institutions bonds	—	—	—
Chilean corporate bonds	976	37,630	36,339
Other Chilean securities	—	—	—
Subtotal	976	37,630	36,339
Foreign securities			
Foreign Financial Securities	—	—	—
Other foreign financial instruments	—	—	—
Subtotal	—	—	—
Investments in mutual funds	—	—	—
Funds managed by related entities	—	3,406	7,132
Subtotal	—	3,406	7,132
Total	396,987	324,271	774,815

Table of Contents

b) Available-for-sale

	As of December 31,		
	2016	2015	2014
	(in millions of Ch$)		
Central Bank and Government Securities			
Chilean Central Bank bonds	468,386	687,292	381,117
Chilean Central Bank notes	1,222,283	—	384
Other Chilean Central Bank and government securities	52,805	145,603	353,419
Subtotal	1,743.474	832,895	734,920
Other Chilean Securities			
Time deposits in Chilean financial institutions	893,000	712,859	590,382
Mortgage bonds of Chilean financial institutions	25,488	29,025	31,693
Chilean financial institution bonds	—	—	—
Chilean corporate bonds	—	—	—
Other Chilean securities	—	—	—
Subtotal	918,488	741,884	622,075
Foreign Financial Securities			
Central Bank and Government Foreign Securities	387,146	—	—
Other Foreign financial securities	339,798	469,632	294,603
Subtotal	726,944	469,632	294,603
Total	3,388,906	2,044,411	1,651,598

c) Held-to-maturity

No financial investments were classified as held-to-maturity as of December 31, 2016, 2015 and 2014.

The following table sets forth an analysis of our investments as of December 31, 2016 by remaining maturity and the weighted average nominal rates of such investments.

	Within one year	**After one year but within five years**	**Weighted average Nominal Rate**	**After five years but within ten years**	**Weighted average Nominal Rate**	**After ten years**	**After ten years**	**Weighted average Nominal Rate**	**Total**	**Weighted average Nominal Rate**
	(in millions of Ch$, except rates)									

Trading										
Central Bank and Government Securities										
Central Bank bonds	44,461	1.7	93,313	0.3	20,880	0.4	32	1.5	158,686	0.7
Central Bank notes	—	—	—	—	—	—	—	—	—	—
Central Bank and government securities	140,079	1.1	88,453	2.6	8,739	0.3	54	2.8	237,325	1.6
Subtotal	184,540		181,766		29,619		86		396,011	
Other Chilean Securities										
Time deposits in Chilean financial institutions	—	—	—	—	—	—	—	—	—	—
Mortgage bonds of Chilean financial institutions	—	—	—	—	—	—	—	—	—	—
Chilean financial institutions bonds	—	—	—	—	—	—	—	—	—	—
Chilean corporate bonds	—	—	420	2.4	556	1.5	—	—	976	1.9
Other Chilean securities	—	—	—	—	—	—	—	—	—	—
Subtotal	—		420		556		—		976	
Investment in mutual funds										
Mutual funds administered by related parties	—	—	—	—	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—	—	—	—	—
Total	184,540		182,186		30,175		86		396,987	

89

Table of Contents

	Within one year	Weighted average Nominal Rate	After one year but within five years	Weighted average Nominal Rate	After five years but within ten years	Weighted average Nominal Rate	After ten years	Weighted average Nominal Rate	Total	Weighted average Nominal Rate
	(in millions of Ch$, except rates)									
Available-for-sale										
Central Bank and Government Securities										
Central Bank bonds	11,046	1.3	373,786	4.2	83,555	4.2	—	—	468,386	4.1
Central Bank notes	1,222,283	—	—	—	—	—	—	—	1,222,283	—
Central Bank and government securities	13,707	1.2	686	4.1	38,412	4.4	—	—	52,805	3.5
Subtotal	1,247,036		374,472		121,966		—		1,743,474	
Other Chilean Securities										
Time deposits in Chilean financial institutions	893,000	0.4	0	—	—	—	—	—	893,000	0.4
Mortgage bonds of Chilean financial institutions	47	3.9	1,287	3.7	12,083	3.8	12,071	3.5	25,488	3.7
Chilean financial institutions bonds	—	—	—	—	—	—	—	—	—	—
Chilean corporate bonds	—	—	—	—	—	—	—	—	—	—
Other Chilean securities	—	—	—	—	—	—	—	—	—	—
Subtotal	893,047		1,287		12,083		12,071		918,488	
Other financial securities										
Central Bank and Government Foreign Securities	6,658	0.7	—	—	380,488	1.5	—	—	387,146	1.5
Other Foreign financial securities	—	—	42,081	2.3	297,717	3.1	—	—	339,798	3.0
Subtotal	6,658		42,081		678,205		—		726,944	
Total	2,146,742		417,840		812,255		12,071		3,388,906	

Working Capital

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

90

Table of Contents

Liquidity Management

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

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

	December 31, 2016	December 31, 2015
	Ch$ million	
Balance as of:		
Financial investments for trading	396,987	324,271
Available-for-sale investments	3,388,906	2,044,411
Encumbered assets (net) (1)	(205,703)	(77,647)
Net cash (2)	16,259	(315,415)
Net interbank deposits (3)	1,335,017	1,683,208
Total liquidity portfolio	4,931,466	3,658,829

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

(2) Total cash minus reserve requirement of the Central Bank

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

	December 31, 2016	December 31, 2015
	Ch$ million	
Average balance as of:		
Financial investments for trading	277,775	405,352

Available-for-sale investments	2,455,220	1,902,050
Encumbered assets (net) (1)	(90,460)	(74,664)
Net cash (2)	(202,771)	(244,186)
Net interbank deposits (3)	1,263,768	1,197,325
Total liquidity portfolio	3,703,533	3,185,876

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

(2) Total cash minus reserve requirement of the Central Bank

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

Our general policy is to maintain liquidity adequate to ensure our ability to honor withdrawals of deposits, make repayments of other liabilities at maturity, extend loans and meet our own working capital needs. Our minimum amount of liquidity is determined by the statutory reserve requirements of the Central Bank. Deposits are subject to a statutory reserve requirement of 9.0% for demand deposits and 3.6% for Chilean peso-, UF- and foreign currency denominated time deposits with a term of less than a year. See “Item 4. Information on the Company—B. Business Overview—Competition—Regulation and Supervision.” The Central Bank has statutory authority to increase these percentages to up to 40.0% for demand deposits and up to 20.0% for time deposits. In addition, a 100.0% special reserve (*reserva técnica*) applies to demand deposits, deposits in checking accounts, other demand deposits received or obligations payable on sight and incurred in the ordinary course of business, other than deposits unconditionally payable immediately. This special reserve requirement applies to the amount by which the total of such deposits exceeds 2.5 times the amount of a bank’s regulatory capital. Interbank loans are deemed to have a maturity of more than 30 days, even if payable within the following 10 days.

Table of Contents

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

- The sum of the liabilities with a maturity of less than 30 days may not exceed the sum of the assets with a maturity of less than 30 days by an amount greater than our Shareholders' equity. This limit must be calculated in local currency and foreign currencies together as one gap. At December 31, 2016 the percentage of (i) our liabilities with a maturity of less than 30 days in excess of our assets with a maturity of less than 30 days to (ii) our capital and reserves was 15.0%, thus resulting in our compliance.

- The sum of the liabilities in foreign currency with a maturity of less than 30 days may not exceed the sum of the assets in foreign currency with a maturity of less than 30 days by more than an amount greater than our Shareholders' equity. At December 31, 2016 the percentage of (i) our liabilities with a maturity of less than 30 days in foreign currency in excess of our assets in foreign currency with a maturity of less than 30 days to (ii) our capital and reserves was 0%, as the Bank had more foreign currency assets than liabilities for the calculation of this limit.

- The sum of the liabilities with a maturity of less than 90 days may not exceed the sum of the assets with a maturity of less than 90 days by more than 2 times our Shareholders' equity. This limit must be calculated in local currency and foreign currencies together as one gap. At December 31, 2016the percentage of (i) our liabilities with a maturity of less than 90 days in excess of our assets with a maturity of less than 90 days to (ii) our capital and reserves was 37.0%, thus resulting in our compliance.

We have set other liquidity limits and ratios that minimize liquidity risk. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

Cash Flow

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

	Year ended December 31,		
	2016	2015	2014
	Millions of Ch$		
Net cash provided by (used in) operating activities	736,154	687,796	282,423

Our operating activities generated cash of Ch$736,154 million in 2016. The consumption of cash due to the expansion of our loans book and financial investments was offset by the cash provided from our funding activities, especially the issuance of bonds. Senior bonds provided cash of Ch$3,537,855 million in 2016 compared to Ch$878,389 million in 2015, partially offset by an increase in redemptions during the year. The higher amount of fees and interest received also boosted cash from operating activities.

Our operating activities generated cash of Ch$687,796 million in 2015. The consumption of cash due to loan growth and interest paid was more than offset by growth of deposits and interest and fee income received. Cash flow provided by total deposits was Ch$2,513,690 million in 2015 compared to Ch$1,466,272 million in 2014. Our operating activities generated cash of Ch$282,423 million in 2014. The consumption of cash due to loan growth and the expansion of our financial investments was more than offset by growth of deposits and other liabilities, but at a slower pace than in 2015.

	Year ended December 31,		
	2016	2015	2014
	Millions of Ch$		
Net cash (used in) provided by investment activities	(90,200)	(92,865)	(92,666)

92

Table of Contents

In 2016, the Bank's investment activities consumed cash in an amount of Ch$90,200 million. This was mainly due to purchases of property, plant and equipment and the acquisition of shares in connection with investments in affiliates. For more information please see Note 1 b) of our Audited Consolidated Financial Statements.

In 2015, the Bank's investment activities consumed cash in an amount of Ch$92,865 million. This was mainly due to the purchases of property, plant and equipment and the acquisition of intangibles. In 2014, the Bank's investment activities consumed cash in an amount of Ch$92,666 million. This was also mainly due to the purchases of property, plant and equipment and the acquisition of intangibles.

	Year ended December 31,		
	2016	2015	2014
	Millions of Ch$		
Net cash used in financing activities	(336,659)	(330,199)	(265,156)

In 2016, 2015 and 2014, the net cash used in financing activities can be explained by the Bank's annual dividend payment each year.

Deposits and Other Borrowings

The following table sets forth our average balance of liabilities for the years ended December 31, 2016, 2015 and 2014, in each case together with the related average nominal interest rates paid thereon.

	2016			2015			2014		
	Average Balance	% of Total Average Liabilities	Average Nominal Rate	Average Balance	% of Total Average Liabilities	Average Nominal Rate	Average Balance	% of Total Average Liabilities	Average Nominal Rate
	(in millions of Ch$, except percentages)								
Interest-bearing liabilities									
Savings accounts	116,339	0.3 %	2.5 %	114,330	0.3 %	3.4 %	108,185	0.3 %	5.0 %
Time deposits	13,620,848	38.6 %	3.3 %	12,685,504	36.7 %	3.2 %	11,952,994	36.5 %	3.4 %
Central Bank borrowings	871	—	3.4 %	4,891	—	1.0 %	6,906	—	0.2 %
Repurchase agreements	121,875	0.3 %	2.4 %	228,050	0.7 %	3.1 %	413,263	1.3 %	2.0 %

Mortgage finance bonds	52,414	0.1	%	8.1 %	63,061	0.2	%	10.2 %	81,805	0.2	%	11.9 %
Other interest bearing liabilities	7,856,201	22.3	%	5.0 %	7,500,408	21.7	%	5.5 %	6,865,084	21.0	%	6.9 %
Subtotal interest-bearing liabilities	21,768,547	61.8	%	3.7 %	20,596,244	59.6	%	4.0 %	19,428,237	59.4	%	4.6 %
Non-interest bearing liabilities												
Non-interest bearing deposits	5,753,622	16.3	%		5,719,889	16.6	%		5,386,272	16.5	%	
Derivatives	2,724,994	7.7	%		2,958,942	8.6	%		2,719,386	8.3	%	
Other non-interest bearing liabilities	2,156,015	6.1	%		2,454,037	7.1	%		2,501,651	7.6	%	
Shareholders' equity	2,840,843	8.1	%		2,816,116	8.2	%		2,689,037	8.2	%	
Subtotal non-interest bearing liabilities	13,475,473	38.2	%		13,948,984	40.4	%		13,296,346	40.6	%	
Total liabilities	35,244,021	100.0	%		34,545,228	100.0	%		32,724,583	100.0	%	

Our most important source of funding is our deposits. Average time deposits plus non-interest bearing demand deposits represented 54.9% of our average total liabilities and shareholders' equity in 2016. Our current funding strategy is to continue to utilize all sources of funding in accordance with their costs, their availability and our general asset and liability management strategy. Special emphasis is being placed on lengthening the maturities of funding with institutional clients, diversifying our bond holder base and broadening our core deposit funding. We believe that broadening our deposit base by increasing the number of account holders has created a more stable funding source.

Table of Contents

Composition of Deposits

The following table sets forth the composition of our deposits and similar commitments at December 31, 2016, 2015, 2014, 2013 and 2012.

	2016	2015	2014	2013	2012
	(in millions of Ch$)				
Demand deposits and other demand obligations					
Current accounts	6,144,688	5,875,992	5,131,130	4,403,526	4,006,143
Other deposits and demand accounts	564,966	577,077	554,785	569,395	455,315
Other demand obligations	829,661	903,052	794,582	647,842	508,561
Subtotals	7,539,315	7,356,121	6,480,497	5,620,763	4,970,019
Time deposits and other time deposits					
Time deposits	13,031,319	12,065,697	10,303,167	9,567,855	9,008,902
Time saving accounts	116,451	113,562	107,599	104,143	101,702
Other time deposits	3,939	3,508	3,174	3,274	1,609
Subtotals	13,151,709	12,182,767	10,413,940	9,675,272	9,112,213
Total deposits and other commitments	20,691,024	19,538,888	16,894,437	15,296,035	14,082,232

Maturity of Interest Bearing Deposits

The following table sets forth information regarding the currency and maturity of our interest bearing deposits as of December 31, 2016, expressed in percentages of our total deposits in each currency category. UF-denominated deposits are similar to peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Chilean consumer price index.

	Ch$	UF	Foreign Currencies	Total
Demand deposits	0.02 %	0.13 %	0.01 %	0.03 %
Savings accounts	0.02 %	7.78 %	— %	0.89 %
Time deposits:				
Maturing within 3 months	79.54 %	49.92 %	95.04 %	78.26 %
Maturing after 3 but within 6 months	12.60 %	12.70 %	4.28 %	11.52 %
Maturing after 6 but within 12 months	6.83 %	23.31 %	0.44 %	7.84 %
Maturing after 12 months	0.99 %	6.16 %	0.23 %	1.47 %
Total time deposits	99.97 %	92.09 %	99.99 %	99.08 %
Total deposits	100.00 %	100.00 %	100.00 %	100.00 %

The following table sets forth information regarding the maturity of our outstanding time deposits in excess of U.S.$100,000 as of December 31, 2016.

	Ch$	UF	Foreign Currencies	Total
	(in millions of Ch$)			
Time deposits:				
Maturing within 3 months	7,910,465	736,896	1,644,819	10,292,180
Maturing after 3 but within 6 months	1,253,336	187,509	74,088	1,514,933
Maturing after 6 but within 12 months	679,209	344,110	7,550	1,030,869
Maturing after 12 months	98,497	90,890	3,950	193,337
Total time deposits	9,941,507	1,359,405	1,730,407	13,031,319

Short-term Borrowings

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

Table of Contents

	2016		2015		2014	
	Balance	Weighted-Average Nominal Interest Rate	Balance	Weighted-Average Nominal Interest Rate	Balance	Weighted-Average Nominal Interest Rate
	(in millions of Ch$, except percentages)					
Obligations arising from repurchase agreements	212,437	2.3 %	143,689	0.3 %	392,126	0.2 %
Obligations with the Central Bank	7	0.5 %	4	0.5 %	94	0.5 %
Loans from domestic financial institutions	365,436	0.0 %	—	—	66,006	0.2 %
Foreign obligations	1,647,805	1.4 %	868,593	0.4 %	717,416	0.2 %
Total short-term borrowings	2,225,685	1.2 %	1,012,286	0.7 %	1,175,642	0.2 %

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

	2016		2015		2014	
	Average Balance	Average Nominal Interest Rate	Average Balance	Average Nominal Interest Rate	Average Balance	Average Nominal Interest Rate
	(in millions of Ch$, except percentages)					
Obligations arising from repurchase agreements	121,875	2.4 %	228,050	3.1 %	413,263	2.0 %
Obligations with the Central Bank	871	3.4 %	4,891	1.0 %	6,906	0.2 %
Loans from domestic financial institutions	114,882	4.2 %	88,296	0.6 %	100,513	4.9 %
Foreign obligations	1,435,395	1.1 %	1,038,686	0.8 %	1,508,559	1.3 %
Total short-term borrowings	1,680,300	1.4 %	1,359,923	1.1 %	2,029,241	1.6 %

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

	Maximum 2016 Month-End Balance	Maximum 2015 Month-End Balance	Maximum 2014 Month-End Balance
	(in millions of Ch$)		
Obligations arising from repurchase agreements	212,437	388,735	392,126
Obligations with the Central Bank	22	85	205
Loans from domestic financial institutions	365,436	205,069	206,530
Foreign obligations	1,787,746	1,387,403	1,809,514
Total short-term borrowings	2,365,641	1,981,292	2,408,375

Total Borrowings

	As of December 31, 2016		
	Long-term	Short-term	Total
	(in millions of Ch$)		
Central Bank credit lines for renegotiations of loans (a)	—	7	7
Obligations under repurchase agreements	—	212,437	212,437
Mortgage finance bonds (b)	35,015	11,236	46,251
Senior bonds (c)	5,280,561	1,135,713	6,416,274
Mortgage bonds(d)	99,864	4,318	104,182
Subordinated bonds(e)	759,661	4	759,665
Borrowings from domestic financial institutions	—	356,436	356,436
Foreign borrowings(f)	1,025,404	525,521	1,550,925
Other obligations(g)	81,528	158,488	240,016
Total borrowings	7,282,033	2,404,160	9,686,193

Table of Contents

	As of December 31, 2015		
	Long-term	Short-term	
	(in millions of Ch$)		
Central Bank credit lines for renegotiations of loans (a)	—	4	4
Obligations under repurchase agreements	—	143,689	143,689
Mortgage finance bonds (b)	57,314	5,544	62,858
Senior bonds (c)	4,245,624	796,012	5,041,636
Mortgage bonds(d)	103,519	4,063	107,582
Subordinated bonds(e)	738,436	6,583	745,019
Borrowings from domestic financial institutions	—	—	—
Foreign borrowings(f)	438,977	868,593	1,307,570
Other obligations(g)	84,355	136,172	220,527
Total borrowings	5,668,225	1,960,660	7,628,885

	As of December 31, 2014		
	Long-term	Short-term	
	(in millions of Ch$)		
Central Bank credit lines for renegotiations of loans (a)	—	94	94
Obligations under repurchase agreements	—	392,126	392,126
Mortgage finance bonds (b)	74,948	6,561	81,509
Senior bonds (c)	3,701,885	1,166,602	4,868,487
Mortgage bonds(d)	105,422	3,778	109,200
Subordinated bonds(e)	715,465	10,451	725,916
Borrowings from domestic financial institutions	—	66,006	66,006
Foreign borrowings(f)	448,085	717,416	1,165,501
Other obligations(g)	84,576	120,549	205,125
Total borrowings	5,130,381	2,483,583	7,613,964

(a) Credit lines for renegotiations of loans

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

	As of December 31, 2016	As of December 31, 2015
	(in millions of Ch$)	

Due within 1 year	7	4
Total	7	4

(b) Mortgage finance bonds

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

	As of December 31, 2016
	(in millions of Ch$)
Due within 1 year	11,236
Due after 1 year but within 2 years	8,673
Due after 2 years but within 3 years	6,928
Due after 3 years but within 4 years	6,246
Due after 4 years but within 5 years	5,278
Due after 5 years	7,890
Total mortgage finance bonds	46,251

96

Table of Contents

(c) Senior bonds

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

	As of December 31,		
	2016	2015	2014
	(in millions of Ch$)		
Senior Bonds in UF	3,588,373	2,179,643	1,797,438
Senior Bonds in U.S.$	909,354	1,625,150	2,191,347
Senior Bonds in CHF	568,549	535,448	443,186
Senior Bonds in Ch$	1,037,515	475,075	236,025
Senior Bonds in CNY	60,890	—	—
Current bonds in AUD	179,426	62,066	62,472
Santander bonds in JPY	72,167	164,254	138,019
Total senior bonds	**6,416,274**	**5,041,636**	**4,868,487**

The maturities of these bonds are as follows:

	As of December 31, 2016
	(in millions of Ch$)
Due within 1 year	1,135,713
Due after 1 year but within 2 years	321,509
Due after 2 years but within 3 years	816,919
Due after 3 years but within 4 years	663,289
Due after 4 years but within 5 years	754,768
Due after 5 years	2,724,076
Total bonds	6,416,274

In 2016, the Bank issued bonds for UF62,000,000; CLP590,000,000,000; CHF125,000,000; JPY3,000,000,000; USD215,000,000 and EUR104,000,000 detailed as follows:

Series	**Currency**	**Amount**	**Term**	**Issuance rate**	**Series approval date**	**Series maximum amount**	**Maturity date**
R1	UF	15,000,000	5.5	2.50%	01-09-2015	15,000,000	01-03-2021
R2	UF	10,000,000	7.5	2.60%	01-09-2015	10,000,000	01-03-2023
R3	UF	10,000,000	10.5	3.00%	01-09-2015	10,000,000	01-03-2026

R5	UF	7,000,000	7.0	2.55%	01-12-2015	7,000,000	01-12-2022
R6	UF	7,000,000	9.0	2.65%	01-12-2015	7,000,000	01-12-2024
P9	UF	3,000,000	10.5	2.60%	01-03-2015	5,000,000	01-09-2025
T2	UF	5,000,000	4.5	2.25%	01-02-2016	5,000,000	01-08-2020
T5	UF	5,000,000	6.0	2.40%	01-02-2016	5,000,000	01-02-2022
Total	**UF**	**62,000,000**					
R4	CLP	100,000,000,000	5.5	5.50%	01-09-2015	100,000,000,000	01-03-2021
P4	CLP	50,000,000,000	5.0	4.80%	01-03-2015	150,000,000,000	01-03-2020
SD	CLP	140,000,000,000	5.0	5.50%	01-06-2014	200,000,000,000	01-06-2019
SC	CLP	200,000,000,000	10.0	5.95%	01-06-2014	200,000,000,000	01-06-2024
P3	CLP	50,000,000,000	7.0	5.50%	01-01-2015	50,000,000,000	01-01-2022
P1	CLP	50,000,000,000	10.0	5.80%	01-01-2015	50,000,000,000	01-01-2025
Total	**CLP**	**590,000,000,000**					
JPY	JPY	3,000,000,000	5.0	0.115%	22-06-2016	3,000,000,000	29-06-2021
Total	**JPY**	**3,000,000,000**					
DN	USD	10,000,000	5.0	Libor-USD 3M+1.05%	02-06-2016	10,000,000	09-06-2021
DN	USD	10,000,000	5.0	Libor-USD 3M+1.22%	08-06-2016	10,000,000	17-06-2021
DN	USD	10,000,000	5.0	Libor-USD 3M+1.20%	01-08-2016	10,000,000	16-08-2021
DN	USD	185,000,000	5.0	Libor-USD 3M+1.20%	10-11-2016	185,000,000	28-11-2021
Total	**USD**	**215,000,000**					
EUR	EUR	54,000,000	12.0	1.307%	05-08-2016	54,000,000	17-08-2028
EUR	EUR	20,000,000	8.0	0.80%	04-08-2016	20,000,000	19-08-2024
EUR	EUR	30,000,000	3.0	0.25%	09-12-2016	30,000,000	20-12-2019
Total	**EUR**	**104,000,000**					
CHF	CHF	125,000,000	8.5	0.35%	14-11-2016	125,000,000	30-05-2025
Total	**CHF**	**125,000,000**					

Table of Contents

(d) Mortgage bonds

These bonds are used to finance mortgage loans with certain characteristics such as loan-to-value ratios below 80.0% and a debt servicing ratio of the client lower than 20.0%. All outstanding mortgage bonds are UF denominated.

The maturities of our mortgage bonds are as follows:

	As of December 31,	
	2016	2015
	Ch$mn	Ch$mn
Due within 1 year	4,318	4,063
Due after 1 year but within 2 years	6,932	6,522
Due after 2 year but within 3 years	7,156	6,733
Due after 3 year but within 4 years	7,386	6,951
Due after 4 year but within 5 years	7,626	7,175
Due after 5 years	70,764	76,138
Total mortgage bonds	104,182	107,582

During 2016, the Bank has not placed any mortgage bonds.

(e) Subordinated bonds

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

	As of December 31,		
	2016	2015	2014
	(in millions of Ch$)		
Subordinated bonds denominated in U.S.$	—	—	3
Subordinated bonds linked to the Ch$	4	6	—
Subordinated bonds linked to the UF	759,661	745,013	725,913
Total subordinated bonds	759,665	745,019	725,916

98

Table of Contents

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

	As of December 31, 2016 (in millions of Ch$)
Due within 1 year	4
Due after 1 year but within 2 years	—
Due after 2 years but within 3 years	—
Due after 3 years but within 4 years	—
Due after 4 years but within 5 years	—
Due after 5 years	759,661
Total subordinated bonds	759,665

During 2016, the Bank did not issue subordinated bonds.

(f) Foreign borrowings

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

	As of December 31, 2016 (in millions of Ch$)
Due within 1 year	525,521
Due after 1 year but within 2 years	725,315
Due after 2 years but within 3 years	186,352
Due after 3 years but within 4 years	80,473
Due after 5 years	33,264
Total loans from foreign financial institutions	**1,550,925**

(g) Other obligations

Other obligations are summarized as follows:

	As of December 31, 2016
	Ch$ millions
Long term obligations	
Due after 1 years but within 2 years	33,777
Due after 2 years but within 3 years	24,863
Due after 3 years but within 4 years	5,794
Due after 4 years but within 5 years	1,973
Due after 5 years	15,121
Long-term financial obligations subtotals	**81,528**
Short term obligations:	
Amounts due to credit card operators	151,620
Acceptance of letters of credit	2,069
Other long-term financial obligations, short-term portion	4,799
Short-term financial obligations subtotals	**158,488**
Other financial obligations totals	**240,016**

Table of Contents

Other Off-Balance Sheet Arrangements and Commitments

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

The following table presents the Bank's outstanding contingent loans as of December 31, 2016, 2015 and 2014:

	As of December 31,		
	2016	2015	2014
	(in millions of Ch$)		
Issued and documented letters of credit	158,800	179,042	205,920
Confirmed foreign letters of credit	57,686	70,434	75,813
Documented guarantees	1,752,610	1,684,847	1,481,154
Other guarantees	125,050	163,955	262,169
Subtotals	2,094,146	2,098,278	2,025,056
Lines of credit with immediate availability	7,548,820	6,806,745	5,699,573
Other irrevocable obligation	260,266	82,328	109,520
Totals	9,903,232	8,987,351	7,834,149

Asset and Liability Management

Please refer to "Item 11. Quantitative and Qualitative Disclosures about Market Risk" for information regarding our policies with respect to asset and liability management.

Capital Expenditures

The following table reflects capital expenditures in each of the three years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
	(in millions of Ch$)		
Land and Buildings	26,567	27,781	24,957
Machinery, Systems and Equipment	30,965	29,282	22,785
Furniture, Vehicles, Other(1)	4,823	8,048	11,346
Total	62,355	65,111	59,088

(1) Includes assets ceded under operating leases.

The decrease in capital expenditures in 2016 was mainly due to a reduction in the branch network.

C. Selected Statistical Information

The following information is included for analytical purposes and should be read in conjunction with our Audited Consolidated Financial Statements, as well as the discussion in this “Item 5. Item 5. Operating and Financial Review and Prospects.” The UF is linked to, and is adjusted daily to reflect changes in, the previous month’s Chilean consumer price index. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Impact of Inflation.”

Table of Contents

Average Balances, Income Earned from Interest-Earning Assets and Interest Paid on Interest-Bearing Liabilities

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

The nominal interest rate has been calculated by dividing the amount of interest and principal changes in the UF index (gain or loss) during the period by the related average balance, both amounts expressed in constant pesos.

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

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

The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the years ended December 31, 2016, 2015 and 2014.

For the year ended December 31,								
	2016			2015			2014	
Average Balance	Interest Earned	Average Nominal Rate	Average Balance	Interest Earned	Average Nominal Rate	Average Balance	Interest Earned	Average Nominal Rate

Assets									
Interest earning assets									
Deposits in Central Bank									
Ch$	341,040	5,396	1.6 %	283,376	7,246	2.6 %	477,977	8,728	1.8%
UF	—	—	—%	—	—	—%	—	—	—%
Foreign currency	—	—	—%	—	—	—%	—	—	—%
Total	341,040	5,396	1.6 %	283,376	7,246	2.6 %	477,977	8,728	1.8%
Financial investments									
Ch$	1,553,848	78,410	5.0 %	1,323,540	29,488	2.2 %	1,339,117	40,701	3.0%
UF	108,646	4,727	4.4 %	139,394	9,583	6.9 %	295,570	38,906	13.2%
Foreign currency	1,106,205	14,452	1.3 %	1,054,110	10,784	1.0 %	1,368,089	6,047	0.4%
Total	2,768,699	97,589	3.5 %	2,517,044	49,855	2.0 %	3,002,776	85,654	2.8%
Commercial Loans									
Ch$	5,848,483	532,675	9.1 %	5,679,661	502,137	8.8 %	5,658,176	474,537	8.4%
UF	4,786,383	329,402	6.9 %	4,466,365	352,466	7.9 %	4,077,560	381,244	9.3%
Foreign currency	3,254,913	87,735	2.7 %	3,388,381	78,552	2.3 %	2,874,210	67,140	2.3%
Total	13,889,779	949,812	6.8 %	13,534,407	933,155	6.9 %	12,609,946	922,921	7.3%
Consumer loans									
Ch$	3,858,386	542,597	14.1%	3,711,552	520,553	14.0%	3,502,026	600,869	17.2%
UF	21,015	1,821	8.7 %	80,848	8,229	10.2%	91,668	11,191	12.2%
Foreign currency	39,458	—	—%	34,370	—	—%	27,606	—	—%
Total	3,918,859	544,418	13.9%	3,826,770	528,782	13.8%	3,621,300	612,060	16.9%
Mortgage loans									
Ch$	15,180	964	6.4 %	17,291	1,312	7.6 %	23,758	4,918	20.7%
UF	8,234,264	535,128	6.5 %	7,695,618	564,579	7.3 %	6,535,989	591,446	9.0%
Foreign currency	—	—	—%	—	—	—%	—	—	—%
Total	8,249,444	536,092	6.5 %	7,712,909	565,891	7.3 %	6,559,747	596,364	9.0%

Table of Contents

	For the year ended December 31,							
		2016			2015			2014
	Average Balance	Interest Earned	Average Nominal Rate	Average Balance	Interest Earned	Average Nominal Rate	Average Balance	Interes Earne
Interbank loans								
Ch$	8,291	295	3.6 %	2,271	364	16.0 %	4,356	139
UF	—	—	—%	—	—	—%	—	—
Foreign currency	2	—	—%	3,327	11	0.3 %	1	—
Total	8,293	295	3.6 %	5,598	375	6.7 %	4,357	139
Investment Agreements to resell								
Ch$	1,388	1,208	87.0 %	204	105	51.5 %	4,074	793
UF	—	302	—%	—	23	—%	—	95
Foreign currency	—	4	—%	—	—	—%	—	—
Total	1,388	1,514	87.0 %	204	128	51.5 %	4,074	888
Threshold(1)								
Ch$	57,859	242	0.4 %	29,895	62	0.2 %	31	—
UF	4	—	—%	—	—	—%	—	—
Foreign currency	435,946	1,762	0.4 %	612,802	494	0.1 %	479,488	264
Total	493,809	2,004	0.4 %	642,697	556	0.1 %	479,519	264
Total interest earning assets								
Ch$	11,684,475	1,161,787	9.9 %	11,047,790	1,061,267	9.6 %	11,009,515	1,130,
UF	13,150,312	871,380	6.6 %	12,382,225	934,880	7.6 %	11,000,787	1,022,
Foreign currency	4,836,524	103,953	2.1 %	5,092,990	89,841	1.8 %	4,749,394	73,45
Total	29,671,311	2,137,120	7.2 %	28,523,005	2,085,988	7.3 %	26,759,696	2,227,
Non-interest earning assets								
Cash								
Ch$	686,449			715,484			677,003	
UF	—			—			—	
Foreign currency	98,052			98,936			78,195	
Total	784,501			814,420			755,198	
Allowance for loan losses								
Ch$	(833,455)			(805,244)			(722,660)	
UF	—			—			—	
	(106)			(15)			—	

Foreign currency						
Total	(833,561)		(805,259)		(722,660)	
Fixed assets						
Ch$	220,919		222,083		202,902	
UF	—		—		—	
Foreign currency	—		—		—	
Total	220,919		222,083		202,902	
Derivatives						
Ch$	2,940,584		3,300,507		2,910,369	
UF	—		—		—	
Foreign currency	—		—		—	
Total	2,940,584		3,300,507		2,910,369	
Financial Investment (Trading)						
Ch$	177,617		141,784		114,875	
UF	122,113		195,203		600,005	
Foreign currency	32,496		21,828		7	
Total	332,226		358,815		714,887	
Other assets						
Ch$	1,246,306		1,215,289		1,065,307	
UF	69,335		69,534		71,241	
Foreign currency	812,400		846,834		967,643	
Total	2,128,041		2,131,657		2,104,191	
Total non-interest earning assets						
Ch$	4,438,420		4,789,903		4,247,703	
UF	191,448		264,737		671,363	
Foreign currency	942,842		967,583		1,045,821	
Total	5,572,710		6,022,223		5,964,887	
Total assets						
Ch$	16,122,895	1,161,787	15,837,693	1,061,266	15,257,218	1,130,
UF	13,341,760	871,380	12,646,962	934,881	11,672,150	1,022,
Foreign currency	5,779,366	103,953	6,060,573	89,841	5,795,215	73,45
Total	35,244,021	2,137,120	34,545,228	2,085,988	32,724,583	2,227,
Liabilities And Share-Holders' Equity						
Interest bearing liabilities						
Savings accounts						

Ch$	1,503	4	0.3 %	1,413	5	0.4 %	1,213	3
UF	114,836	2,949	2.6 %	112,917	3,937	3.5 %	106,972	5,461
Foreign currency	—	—	—%	—	—	—%	—	—
Total	116,339	2,953	2.5 %	114,330	3,942	3.4 %	108,185	5,464

102

Table of Contents

	For the year ended December 31, 2016			2015			2014		
	Average Balance	Interest Earned	Average Nominal Rate	Average Balance	Interest Earned	Average Nominal Rate	Average Balance	Interest Earned	Average Nominal Rate
Time deposits									
Ch$	9,545,050	387,566	4.1 %	9,260,339	334,259	3.6 %	7,891,805	307,868	3.9%
UF	1,299,866	54,320	4.2 %	965,138	63,857	6.6 %	1,345,965	93,624	7.0%
Foreign currency	2,775,932	9,873	0.4 %	2,460,027	5,303	0.2 %	2,715,224	8,443	0.3%
Total	13,620,848	451,759	3.3 %	12,685,504	403,419	3.2 %	11,952,994	409,935	3.4%
Central bank borrowings									
Ch$	858	29	3.4 %	4,869	46	1.0 %	6,815	5	0.1%
UF	14	1	3.9 %	22	2	9.1 %	91	9	9.9%
Foreign currency	—	—	—%	—	—	—%	—	—	—%
Total	871	29	3.4 %	4,891	48	1.0 %	6,906	14	0.2%
Repurchase Agreements									
Ch$	108,902	2,812	2.6 %	220,849	6,954	3.1 %	400,673	8,267	2.1%
UF	—	—	—%	—	1	—%	—	—	—%
Foreign currency	12,973	58	0.4 %	7,201	22	0.3 %	12,590	27	0.2%
Total	121,875	2,870	2.4 %	228,050	6,977	3.1 %	413,263	8,294	2.0%
Mortgage finance bonds									
Ch$	—	—	—%	—	—	—%	—	—	—%
UF	52,414	4,258	8.1 %	63,061	6,420	10.2%	81,805	9,698	11.9%
Foreign currency	—	—	—%	—	—	—%	—	—	—%
Total	52,414	4,258	8.1 %	63,061	6,420	10.2%	81,805	9,698	11.9%
Other interest bearing liabilities									
Ch$	857,325	100,810	11.8%	677,014	109,455	16.2%	409,021	203,374	49.7%
UF	3,903,076	238,721	6.1 %	3,020,987	227,384	7.5 %	2,538,094	234,284	9.2%
Foreign currency	3,095,800	54,356	1.8 %	3,802,407	73,137	1.9 %	3,917,969	38,851	1.0%
Total	7,856,201	393,886	5.0 %	7,500,408	409,976	5.5 %	6,865,084	476,509	6.9%
Total interest bearing liabilities									
Ch$	10,513,637	491,220	4.7 %	10,164,484	450,719	4.4 %	8,709,527	519,517	6.0%
UF	5,370,205	300,249	5.6 %	4,162,125	301,601	7.2 %	4,072,927	343,076	8.4%
Foreign currency	5,884,705	64,286	1.1 %	6,269,635	78,462	1.3 %	6,645,783	47,321	0.7%
Total	21,768,547	855,755	3.9 %	20,596,244	830,782	4.0 %	19,428,237	909,914	4.7%

Non interest bearing liabilities						
Non interest bearing demand deposits						
Ch$	5,633,226		5,617,012		5,282,135	
UF	39,075		35,163		35,333	
Foreign currency	81,321		67,714		68,804	
Total	5,753,622		5,719,889		5,386,272	
Derivatives						
Ch$	2,724,994		2,958,942		2,719,386	
UF	—		—		—	
Foreign currency	—		—		—	
Total	2,724,994		2,958,942		2,719,386	
Other non-interest bearing liabilities						
Ch$	884,290		896,466		762,367	
UF	339,168		410,866		398,108	
Foreign currency	932,557		1,146,705		1,341,176	
Total	2,156,015		2,454,037		2,501,651	
Shareholders' equity						
Ch$	2,840,846		2,816,116		2,689,037	
UF	—		—		—	
Foreign currency	(4)		—		—	
Total	2,840,843		2,816,116		2,689,037	
Total non-interest bearing liabilities and shareholders' equity						
Ch$	12,083,356		12,288,536		11,452,925	
UF	378,243		446,029		433,441	
Foreign currency	1,013,875		1,214,419		1,409,980	
Total	13,475,473		13,948,984		13,296,346	
Total Liabilities and Share-Holders' Equity						
Ch$	22,596,993	491,220	22,453,020	450,719	20,162,452	519,517

UF	5,748,447	300,249	4,608,154	301,601	4,506,368	343,076
Foreign currency	6,898,580	64,286	7,484,054	78,462	8,055,763	47,321
Total	35,244,021	855,755	34,545,228	830,782	32,724,583	909,914

(1) Threshold is the asset generated when we post collateral for a derivative with a counterparty that has negative mark-to-market for us. Some CSD agreements permit this collateral to generate interest at the overnight rate and this is the source of interest income associated with this asset.

Table of Contents

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

The following table allocates, by currency of denomination, changes in our net interest revenue and interest expense between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective nominal interest rates for 2016 compared to 2015 and 2015 compared to 2014. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities.

	Increase (Decrease) from 2015 to 2016 Due to Changes in			Increase (Decrease) from 2014 to 2015 Due to Changes in		
	Volume	Rate	Net Change from 2015 to 2016	Volume	Rate	Net Change from 2014 to 2015
Assets						
Interest earning assets						
Deposits in Central Bank						
Ch$	(413)	(1,437)	(1,850)	(4,199)	2,718	(1,482)
UF	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—
Subtotal	(413)	(1,437)	(1,850)	(4,199)	2,718	(1,482)
Financial investments						
Ch$	5,103	43,819	48,992	(474)	(10,739)	(11,213)
UF	(2,230)	(2,626)	(4,856)	(20,539)	(8,784)	(29,323)
Foreign currency	622	3,046	3,668	(1,174)	5,911	4,737
Subtotal	3,495	44,239	47,734	(22,186)	(13,613)	(35,799)
Commercial loans						
Ch$	14,002	16,537	30,539	2,031	25,568	27,599
UF	25,822	(48,887)	(23,065)	36,353	(65,130)	(28,777)
Foreign currency	(2,833)	12,016	9,183	11,412	—	11,412
Subtotal	36,991	(20,334)	16,657	49,790	(39,562)	(10,234)
Consumer loans						
Ch$	18,560	3,484	22,044	34,986	(115,302)	(80,316)
UF	(6,093)	(315)	(6,408)	(1,331)	(1,631)	(2,962)
Foreign currency	—	—	—	—	—	—
Subtotal	12,467	3,169	15,636	33,655	(116,933)	(83,278)
Mortgage loans						
Ch$	(163)	(185)	(348)	(1,340)	(2,266)	(3,606)
UF	43,613	73,064	(29,451)	105,976	(132,843)	(26,867)
Foreign currency	—	—	—	—	—	—
Subtotal	43,450	(73,249)	(29,799)	104,637	(135,110)	(30,473)
Interbank loans						

Ch$	1,024	(1,093)	(69)	(67)	292	225
UF	—	—	—	—	—	—
Foreign currency	—	(11)	(11)	—	11	11
Subtotal	1,024	(1,104)	(80)	(67)	303	236
Investment under agreement to resell						
Ch$	610	493	1,103	(753)	65	(688)
UF	—	—	—	—	—	—
Foreign currency	—	—	—	—	—	—
Subtotal	610	493	1,103	(753)	65	(688)
Threshold						
Ch$	59	121	180	—	62	62
UF	—	—	—	—	—	—
Foreign currency	(198)	1,466	1,268	230	—	230
Subtotal	(139)	1,587	1,448	230	62	292

Table of Contents

	Increase (Decrease) from 2015 to 2016 Due to Changes in			Increase (Decrease) from 2014 to 2015 Due to Changes in		
	Volume	Rate	Net Change from 2015 to 2016	Volume	Rate	Net Change from 2014 to 2015
Total interest earnings assets						
Ch$	38,782	61,739	100,521	30,185	(99,603)	(69,419)
UF	61,112	(124,892)	(63,780)	120,459	(208,388)	(87,929)
Foreign currency	(2,409)	16,517	14,108	10,468	5,922	16,390
Total	97,485	(46,636)	50,849	161,112	(302,070)	(140,958)
Liabilities and Shareholders' Equity						
Interest bearing liabilities						
Savings accounts						
Ch$	—	(1)	(1)	—	2	2
UF	69	(1,057)	(988)	307	(1,831)	(1,524)
Foreign currency	—	—	—	—	—	—
Subtotal	69	(1,058)	(989)	307	(1,830)	(1,522)
Time deposits						
Ch$	9,424	43,883	53,307	55,039	(28,648)	26,391
UF	23,140	(32,677)	(9,537)	(26,002)	(3,766)	(29,768)
Foreign currency	467	4,103	4,570	(745)	(2,395)	(3,140)
Subtotal	33,032	15,308	48,340	28,292	(34,809)	(6,517)
Central bank borrowings						
Ch$	(35)	18	(17)	(2)	43	41
UF	(1)	—	(1)	(7)	—	(7)
Foreign currency	—	—	—	—	—	—
Subtotal	(36)	18	(18)	(9)	43	34
Repurchase agreements						
Ch$	3,580	(562)	(4,142)	(3,163)	1,850	(1,313)
UF	—	—	—	—	1	1
Foreign currency	21	15	36	(15)	10	(5)
Subtotal	(3,560)	(546)	(4,106)	(3,178)	1,861	(1,317)
Mortgage finance bonds						
Ch$	—	—	—	—	—	—
UF	(1,074)	(1,088)	(2,162)	(2,214)	(1,064)	(3,278)
Foreign currency	—	—	—	—	—	—
Subtotal	(1,074)	(1,088)	(2,162)	(2,214)	(1,064)	(3,278)
Other interest bearing liabilities						
Ch$	29,669	(38,314)	(8,645)	133,636	(227,555)	(93,919)
UF	65,141	(53,804)	11,337	44,230	(51,130)	(6,900)
Foreign currency	(15,262)	(3,519)	(18,781)	(1,198)	35,484	34,286
Subtotal	79,547	(95,637)	(16,090)	176,668	(243,201)	(66,533)
Total interest bearing liabilities						
Ch$	35,478	5,024	40,502	185,510	(254,308)	(68,798)
UF	87,275	(88,626)	(1,351)	16,314	(57,790)	(41,476)
Foreign currency	(14,774)	599	(14,175)	(1,958)	33,099	31,141

Total	107,979	(83,004)	24,975	199,866	(278,999)	(79,133)

Interest-Earning Assets: Net Interest Margin

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

Table of Contents

	Year ended December 31, 2016	2015	2014
	(in millions of Ch$)		
Total average interest-earning assets			
Ch$	11,684,475	11,047,790	11,009,515
UF	13,150,312	12,382,225	11,000,787
Foreign currencies	4,836,524	5,092,990	4,749,384
Total	29,671,311	28,523,005	26,759,696
Net interest earned (1)			
Ch$	670,567	610,548	611,168
UF	571,131	633,279	679,806
Foreign currencies	39,667	11,379	26,130
Total	1,281,365	1,255,206	1,317,104
Net interest margin (2)			
Ch$	5.74 %	5.53 %	5.55 %
UF	4.34 %	5.11 %	6.18 %
Foreign currencies	0.82 %	0.22 %	0.55 %
Total	4.32 %	4.40 %	4.92 %

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

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

Return on Equity and Assets; Dividend Payout

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

	Year ended December 31, 2016	2015	2014
Ch$ million			
Net income	478,432	451,729	575,910
Net income attributable to shareholders	476,067	448,466	569,910
Average total assets	35,244,021	34,545,228	32,724,583
Average equity	2,840,843	2,816,116	2,689,037
Net income as a percentage of:			
Average total assets	1.4%	1.3%	1.8%
Average equity	16.8%	16.0%	21.4%
Average equity as a percentage of:			
Average total assets	8.1%	8.2%	8.2%
Cash dividend (1)	330,646	336,659	330,198

Dividend payout ratio, based on net income attributable to shareholders (1)	69.0%	75.0%	58.0%

(1) Cash dividends for each year are declared and approved by shareholders at the annual shareholders' meeting in the following the year.

Dividends declared at the annual shareholders' meeting of each year correspond to the Bank's earnings of the previous year. The following table presents dividends declared and paid by us in nominal terms in the past four years:

Year	Dividend Ch$ millions (1)	Dividend U.S.$ millions (2)	Per share Ch$/share (3)	Per ADS U.S.$/ADS (4)	% over earnings (5)	% over earnings (6)
2013	232,780	493.1	1.24	1.05	60	65
2014	265,156	476.0	1.41	1.01	60	60
2015	330,198	540.4	1.75	1.15	60	58
2016	336,659	503.7	1.79	1.07	75	75
2017(7)	330,646	496.5	1.75	1.05	70	69

Table of Contents

(1) Millions of nominal pesos.

(2) Millions of U.S.$ using the observed exchange rate of the day the dividend was approved at the annual shareholders' meeting, except for 2017 when the exchange rate used is Ch$666.00.

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

(4) Dividend in U.S.$ million divided by the number of ADS, which was calculated on the basis of 1,039 shares per ADS for 2012. For 2013, 2014, 2015 and 2016, it is calculated on the basis of 400 shares per ADS.

(5) Calculated by dividing dividend paid in the year by net income attributable to the equity holders of the Bank for the previous year under Chilean Bank GAAP.

(6) Calculated by dividing dividend paid in the year by net income attributable to the equity holders of the Bank for the previous year under IFRS.

(7) Dividend proposed by the Board for shareholders' approval on April 26, 2017.

Loan Portfolio

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

	As of December 31,				
	2016	2015	2014	2013	2012
	(in millions of Ch$)				
Commercial Loans:					
Commercial loans	9,853,657	8,985,452	8,324,949	7,797,682	7,316,417
Foreign trade loans	1,829,904	2,152,570	1,786,232	1,840,334	1,270,423
Checking account debtors	179,468	234,723	266,231	279,657	205,355
Factoring transactions	296,751	275,647	327,841	316,114	322,242
Leasing transactions	1,485,123	1,534,192	1,489,384	1,349,814	1,277,555
Other loans and accounts receivable	222,562	143,775	135,663	118,651	97,029

Subtotal	13,867,465	13,326,359	12,330,300	11,702,252	10,489,021
Mortgage loans:					
Mortgage finance bond backed loans	32,579	134,105	116,150	72,297	92,204
Mortgage mutual loans	119,934	44,028	57,356	71,833	46,105
Other mortgage mutual loans	8,466,843	7,634,717	6,458,525	5,481,682	5,133,272
Subtotal	8,619,356	7,812,850	6,632,031	5,625,812	5,271,581
Consumer loans:					
Installment consumer loans	2,722,365	2,469,646	2,320,775	2,168,121	1,857,657
Credit card loans	1,448,118	1,434,609	1,362,587	1,235,881	1,054,473
Consumer leasing contracts	5,117	5,460	5,270	3,451	3,688
Other consumer loans	271,203	240,956	229,743	199,795	199,659
Subtotal	4,446,803	4,150,671	3,918,375	3,607,248	3,115,477
Subtotal Loans to customers	26,933,624	25,289,880	22,880,706	20,935,312	18,876,079
Interbank loans	272,807	10,877	11,943	125,449	90,573
Total	27,206,431	25,300,757	22,892,649	21,060,761	18,966,652

Table of Contents

The loan categories are as follows:

Commercial loans

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

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

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

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

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

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

Mortgage loans

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

Mortgage finance bond backed loans are inflation-indexed, fixed or variable rate, long-term loans with monthly payments of principal and interest secured by a real property mortgage that are financed with mortgage finance bonds. At the time of approval, these types of mortgage loans cannot be more than 75.0% of the lower of the purchase price or the appraised value of the mortgaged property or such loan will be classified as a commercial loan. Mortgage bonds are our general obligations, and we are liable for all principal and accrued interest on such bonds. In addition, if the issuer of a mortgage finance bond becomes insolvent, the General Banking Law's liquidation procedures provide that these types of mortgage loans with their corresponding mortgage bonds shall be auctioned as a unit and the acquirer must continue paying the mortgage finance bonds under the same conditions as the original issuer.

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

Consumer loans

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

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

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

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

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

Table of Contents

Non-client loans

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

Maturity and Interest Rate Sensitivity of Loans

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2016.

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total balance as of December 31, 2016
	(in millions of Ch$)			
General commercial loans	4,922,702	3,372,234	2,284,443	10,579,379
Foreign trade loans	1,649,995	122,712	19,597	1,792,304
Leasing contracts	322,670	720,315	445,445	1,488,430
Other outstanding loans	7,352	—	—	7,352
Subtotal commercial loans	6,902,719	4,215,261	2,749,485	13,867,465
Residential loans backed by mortgage bonds	9,002	22,248	5,869	37,119
Other residential mortgage loans	457,192	1,605,301	6,519,744	8,582,237
Subtotal residential mortgage loans	466,194	1,627,549	6,525,613	8,619,356
Consumer loans	2,338,603	2,003,601	104,599	4,446,803
Subtotal	9,707,516	7,846,411	9,379,697	26,933,624
Interbank loans	272,807	—	—	272,807
Total loans	9,980,323	7,846,411	9,379,697	27,206,431

The following tables present the total amount of loans due after one year that have fixed and variable interest rates as of December 31, 2016. See also “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Interest Rates.”

	As of December 31, 2016 (in millions of Ch$)

Variable Rate	
Ch$	659
UF	641,771
Foreign currencies	—
Subtotal	642,431
Fixed Rate	
Ch$	4,310,394
UF	11,434,514
Foreign currencies	838,768
Subtotal	16,583,676
Total	17,226,107

Loans by Economic Activity

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

109

Table of Contents

	Domestic loans (*) as of December 31,					Foreign interbank loans (**) as of De 31,			
	2016	2015	2014	2013	2012	2016	2015	2014	2013
	(in millions of Ch$)					(in millions of Ch$)			
Commercial loans									
Manufacturing	1,180,886	1,171,830	1,126,268	1,216,914	1,014,777	—	—	—	—
Mining	340,554	510,467	428,847	464,865	292,217	—	—	—	—
Electricity, gas and water	442,936	454,456	567,548	222,110	337,269	—	—	—	—
Agriculture and livestock	1,096,659	1,019,922	871,247	806,092	770,558	—	—	—	—
Forestry	96,806	96,069	98,039	183,716	120,002	—	—	—	—
Fishing	296,592	344,496	256,818	265,917	188,803	—	—	—	—
Transport	787,510	876,329	758,339	721,931	511,407	—	—	—	—
Communications	196,934	160,135	167,004	249,499	179,544	—	—	—	—
Construction	1,792,485	1,462,535	1,365,841	1,337,791	1,130,194	—	—	—	—
Commerce	3,120,400	3,050,663	2,773,410	2,578,979	2,396,428	272,733	10,827	11,899	125,383
Services	482,900	483,516	469,141	447,861	400,716	—	—	—	—
Other	4,032,877	3,695,991	3,447,842	3,206,643	3,147,133	—	—	—	—
Subtotals	13,867,539	13,326,409	12,330,344	11,702,318	10,489,048	272,733	10,827	11,899	125,383
Mortgage loans	8,619,356	7,812,850	6,632,031	5,625,812	5,271,581	—	—	—	—
Consumer loans	4,446,803	4,150,671	3,918,375	3,607,248	3,115,477	—	—	—	—
Total	26,933,698	25,289,930	22,880,750	20,935,378	18,876,106	272,733	10,827	11,899	125,383

Table of Contents

	Total loans as of December 31,					**% of total loans as of December 31,**			
	2016	**2015**	**2014**	**2013**	**2012**	**2016**	**2015**	**2014**	**2013**
	(in millions of Ch$)					(in millions of Ch$)			
Commercial loans									
Manufacturing	1,180,886	1,171,830	1,126,268	1,216,914	1,014,777	4.34 %	4.63 %	4.92 %	5.78
Mining	340,554	510,467	428,847	464,865	292,217	1.25 %	2.02 %	1.87 %	2.21
Electricity, gas and water	442,936	454,456	567,548	222,110	337,269	1.63 %	1.80 %	2.48 %	1.05
Agriculture and livestock	1,096,659	1,019,922	871,247	806,092	770,558	4.03 %	4.03 %	3.81 %	3.83
Forestry	96,806	96,069	98,039	183,716	120,002	0.36 %	0.38 %	0.43 %	0.87
Fishing	296,592	344,496	256,818	265,917	188,803	1.09 %	1.36 %	1.12 %	1.26
Transport	787,510	876,329	758,339	721,931	511,407	2.89 %	3.46 %	3.31 %	3.43
Communications	196,934	160,135	167,004	249,499	179,544	0.72 %	0.63 %	0.73 %	1.18
Construction	1,792,485	1,462,535	1,365,841	1,337,791	1,130,194	6.59 %	5.78 %	5.97 %	6.35
Commerce	3,393,133	3,061,490	2,773,410	2,704,362	2,486,974	12.47 %	12.10 %	12.17 %	12.8
Services	482,900	483,516	469,141	447,861	400,716	1.77 %	1.91 %	2.05 %	2.13
Other	4,032,877	3,695,991	3,447,842	3,206,643	3,147,133	14.84 %	14.61 %	15.06 %	15.2
Subtotals	14,140,272	13,337,236	12,330,344	11,827,701	10,579,594	51.98 %	52.71 %	53.92 %	56.1
Mortgage loans	8,619,356	7,812,850	6,632,031	5,625,812	5,271,581	31.68 %	30.88 %	28.99 %	26.7
Consumer loans	4,446,803	4,150,671	3,918,375	3,607,248	3,115,477	16.34 %	16.41 %	17.17 %	17.1
Total	27,206,431	25,300,757	22,880,750	21,060,761	18,966,652	100.00 %	100.00 %	100.00 %	100.

(*) Includes domestic interbank loans for Ch$74 million as of December 31, 2016 (Ch$50 million as of December 31, 2015), see Note 8 of the Audited Consolidated Financial Statements.

(**) Includes foreign interbank loans for Ch$272,733 million as of December 31, 2016 (Ch$10,827 million as of December 31, 2015), see Note 8 of the Audited Consolidated Financial Statements.

111

Table of Contents

Foreign Assets and Loans

Santander-Chile's Asset and Liability Committee, or ALCO, is responsible for determining the maximum foreign country exposure the Bank is permitted to have. The ALCO has determined that the total foreign country exposure cannot be greater than 1-time regulatory capital. To determine this, each country is classified using a ranking system from 1 to 6 based on the definition promulgated by the SBIF, in which the main consideration is the international rating of each country. The ALCO has also set a higher limit if the foreign exposure is to related parties. As of December 31, 2016, the Bank's foreign exposure, including the estimate of counterparty risk in our derivatives portfolio, was U.S.$3,121 million, or 5.9% of our assets. For more information please see Note 37 of our Audited Consolidated Financial Statements.

Below, there are additional details regarding our exposure to countries in category 2 and 3, the riskiest categories we have exposure to as of December 31, 2016, considering fair value of derivative instruments. In this category China is the largest exposure and is also broke down below. We do not have sovereign exposure to Italy.

Country	**Classification (1)**	**Derivative Instruments (adjusted to market)**	**Deposits**	**Loans**	**Financial Investments USD Mn**	**Total Exposure USD Mn**
		USD Mn	**USD Mn**	**USD Mn**		
Colombia	2	0.82	—	0.19	—	1.01
Italy	2	—	8.77	—	—	8.77
China	2	—	—	348.99	—	348.99
México	2	—	0.09	0.32	—	0.41
Panamá	2	0.69	—	—	—	0.69
Perú	2	2.82	—	—	—	2.82
Uruguay	2	—	—	0.68	—	0.68
Other	3	1.32	—	—	—	1.32
Total		**5.65**	**8.86**	**350.18**	—	**364.69**

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

Our exposure to Grupo Santander is as follows:

Counterpart	Country	Classification	Derivative instruments	Deposits USD	Loans USD	Financial Investments	Total Exposure

			(market adjusted) USD Mn	Mn	Mn	USD Mn	USD Mn
Banco Santander Spain*	Spain	1	—	280.9	—	—	280.9

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

The total amount of this exposure to derivative instruments must be compensated daily with collateral and, therefore, there is no credit exposure.

Furthermore, is additional detail regarding our exposure to the United States, which is the only country with more than 1% of exposure over total assets. Below we detail exposure to assets in the USA as of December 31, 2016, considering fair value of derivative instruments.

112

Table of Contents

Country	Classification (1)	Derivative Instruments (adjusted to market) USD Mn	Deposits USD Mn	Loans USD Mn	Financial Investments USD Mn	Total Exposure USD Mn
USA	1	211.7	1,487.2	—	581.3	2,280.2

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

As of December 31, 2016, we had no applicable sovereign exposure, no unfunded exposure, no credit default protection and no current developments.

Classification of Loan Portfolio

Credit Risk Governance

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

Santander-Chile's governance rules establish an Integral Risk Committee. This committee is responsible for revising and following all risks that may affect us, including reputational risk, allowing for an integral risk management. This committee serves as the governing body through which the Board supervises all risk functions. It also evaluates the reasonability of the systems for measurement and control of risks. This Committee includes the Vice Chairman of the Board and five Board members.

The Board has delegated the duty of credit risk management to the Integral Risk Committee, as well as to the Bank's risk departments, whose roles are summarized below:

- Formulate credit policies by consulting with the business units, meeting requirements of guarantees, credit evaluation, risk rating and submitting reports, documentation and legal procedures in compliance with the regulatory, legal and internal requirements of the Bank.

- Establish the structure to approve and renew credit requests. The Bank structures credit risks by assigning limits to the concentration of credit risk in terms of individual debtor, debtor group, industry segment and country. Approval levels are assigned to the corresponding officials of the business unit (commercial, consumer, SMEs) to be exercised by that level of management. In addition, those limits are continually revised. Teams in charge of risk evaluation at the branch level interact on a regular basis with customers; however, for larger credit requests, the risk team from the head office and the Executive Risk Committee works directly with customers to assess credit risks and prepare risk requests.

- Limit concentrations of exposure to customers or counterparties in geographic areas or industries (for accounts receivable or loans), and by issuer, credit rating and liquidity.

- Develop and maintain the Bank's credit risk classifications for the purpose of classifying risks according to the degree of exposure to financial loss that is exhibited by the respective financial instruments, with the aim of focusing risk management specifically on the associated risks.

- Revise and evaluate credit risk. Management's risk divisions are largely independent of the Bank's commercial division and evaluate all credit risks in excess of the specified limits prior to loan approvals for customers or prior to the acquisition of specific investments. Credit renewal and reviews are subject to similar processes.

Table of Contents

The following diagram illustrates the governance of our credit risk division including the committees with approval power:

(1) Includes various approval committees for the Middle Market and high net worth clients.

Role of Santander Spain's Global Risk Department: Credit Risk

In matters regarding Credit Risk, Santander Spain's Global Risk Department has the following role:

- All credit risks greater than U.S.$40 million (U.S.$60 million for financial institutions), after being approved locally, are reviewed by Santander Spain. This additional review ensures that no global exposure limit is being breached.

- In standardized risks, the consumer and mortgage scoring models are developed locally but are reviewed and approved by Santander Spain's Global Risk Department.

- For each scoring model, a monthly Risk Report is prepared, which is reviewed locally and is also sent to Santander Spain's Global Risk Department. This report includes the evolution of basic credit risk parameters such as: loan amounts, non-performance, charge-offs and provisions.

- Monthly, the Controller of the Risk Department sends a report to Santander Spain's Global Risk Department covering all the main indicators regarding credit risk and the evolution of credit risk as compared to the budgeted levels.

Credit Approval: Loans approved on an individual basis

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

Table of Contents

Credit Approval: Loans approved on a group basis

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

Classification of Loan Portfolio

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

Loans analyzed on an individual basis

For loans that are greater than Ch$150 million (U.S.$225,000), the Bank uses internal models to assign a risk category level to each borrower and its respective loans. We consider the following risk factors: industry or sector of the borrower, the borrower's competitive position in its markets, owners or managers of the borrower, the borrower's financial situation, the borrower's payment capacity and the borrower's payment behavior to calculate the estimated incurred loan loss. Through these categories, we differentiate the normal loan portfolio from the impaired one.

These are our categories:

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

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

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

Estimated Incurred Loan Loss = Loan Loss Allowance

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

EIL= EXP x PNP x SEV

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

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

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

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

115

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

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

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

In accordance with such policy, every year we update appraisals of fair value of collateral before the end of the 24 month period for certain customers and such updated appraisals are considered in the calculation of the allowance for loan losses. The number of updated appraisals performed in 2013 was 113, in 2014 was 98, in 2015 was 43 and in 2016 was 142, and such updated appraisals were performed mainly because of changes in customer conditions (renegotiation deterioration of financial situation increase in credit line).

For loans classified in the C and D categories, loan loss allowances are based mainly on the fair value of the collateral, adjusted for an estimate cost to sell, that each of these loans have. Allowance percentage for each category is then based on the fair value of the collateral, or the expected future cash flow from the loan for each individually evaluated non-performing loans. As of December 31, 2016, loans classified in the C and D risk categories had the following associated loan loss allowance levels:

Classification	**Allowance**
C1	2%
C2	10%
C3	25%
C4	40%
D1	65%
D2	90%

Loans analyzed on a group basis

The Bank uses the concept of estimated incurred loss to quantify the allowances levels over loan analyzed on a group basis. Incurred loss is the expected provision expense that will appear one year away from the balance date of the transaction's credit risk, considering the counterpart risk and the collateral associated to each transaction.

Following the Bank's definition, the Bank uses group evaluation to approach transactions that have similar credit risk features, which indicate the debtor's payment capacity of the entire debt, capital and interests, pursuant to the contract's terms. In addition, this allows us to assess a high number of transactions with low individual amounts, whether they belong to individuals or small sized companies. Therefore, debtors and loans with similar features are grouped together and each group has a risk level assigned to it. These models are meant to be used mainly to analyze loans granted to individuals (including consumer loans, credit lines, mortgage loans and commercial loans) and commercial loans to SMEs.

Table of Contents

Allowances are established using these models, taking into account the historical impairment and other known circumstances at the time of evaluation. After this, a historical loss rate is assigned to each portfolio profile constituting each segment. The method for assigning a profile is established based on a statistical building method, establishing a relation through a logistic regression various variables, such as payment behavior in the Bank, payment behavior outside the Bank, various socio-demographic data, among others, and a response variable that determines a client's risk level, which in this case is 90 days of non-performance. Afterwards, common profiles are established related to a logical order and with differentiate default rates, applying the real historical loss the Bank has had with that portfolio.

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

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

Once the customers have been classified, the loan loss allowance is the product of three factors: Exposure (EXP), Probability of Non-Performance (PNP) and Severity (SEV).

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

PNP = Probability of Non-Performing. This variable, expressed as a percentage, indicates the probability that a debtor will default. This percentage is associated with the internal score that we give to each debtor, which is determined by analyzing such parameters as debt servicing capacity (including, usually, projected cash flows), the company's financial history, the solvency and capacity of shareholders and management, and projections for the economic sector in which it operates. The internal rating can be different from ratings obtained from external third parties.

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

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

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

Allowances for consumer loans

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

Table of Contents

During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for consumer loans. The model was calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of implementing more robust techniques of statistical processes and more historical information, resulting in stronger parameters for the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in the release of consumer provisions of Ch$26,563 million in 2014. As this is a change in estimation, the impact of this improvement was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8. The most important improvement was the development of a separate model for our Santander Select customers, which are higher income clients. This is in line with the Bank’s strategy of reducing exposure to the low-end of the consumer market and growing in less risky segments.

The following diagrams set forth the allowances required by our current models for consumer loans:

Table of Contents

Santander (excluding Santander Banefe):

Bank (ex-Banefe)	Loan type	Allowance Level(1) (Loss rate)				
	Performing	New clients	Existing clients	Santander Select		
		0.33%-19.40%	0.08%-15.55%	0.04%-7.46%		
	Renegotiated consumer loans which were less than 90 days past due at the time of renegotiation (2)	6.49%-32.09%				
Consumer	Renegotiated consumer loans which were more than 90 days past due at the time of renegotiation (2)	44.05%-100%				
	Non-performing	Days Past Due	New Clients	Existing Clients	Select	Previously Renegotiated
		90-120	35.93%	35.93%	35.93%	44.05%
		120-150	44.11%	44.11%	44.11%	50.38%
		150-180	52.77%	52.77%	52.77%	57.48%
		>180	Charged-off			

(1) Percentage of loans outstanding.

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

Santander Banefe:

Santander Banefe	Loan type	Allowance Level(1) (Loss rate)	
	Performing	New clients	Existing clients
		1.17%-27.87%	0.16%-16.34%

Renegotiated consumer loans which were less than 90 days past due at the time of renegotiation (2)	9.72%-34.37%			
Renegotiated consumer loans which were more than 90 days past due at the time of renegotiation (2)	45.47%-100%			
	Days Past Due	**New Clients**	**Existing Clients**	**Previously Renegotiated**
Non-performing consumer	90-120	31.50%	31.50%	45.47%
	120-150	35.78%	35.78%	51.57%
	150-180	42.46%	42.46%	60.90%
	>180	Charged-off		

(1) Percentage of loans outstanding

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

119

Table of Contents

There are two renegotiated categories in our consumer loan portfolio:

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

2. Renegotiated Consumer which were more than 90 days past due at the time of renegotiation The loss rates are assigned based on four different risk profiles which are determined based on the number of days overdue at the time of renegotiation:

Profile 1: 180 or more days past due

Profile 2: between 150 and 180 days past due

Profile 3: between 120 and 150 days past due

Profile 4: between 90 and 120 days past due

Allowances for residential mortgage loans

Our provision methodology for residential mortgage loans takes into consideration different factors in order to group customers with less the 90 days past due into different risk profiles. First we segregate our clients according to internal categories based on income and restructurings. For each of these categories additional factors are considered in order to develop risk profiles within each risk category, including payment behavior, non-performance less than 90 days, collateral levels, renegotiation history with the Bank, and historical amounts of net charge-offs, among others. The risk categories are such that when a customer's payment behavior deteriorates, the outcome is that the customer will move to a different risk category with a higher loss rate, therefore capturing the current status of the customer. In April 2016, the risk profiles were recalibrated and separated into four groups based on loans to value, resulting in a decrease in mortgage loan allowance of approximately Ch$3,500 million.

Previously residential mortgage loans with more than 90 days past due balances were assigned an average loss rate of around 12%. With the recalibration in April 2016, mortgage loans with more than 90 days past due balances are assigned a loss rate depending on the loan to value. We determined that 90 days is appropriate, since our historical analysis of customers' behavior has shown that after 90 days, customers are likely to default on their obligations, and that, over succeeding periods, the loss incurred does not increase given the high fair value of collateral percentage to loan amount required under our credit policies for this type of loan. Also, we note that the Chilean economy's stability over the last few years has not resulted in other than insignificant fluctuations in collateral fair values on residential mortgage loan properties. When the customer becomes current in its payments, such customer will migrate to a better profile.

Table of Contents

The following table sets forth the required loan loss allowance for residential mortgage loans:

Bank (incl-Banefe)	**Loan type**	**Allowance Level(1) (Loss rate)**		
		Bank (excl Banefe and Select)	Banefe	Santander Select
	Performing	0.00%-8.30%	0.04%-8.65%	0.00%-4.90%
	Renegotiated mortgage loans which were less than 90 days past due at the time of renegotiation (2)	0.32%-12.06%		
Residential mortgage	**Renegotiated mortgage loans which were more than 90 days past due at the time of renegotiation (2)**	5.72%-20.81%		
		Loan to Value		
		0-60	5.72%	
	Non-performing mortgage	60-80	8.31%	
		80-90	11.60%	
		>90	20.81%	

(1) Percentage of loans outstanding

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

Small- and mid-sized commercial loans

To determine the estimated incurred loss for individuals (natural persons), small- and mid-sized commercial loans collectively evaluated for impairment, we mainly analyze the payment behavior of clients, particularly the payment behavior of clients with payments that are 90 days or more past-due, clients with other weaknesses, such as early non-performance (i.e., payments that are past-due, though by less than 90 days), clients with modified loans and clients with renegotiated loans, as well as success in recovery against these clients. We also consider whether the loan has underlying mortgage collateral.

The risk categories are such that when a customer has a past-due balance or has missed some payments, the outcome is that the customer will move to a different risk category with a higher loss rate, therefore capturing current trends of the customer and, in the aggregate, current trends in the market.

During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for commercial loans. The model was calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of implementing more robust statistical processes and more historical information, resulting in stronger parameters for the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in an increase in commercial provisions of Ch$45,141 million in 2014. Considering this impact and the reversal of Ch$26,563 million in the consumer loan provisioning model, the net increase of these improvements (Ch$18,578 million) was recognized under the “Provisions for loan losses” in the Consolidated Statement of Income for the year in accordance with IAS 8.

Table of Contents

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

Loan type		**Allowance Level(1) (Loss rate)**			
	Performing	**Commercial loan to individuals w/o mortgage collateral**	**Commercial loan to individuals with mortgage collateral**	**Small Enterprise**	**Mid-sized Enterprise**
		3.72%-46.76%	0.02%-7.89%	0.20%-21.82%	0.11%-16.92
	Renegotiated commercial loans which were less than 90 days past due at the time of renegotiation (2)	5.22%-19.54%			

Commercial loans analyzed on a group basis	**Renegotiated commercial loans which were more than 90 days past due at the time of renegotiation (2)**	**Days Past Due when renegotiated**	**Commercial loan to individuals w/o mortgage collateral**	**Commercial loan to individuals with mortgage collateral**	**Small Enterprise**	**Mid-sized Enterprise**
		90-179	50.76%	16.29%	30.07%	24.32%
		180-359	51.89%	23.90%	44.00%	37.64%
		360-719	56.04%	31.46%	50.27%	47.09%
		>720	57.54%	36.69%	53.86%	52.63%

Non-performing consumer	**Days Past Due**	**Commercial loan to individuals w/o mortgage collateral**	**Commercial loan to individuals with mortgage collateral**	**Small Enterprise**	**Mid-sized Enterprise**	**Previously renegotiated**
	90-179	50.76%	16.29%	30.07%	24.32%	24.32%
	180-359	51.89%	23.90%	44.00%	37.64%	37.64%
	360-719	56.04%	31.46%	50.27%	47.09%	47.09%
	>720	57.54%	36.69%	53.86%	52.63%	52.63%

(1) Percentage of loans outstanding

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

Table of Contents

Analysis of Santander-Chile's Loan Classification

The following tables provide statistical data regarding the classification of our loans analyzed on an individual basis as of December 31, 2016, 2015 and 2014.

	As of December 31,										
	2016				2015				2014		
Category	Individual Ch$mn	Percentage %	Allowance Ch$mn	Percentage %	Individual Ch$mn	Percentage %	Allowance Ch$mn	Percentage %	Individual Ch$mn	Percentage %	Allowa Ch$mn
Individualized business											
A1	1,599,311	5.88	923	0.12	2,073,792	8.20	1,210	0.17	1,911,035	8.35	998
A2	6,437,930	23.67	23,757	3.00	5,898,065	23.32	17,353	2.28	5,564,372	24.30	16,334
A3	2,030,867	7.47	29,668	3.75	1,599,234	6.32	25,145	3.30	1,334,042	5.83	19,630
B	538,909	1.98	40,545	5.13	504,937	1.99	37,157	4.87	398,611	1.74	29,189
C1	121,893	0.45	2,176	0.28	81,767	0.32	1,635	0.21	79,148	0.35	1,583
C2	51,034	0.19	4,555	0.58	48,569	0.19	4,857	0.64	66,267	0.29	6,627
C3	49,901	0.18	11,136	1.41	37,663	0.15	9,416	1.24	16,742	0.07	4,185
C4	64,118	0.24	22,894	2.90	69,952	0.28	27,981	3.67	33,074	0.14	13,229
D1	73,462	0.27	42,625	5.39	76,157	0.30	49,503	6.49	59,585	0.26	38,730
D2	89,857	0.33	72,192	9.13	92,682	0.36	83,414	10.94	94,832	0.41	85,348
Total	11,057,282	40.66	250,471	31.69	10,482,818	41.43	257,671	33.81	9,557,708	41.74	215,85

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

Non-performing loans include the aggregate principal and accrued but unpaid interest of any loan with one installment that is at least 90 days past-due, and do not accrue interest.

Impaired loans include: (a) for loans individually evaluated for impairment: (i) the carrying amount of all loans to clients that are rated C1 through C4, D1 and D2 and (ii) the carrying amount of all loans to an individual client with at least one non-performing loan (which is not a residential mortgage loan past due less than 90 days), regardless of category; and (b) for loans collectively evaluated for impairment, the carrying amount of all loans to a client, when at least one loan to that client is not performing or has been renegotiated. See "Note 9—Loans and Accounts Receivables from Customers" of the Audited Consolidated Financial Statements. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing loans, but do not accrue interest.

Charge-offs

As a general rule, charge-offs should be done when all collection efforts have been exhausted. These charge-offs consist of derecognition from the Consolidated Statements of Financial Position of the corresponding loans operations in its entirety, and, therefore, include portions not past-due of a loan in the case of installments loans or leasing operations (no partial charge-offs exists). Subsequent payments obtained from charged-off loans will be recognized in the Consolidated Statement of Income as a recovery of loans previously charged-off. Loan and accounts receivable charge-offs are recorded for overdue, past due, and current installments based on the time periods expired since reaching overdue status, as described below:

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

Any payment agreement of an already charged-off loan will not give rise to income-as long as the operation is still in an impaired status-and the effective payments received are accounted for as a recovery from loans previously charged-off. In general, legal collection proceedings are commenced with respect to consumer loans once they are past-due for at least 90 days and, with respect to mortgage loans, once they are past-due for at least 120 days. Legal collection proceedings are always commenced within one year of such loans becoming past-due, unless we determine that the size of the past-due amount does not warrant such proceedings. In addition, the majority of our

Table of Contents

commercial loans are short-term, with single payments at maturity. Past-due loans are required to be covered by individual loan loss reserves equivalent to 100.0% of any unsecured portion thereof.

The following table sets forth all of our non-performing loans and impaired loans as of December 31, 2016, 2015, 2014, 2013 and 2012.

	2016		2015		2014		2013		2012	
	(in millions of Ch$, except percentages)									
Non-performing loans (1)	564,131		643,468		644,327		613,301		597,767	
Impaired loans (2)	1,615,441		1,669,340		1,617,251		1,477,701		1,338,137	
Allowance for loan losses (3)	790,605		762,301		684,317		614,933		550,048	
Total loans (4)	27,206,431		25,300,757		22,892,649		21,060,761		18,966,652	
Allowance for loan losses / loans	2.89	%	3.01	%	2.99	%	2.92	%	2.90	%
Non-performing loans as a percentage of total loans	2.07	%	2.54	%	2.81	%	2.91	%	3.15	%
Loan loss allowance as a percentage of non-performing loans	140.15	%	118.47	%	106.21	%	100.27	%	92.02	%

(1) Non-performing loans include the aggregate principal and accrued but unpaid interest of any loan with one installment that is at least 90 days past-due, and do not accrue interest.

(2) Impaired loans include: (a) for loans individually evaluated for impairment: (i) the carrying amount of all loans to clients that are rated C1 through C4, D1 and D2 and (ii) the carrying amount of all loans to an individual client with at least one non-performing loan (which is not a residential mortgage loan past due less than 90 days), regardless of category; and (b) for loans collectively evaluated for impairment, the carrying amount of all loans to a client, when at least one loan to that client is not performing or has been renegotiated. See "Note 9—Loans and Accounts Receivables from Customers" of the Audited Consolidated Financial Statements. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing loans, but do not accrue interest.

(3) Includes allowance for interbank loans.

(4) Includes interbank loans.

We suspend the accrual of interest and readjustments on all past-due loans. Interest revenue and expense are recorded on an accrual basis using the effective interest method. However, when a loan is past-due by 90 days or more, when an obligation originated from a refinancing or renegotiation or when the Bank believes that the debtor poses a high risk of default, the interest pertaining to these is not recorded directly in the Consolidated Statement of Income unless it has been actually received. See "Note 1—Summary of Significant Accounting Principles—(h) Valuation of financial assets and liabilities and recognition of fair value changes" and "Note 25—Interest and Adjustments" of the Audited Consolidated Financial Statements. These interest and adjustments balances are generally referred to as "suspended" and are recorded in suspense accounts which are not part of the Consolidated Statements of Financial Position. Instead, they are reported as part of the complementary information thereto. See "Note 25—Interest and Adjustments" of the Audited Consolidated Financial Statements. This interest is recognized as income, when collected, and as a reversal of the related impairment losses.

The Bank ceases accruing interest on the basis of contractual terms on the principal amount of any asset that is classified as an impaired asset. Thereafter, the Bank recognizes as interest income the accretion of the net present value of the written down amount of the loan due to the passage of time based on the original effective interest rate of the loan. On the other hand, any collected interest for any assets classified as impaired are accounted for on a cash basis.

At the period end, the detail of income from suspended interest is as follows:

	Year ended December 31,				
	2016	2015	2014	2013	2012
Suspended interest	Ch$ million				
Commercial loans	22,089	23,310	24,753	21,645	20,595
Mortgage loans	5,271	13,268	12,454	8,484	8,844
Consumer loans	9,559	6,224	6,336	6,753	8,742
Totals	36,919	42,802	43,543	36,882	38,181

Table of Contents

Analysis of Impaired and Non-Performing Loans

The following table analyzes our impaired loans. Impaired loans include: (i) all loans to a single client that are evaluated on a group basis, including performing loans, that have a loan classified as non-performing, (ii) all renegotiated consumer loans and (iii) all commercial loans at risk of default. See "Note 9—Loans and Accounts Receivables from Customers—(a) Loans and accounts receivable from customers" in the Audited Consolidated Financial Statements.

	2016	2015	2014	2013	2012
	(Ch$ million)				
Total loans	27,206,431	25,300,757	22,892,649	21,060,761	18,966,652
Allowance for loan losses	790,605	762,301	684,317	614,933	550,048
Impaired loans(1)	1,615,441	1,669,340	1,617,251	1,477,701	1,338,137
Impaired loans as a percentage of total loans	5.94 %	6.60 %	7.06 %	7.02 %	7.06 %
Amounts non-performing	564,131	643,468	644,327	613,301	597,767
To the extent secured(2)	298,537	283,731	296,899	295,503	306,782
To the extent unsecured	265,594	359,737	347,428	317,798	290,985
Amounts non-performing as a percentage of total loans	2.07 %	2.54 %	2.81 %	2.91 %	3.15 %
To the extent secured(2)	1.10 %	1.12 %	1.30 %	1.40 %	1.62 %
To the extent unsecured	0.98 %	1.42 %	1.52 %	1.51 %	1.53 %
Loans loss allowances as a percentage of:					
Total loans	2.91 %	3.01 %	2.99 %	2.92 %	2.90 %
Total amounts non-performing	140.15 %	118.47 %	106.21 %	100.27 %	92.02 %
Total amounts non-performing-unsecured	297.67 %	211.91 %	196.97 %	193.50 %	189.03 %

(1) Impaired loans include: (a) for loans individually evaluated for impairment: (i) the carrying amount of all loans to clients that are rated C1 through C4, D1 and D2 and (ii) the carrying amount of all loans to an individual client with at least one non-performing loan (which is not a residential mortgage loan past due less than 90 days), regardless of category; and (b) for loans collectively evaluated for impairment, the carrying amount of all loans to a client, when at least one loan to that client is not performing or has been renegotiated. See "Note 9—Loans and Accounts Receivables from Customers" in the Audited Consolidated Financial Statements. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing loans, but do not accrue interest.

(2) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

A break-down of the loans included in the previous table which have been classified as impaired, including renegotiated loans, is as follows:

As of December 31, 2016

Impaired loans	Commercial	Residential mortgage	Consumer	Total
	(in millions of Ch$)			
Non-performing loans	316,838	147,572	99,721	564,131
Commercial loans at risk of default (1)	439,707	—	—	439,707
Other impaired loans consisting mainly of renegotiated loans (2)	172,624	250,116	188,863	611,603
Total	**929,169**	**397,688**	**288,584**	**1,615,441**

As of December 31, 2015

Impaired loans	Commercial	Residential mortgage	Consumer	Total
	(in millions of Ch$)			
Non-performing loans	346,868	183,133	113,467	643,468
Commercial loans at risk of default (1)	486,685	—	—	486,685
Other impaired loans consisting mainly of renegotiated loans (2)	108,330	213,014	217,843	539,187
Total	941,883	396,147	331,310	1,669,340

In particular, in 2016 we renegotiated with *cajas de compensación* with regard to our commercial portfolio and saw an increase in renegotiations with our clients with mortgage loans. However compared to our total mortgage loans, this proportion decreased from 5.1% in 2015 to 4.6% in 2016. Our consumer loans showed signs of improvement with less renegotiated loans and non-performing loans.

Table of Contents

As of December 31, 2014

Impaired loans	Commercial	Residential mortgage	Consumer	Total
	(in millions of Ch$)			
Non-performing loans	367,791	179,417	97,119	644,327
Commercial loans at risk of default (1)	420,038	—	—	420,038
Other impaired loans consisting mainly of renegotiated loans (2)	95,335	191,186	266,365	552,886
Total	883,164	370,603	363,484	1,617,251

As of December 31, 2013

Impaired loans	Commercial	Residential mortgage	Consumer	Total
	(in millions of Ch$)			
Non-performing loans	364,890	155,688	92,723	613,301
Commercial loans at risk of default (1)	317,534	—	—	317,534
Other impaired loans consisting mainly of renegotiated loans (2)	122,464	167,713	256,689	546,866
Total	804,888	323,401	349,412	1,477,701

As of December 31, 2012

Impaired loans	Commercial	Residential mortgage	Consumer	Total
	(in millions of Ch$)			
Non-performing loans	320,461	159,802	117,504	597,767
Commercial loans at risk of default (1)	298,868	—	—	298,868
Other impaired loans consisting mainly of renegotiated loans (2)	96,793	69,228	275,481	441,502
Total	716,122	229,030	392,985	1,338,137

(1) Total loans to a debtor, whose allowance level is determined on an individual basis with a risk of defaulting.

(2) Renegotiated loans for loans whose loan loss allowance is analyzed on a group basis.

Renegotiated Loans

In certain instances, we renegotiate loans that have one or more principal or interest payments past-due. The type of concession we most often afford when renegotiating a loan is a reduction in interest payment or, on rare occasions, forgiveness of principal. We estimate that less than 0.5% of renegotiated loans relate to the forgiveness of principal, and the remaining 99.5% relates to reduction of interest payments. Any amount of principal forgiven is charged off directly to income as of the date the loan is renegotiated, if not already covered by an allowance for loan loss. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing, but do not accrue interest, and they are considered to be impaired for the life of the loan, both for disclosure purposes and in our determination of our allowances for loan losses, and never moved out of renegotiated status. The effects of the amount of interest to be accrued were not material to “Loans and receivables from customers, net” on our Consolidated

Statement of Financial Position.

The following table shows the success rate, for the periods indicated, for renegotiated consumer and residential mortgage loans. The success rate for consumer loans is defined for each reported period as: (i) the total amount of loans renegotiated in that period minus the amount of such renegotiated loans that are classified as non-performing loans as of December 31, 2015 or 2016, as applicable, minus the amount of such renegotiated loans that have been charged off as of December 31, 2015 or 2016, as applicable, divided by (ii) the total amount of such renegotiated loans. The success rate for residential mortgage loans is defined for each reported period as: (i) the total amount of loans renegotiated in that period minus the amount of such renegotiated loans that are classified as non-performing loans as of December 31, 2015 or 2016, as applicable, divided by (ii) the total amount of such renegotiated loans. A charge-off of a residential mortgage loan is not generally included in measuring the success rate of mortgage renegotiations since the period to charge-off a mortgage loan is 48 months after an installment is past-due.

Period of renegotiation	Success rate Consumer Loans	Success rate Residential mortgage loans
1Q 2015	55.3%	80.2%
2Q 2015	57.2%	79.3%
3Q 2015	49.9%	82.0%
4Q 2015	64.8%	88.3%
1Q 2016	71.9%	87.3%
2Q 2016	77.3%	91.7%
3Q 2016	95.8%	95.6%
4Q 2016	99.6%	99.6%

From time to time, we modify loans that are not classified as non-performing if a client is confronting a financial difficulty, such as unemployment or another temporary situation. These loans are not classified as renegotiated for disclosure purposes, but are considered as renegotiated for our provisioning models. The following table provides information regarding loans collectively evaluated for impairment that are classified as “modified:”

Modified loans(1) (Ch$mn)	2016	2015	2014
Commercial loans collectively evaluated for impairment	117,002	156,055	169,725
Residential mortgage loans	157,239	223,645	228,856
Consumer loans	214,344	178,244	243,441
Total modified loans	488,585	557,944	642,022

(1) Modified loans include loans collectively evaluated for impairment that were not classified as non-performing in which certain concessions were made to the client. The main type of concession given by the Bank is a reduction of interest, with forgiveness of principal occurring on rare occasions.

The modified loans included in the table above represent the full balance of all modified loans regardless of the date of modification. When a loan is marked as modified, we do not remove it from this status until paid in full. Our provisioning models currently consider a modified loan to be renegotiated for the life of the loan. Modified loans are included in the same pool of loans together with renegotiated loans for the life of the loans.

Analysis of Loan Loss Allowances

The following table provides the details of the roll-forwards in 2016, 2015, 2014, 2013 and 2012 of our allowance for loan losses, including decrease of allowances due to charge-offs, allowances established, allowances released, gross provision expense and opening and closing balance:

127

Table of Contents

Activity during 2016	Commercial loans Individual	Commercial loans Group	Mortgage loans Group	Consumer loans Group	Interbank loan	Total
	(in millions of Ch$)					
Balances as of December 31, 2015	256,505	174,696	62,427	267,507	1,166	762,301
Allowances established (1)	61,002	133,855	50,892	280,544	3,052	529,345
Allowances released (2)	(43,183)	(14,432)	(34,246)	(30,790)	(83)	(122,734)
Released allowances by charge-off (3)	(54,924)	(104,868)	(10,911)	(207,604)	—	(378,307)
Balances as of December 31, 2016	219,400	189,251	68,162	309,657	4,135	790,605

Activity during 2015	Commercial loans Individual	Commercial loans Group	Mortgage loans Group	Consumer loans Group	Interbank loan	Total
	(in millions of Ch$)					
Balances as of December 31, 2014	215,852	165,697	48,744	254,023	1	684,317
Allowances established (1)	124,968	136,778	34,373	248,937	1,357	546,413
Allowances released (2)	(46,614)	(17,885)	(7,205)	(18,126)	(192)	(90,022)
Released allowances by charge-off (3)	(37,701)	(109,894)	(13,485)	(217,327)	—	(378,407)
Balances as of December 31, 2015	256,505	174,696	62,427	267,507	1,166	762,301

Activity during 2014	Commercial loans Individual	Commercial loans Group	Mortgage loans Group	Consumer loans Group	Interbank loan	Total
	(in millions of Ch$)					
Balance as of December 31, 2013	206,377	100,170	43,306	264,585	495	614,933
Allowances established (1)	52,240	174,244	24,907	218,941	60	470,392
Allowances released (2)	(15,903)	(7,127)	(6,561)	(38,275)	(554)	(68,420)
Released allowances by charge-off (3)	(26,862)	(101,590)	(12,908)	(191,228)	—	(322,588)
Balances as of December 31, 2014	215,852	165,697	48,744	254,023	1	684,317

Activity during 2013	Commercial loans Individual	Commercial loans Group	Mortgage loans Group	Consumer loans Group	Interbank loan	Total
	(in millions of Ch$)					
Balance as of December 31, 2012	154,702	95,938	35,990	263,259	159	550,048
Allowances established (1)	92,008	98,715	42,487	258,446	455	492,111
Allowances released (2)	(22,014)	(11,151)	(9,216)	(35,482)	(119)	(77,982)
Released allowances by charge-off (3)	(18,319)	(83,332)	(25,955)	(221,638)	—	(349,244)
Balances as of December 31, 2013	206,377	100,170	43,306	264,585	495	614,933

	Commercial loans		Mortgage loans	Consumer loans	Interbank loan	
Activity during 2012	Individual	Group	Group	Group		Total
	(in millions of Ch$					
Balances as of December 31, 2011	112,687	97,115	35,633	243,022	11	488,468
Allowances established (1)	83,742	83,181	25,314	318,565	548	511,350
Allowances released (2)	(20,716)	(16,624)	(7,449)	(38,471)	(400)	(83,660)
Charge-off released allowances (3)	(21,011)	(67,734)	(17,508)	(259,857)	—	(366,110)
Balances as of December 31, 2012	154,702	95,938	35,990	263,259	159	550,048

(1) Represents gross allowances made in respect of increased risk of loss during the period and loan growth.

(2) Represents the gross amount of loan loss allowances released during the year as a consequence of reduction in the level of risk existing in the loan portfolio, including as a result of improvement in the credit risk classification of borrowers and loans paid.

(3) Represents the gross amount of loan loss allowances removed due to charge-off.

128

Table of Contents

The following table shows recoveries by type of loan:

	Year ended December 31,				
	2016	2015	2014	2013	2012
	(in millions of Ch$)				
Recovery of loans previously charged-off					
Consumer loans	41,072	35,565	36,908	36,004	22,015
Residential mortgage loans	10,041	6,543	5,122	4,735	2,305
Commercial loans	27,185	26,032	16,947	14,545	8,695
Total recoveries	78,298	68,140	58,977	55,284	33,015

Allocation of the Loan Loss Allowances

The following tables set forth, as of December 31 of each of the five years listed below, the proportions of our required loan loss allowances that were attributable to our commercial, consumer and residential mortgage loans at each such date.

	As of December 31, 2016				As of December 31, 2015				As of December 31, 2014			
	Total Allowance	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allowances	Total Allowance	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allowances	Total Allowance	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allowances
	Ch$ million				Ch$ million				Ch$ million			
Commercial loans												
Commercial loans	308,166	3.1 %	1.1%	39.0 %	305,465	3.4 %	1.2%	40.1 %	269,185	3.2 %	1.2%	39.3 %
Foreign trade loans	57,820	3.2 %	0.2%	7.3 %	67,104	3.1 %	0.3%	8.8 %	56,800	3.2 %	0.2%	8.3 %
Checking accounts debtors	9,648	5.4 %	—	1.2 %	9,869	4.2 %	—	1.3 %	10,009	3.8 %	—	1.4 %
Factoring transactions	5,407	1.8 %	—	0.7 %	5,955	2.2 %	—	0.8 %	4,868	1.5 %	—	0.7 %
Leasing transactions	23,139	1.6 %	0.1%	2.9 %	25,437	1.7 %	0.1%	3.3 %	23,734	1.6 %	0.1%	3.5 %
Other loans and accounts receivable	25,262	11.4%	0.1%	3.2 %	17,371	12.1%	0.1%	2.3 %	16,953	12.5%	0.1%	2.5 %
Subtotals	429,442	3.1 %	1.6%	54.3 %	431,201	3.2 %	1.7%	56.6 %	381,549	3.1 %	1.6%	55.7 %
Residential mortgage loans												
Loans with mortgage finance bonds	16	—	—	—	336	0.8 %	—	—	353	0.6 %	—	0.1 %
Mortgage mutual loans	190	0.2 %	—	—	848	0.6 %	—	0.1 %	552	0.5 %	—	0.1 %
Other mortgage mutual loans	56,803	0.7 %	0.2%	7.2 %	61,243	0.8 %	0.2%	8.0 %	47,839	0.7 %	0.2%	7.0 %
Subtotals	57,009	0.7 %	0.2%	7.2 %	62,427	0.8 %	0.2%	8.1 %	48,744	0.7 %	0.2%	7.2 %
Consumer loans												
Installment consumer	249,545	9.2 %	0.9%	31.6 %	215,914	8.7 %	0.9%	28.3 %	201,931	8.7 %	0.9%	29.5 %

loans												
Credit card balances	41,063	2.8 %	0.2%	5.2 %	43,159	3.0 %	0.2%	5.7 %	44,050	3.2 %	0.2%	6.4 %
Consumer leasing contracts	72	1.4 %	—	—	79	1.4 %	—	—	80	1.5 %	—	—
Other consumer loans	9,339	3.4 %	—	1.2 %	8,355	3.5 %	—	1.1 %	7,962	3.5 %	—	1.2 %
Subtotals	300,019	6.7 %	1.1%	37.9 %	267,507	6.4 %	1.1%	35.1 %	254,023	6.5 %	1.1%	37.1 %
Totals loans to clients	786,470	2.9 %	2.9%	99.5 %	761,135	3.0 %	3.0%	99.8 %	648,316	3.11%	2.9%	100.0%
Interbank loans	4,135	1.5 %	—	0.5 %	1,166	10.7%	—	0.2 %	1	—	—	—
Totals	790,605	2.9 %	2.9%	100.0%	762,301	3.0 %	3.0%	100.0%	648,317	3.0 %	2.9%	100.0%

130

Table of Contents

	As of December 31, 2013				As of December 31, 2012			
	Total Allowance	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allowances	Total Allowance	Allowance amount as a percentage of loans in category	Allowance amount as a percentage of total loans	Allowance amount as a percentage of total allowances
	Ch$ million				Ch$ million			
Commercial loans								
Commercial loans	208,619	2.7 %	1.0 %	33.9 %	199,841	2.7 %	1.1 %	36.3 %
Foreign trade loans	53,005	2.9 %	0.3 %	8.6 %	18,535	1.5 %	0.1 %	3.4 %
Draft loans	8,376	3.0 %	—	1.3 %	3,033	1.5 %	—	0.6 %
Factoring transactions	5,054	1.6 %	—	0.8 %	3,683	1.1 %	—	0.7 %
Leasing transactions	19,177	1.4 %	0.1 %	3.1 %	23,426	1.8 %	0.1 %	4.3 %
Other loans and accounts receivable	12,316	10.4 %	0.1 %	2.0 %	2,122	2.2 %	—	0.4 %
Subtotals	306,547	2.6 %	1.5 %	49.7 %	250,640	2.4 %	1.3 %	45.7 %
Residential mortgage loans								
Loans with letters of credit	470	0.7 %	—	0.1 %	493	0.5 %	—	0.1 %
Mortgage mutual loans	380	0.5 %	—	0.1 %	936	2.0 %	—	0.2 %
Other mortgage mutual loans	42,456	0.8 %	0.2 %	6.9 %	34,561	0.7 %	0.2 %	6.3 %
Subtotals	43,306	0.8 %	0.2 %	7.1 %	35,990	0.7 %	0.2 %	6.6 %
Consumer loans								
Installment consumer loans	221,723	10.2 %	1.1 %	36.1 %	218,474	11.8 %	1.2 %	39.7 %
Credit card balances	37,300	3.0 %	0.2 %	6.1 %	38,719	3.7 %	0.2 %	7.0 %
Consumer leasing contracts	68	2.0 %	—	—	160	4.3 %	—	—
Other consumer loans	5,494	2.7 %	—	0.9 %	5,906	3.0 %	—	1.0 %
Subtotals	264,585	7.3 %	1.3 %	43.1 %	263,259	8.5 %	1.4 %	47.7 %
Totals loans to clients	614,438	2.9 %	3.0 %	99.9 %	549,889	2.9 %	2.9 %	100.0 %
Interbank	495	0.4 %	—	0.1 %	159	0.2 %	—	—
Totals	614,933	2.9 %	3.0 %	100.0 %	550,048	2.9 %	2.9 %	100.0 %

Based on information available regarding our borrowers, we believe that our loan loss allowances are sufficient to cover known potential losses and losses inherent in a loan portfolio of the size and nature of our loan portfolio.

Table of Contents

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors

We are managed by our Board of Directors, which, in accordance with our by-laws, consists of 11 directors and two alternates who are elected at our ordinary shareholders' meetings. Except as noted below, the current members of the Board of Directors were elected by the shareholders in the ordinary shareholders' meeting held on April 26, 2014. Members of the Board of Directors are elected for three-year terms. The term of the current Board members expires in April of 2017. On October 27, 2016, the SBIF authorized a reduction in the number of Board members from 11 to nine. This reduction and the corresponding amendment to Article 14 of the by-laws was approved by the shareholders at an Extraordinary Shareholders' Meeting held on January 9, 2017 and will enter into force on the date of the Bank's next Ordinary Shareholders' Meeting, which will take place on April 26, 2017. The current principal and alternate directors will remain in office until such date.

Cumulative voting is permitted for the election of directors. The Board of Directors may appoint replacements to fill any vacancies that occur during periods between elections. If any member of the Board of Directors resigns before his or her term has ended, and no other alternate director is available to take the position at the next annual ordinary shareholders' meeting a new replacing member will be elected. Our executive officers are appointed by the Board of Directors and hold office at its discretion. Scheduled meetings of the Board of Directors are held monthly. Extraordinary meetings can be held when called in one of three ways: by the Chairman of the Board of Directors, by three directors with the consent of the Chairman of the Board of Directors or by the majority of directors. None of the members of our Board of Directors has a service contract which entitles any Director to any benefits upon termination of employment with Santander-Chile.

Our current directors are as follows:

Directors	**Position**	**Committees**	**Term Expires**
Vittorio Corbo Lioi	President	Asset and Liability Committee (President) Human Resources Committee (President) Market Committee (President) Strategy Committee (President)	Apr-17
Oscar von Chrismar Carvajal	First Vice President	Asset and Liability Committee (First Vice President) Human Resources Committee	Apr-17

		Market Committee (First Vice President) Integral Risk Committee (President) Strategy Committee	
Roberto Méndez Torres	Second Vice President	Integral Risk Committee (Second Vice President) Strategy Committee (Vice President)	Apr-17
Juan Pedro Santa Maria Perez	Director	Analysis and Resolution Committee (President) Integral Risk Committee (First Vice President)	Apr-17
Marco Colodro Hadjes	Director	Audit Committee (President) Asset and Liability Committee Market Committee	Apr-17
Mauricio Larraín Garcés	Director	Audit Committee (Vice President and Financial Expert) Human Resources Committee (First Vice President)	Apr-17

Table of Contents

Roberto Zahler Mayanz	Director	Asset and Liability Committee (Second Vice President) Integral Risk Committee Market Committee (Second Vice President)	Apr-17
Lucía Santa Cruz Sutil	Director	Strategy Committee	Apr-17
Orlando Poblete Iturrate	Director	Audit Committee (Second Vice President)	Apr-17
Andreu Plaza	Director	—	Apr-17
Ana Dorrego	Director	—	Apr-17
Blanca Bustamante Bravo	Alternate Director	Human Resources Committee	Apr-17
Raimundo Monge Zegers	Alternate Director	Integral Risk Committee Strategy Committee (Secretary) Asset and Liability Committee Analysis and Resolution Committee (First Vice President)	Apr-17

Vittorio Corbo Lioi has been the President of the Board since April 2014. He is one of Chile's leading economists. From 2003 to 2007, Mr. Corbo was the President of Chile's Central Bank. Since the end of his tenure there, Mr. Corbo has been a Senior Research Associate at the Centro de Estudios Públicos (CEP), a local think tank. Mr. Corbo is also member of the boards of Banco Santander Mexico, CCU Chile and an economic consultant to several large corporations in Chile and abroad. He served in senior managerial positions at the World Bank in Washington, DC (1984-1991) and has been a professor of economics in Canada, the USA and Chile. Between 1991 and 1995, Mr. Corbo was an economic advisor to the Bank, and a member of its Board of Directors between 1995 and 2003. Between 2011 and 2014, he was a board member of Banco Santander SA in Spain. Mr. Corbo is the President of the Asset and Liability Committee, the Market Committee, the Strategy Committee and the Human Resources Committee. Mr. Corbo holds a commercial engineering degree (with highest distinction) from the Universidad de Chile and a Ph.D. in economics from MIT.

Oscar von Chrismar Carvajal became Vice President of the Board on January 1, 2010, after having served as the Chief Executive Officer of Santander-Chile since August 2003. Mr. Von Chrismar is First Vice President of the Asset and Liability Committee, the Market Committee and the Integral Risk Committee. He is also a member of the Human Resources Committee and the Strategy Committee. Prior to assuming the Chief Executive officer post, he was the Manager of Global Banking. Prior to the merger, he was the former Chief Executive Officer of Old Santander-Chile since September 1997, after being General Manager of Banco Santander-Peru since September 1995. Mr. von Chrismar is also a board member of Banco Santander Argentina and Banco Santander Peru. He is also the President of Santander Consumer Chile S.A. Prior to that, Mr. von Chrismar was the manager of the Finance Division of Santander-Chile, a position that he had held since joining Santander-Chile in 1990. Mr. von Chrismar holds an Engineering degree from the Universidad de Santiago de Chile.

Roberto Méndez Torres is Second Vice President of the Board. He is a former member of the Board of Old Santander-Chile, to which he was appointed in 1996. He is Second Vice President of the Integral Risk Committee and the Strategy Committee. He is a professor of Economics at Universidad Católica de Chile. He has been Advisor to Grupo Santander-Chile since 1989. Mr. Méndez is President and Director of Adimark Chile Gfk and on the Board of the Chilean and German Chamber of Commerce. He is also a Director of Enex S.A. and President of Universia Chile S.A. Mr. Méndez is also a member of the Council of Paz Ciudadana and was a former President of ICARE. He graduated with a degree in Business Administration from Universidad Católica de Chile, and holds an MBA and a

Ph.D. from the Graduate School of Business at Stanford University.

Juan Pedro Santa María Pérez became a Director on July 24, 2012 after having served as Corporate Legal Director for Grupo Santander Chile and Legal Counsel for Santander-Chile. Mr. Santa María is President of the Analysis and Resolution Committee and First Vice President of the Integral Risk Committee. Mr. Santa María joined Santander-Chile in 2002, after the merger with Banco Santiago. Previous to that he was Legal Counsel for Banco Santiago and Banco O'Higgins. He has also been President of the Legal Committee of the Asociación de

Bancos e Instituciones Financieras de Chile for over 20 years and President Pro-Tempore of the Financial Law Committee of the Federación Latinoamericana de Bancos (FELABAN). Mr. Santa María holds a degree in Law from the Pontificia Universidad Católica de Chile.

Marco Colodro Hadjes became a Director on April 19, 2005. Mr. Colodro is President of the Audit Committee and is a member of the Asset and Liability Committee and the Market Committee. He is a director of the Board of Telefónica Chile and a former director of Codelco. He is the former chairman of TVN (National Television Network) and the former vice chairman of Banco del Estado de Chile (State Bank of Chile). Prior to that, he was Foreign Trade Director at the Central Bank of Chile. Mr. Colodro holds a degree in Economics from the Universidad de Chile, and has done post-graduate studies at the École Pratique des Hautes Etudes of the University of Paris.

Mauricio Larraín Garcés became a Director in April 2014. Previously, he was President of the Board of Santander-Chile for more than two decades. He is Vice President and Financial Expert of the Audit Committee. He is also First Vice President of the Human Resources Committee. He is a member of the board of the Institute for Religious Works (IOR) in the Vatican City State. Mr. Larraín began working at Santander-Chile in 1989. Previously, he was Deputy Superintendent of Banks, Manager of External Debt at the Central Bank of Chile, and Senior Finance Specialist at the World Bank, in Washington D.C. He holds law degrees from the Pontifical Catholic University of Chile and from Harvard University.

Roberto Zahler became a Director in 2002. He is Second Vice President of the Asset and Liability Committee and the Market Committee. He is also a member of the Integral Risk Committee. Currently, he is President of the consultancy firm Zahler & Co. and serves as a consultant for the World Bank, IADB, IMF and BIS. He has been a member of the High Level Consulting Group to the IADB President, of LASFRC (Latin-American Shadow Financial Regulatory Committee) and of the Emerging Market Economies Eminent Persons Group (EMEEPG). He was President of the Board of Siemens-Chile and Director of Air Liquide-Chile and of Banco Santiago. He was also a visiting professor at the IMF's Research Department. Between 1991 and 1996, he was President of the Central Bank of Chile and Vice President from 1989 to 1991. Prior to that he served as Chief Regional Adviser in Monetary and Financial Policy of the UN Economic Commission for Latin America and the Caribbean and was Lecturer and Researcher at the University of Chile's School of Economics. Mr. Zahler has provided technical assistance to the central banks and finance ministries of Indonesia, Kosovo and most countries in Latin America. Mr. Zahler holds a degree in Economics from the Universidad de Chile and a Masters in Economics from the University of Chicago.

Lucía Santa Cruz Sutil became a Director on August 19, 2003. Ms. Santa Cruz is a member of the Strategy Committee. Ms. Santa Cruz holds a degree in History from King's College, London University and an M.Phil. in History from Oxford University and holds a Doctor Honoris Causa degree from King's College. She is a Member of the Board of the Universidad Adolfo Ibañez. Ms. Santa Cruz is also Second Vice President of Universia Chile S.A. She is Vice President of the Board of Compañía de Seguros Generales y de Vida La Chilena Consolidada,(Zurich) and member of the Advisory Board of Nestle Chile She sits on the board of non-profit cultural organizations and is also a member of the Self-Regulation Committee for Insurance Companies in Chile. She is a Member of the Academy of Social, Political and Moral Sciences of the Institute of Chile.

Orlando Poblete Iturrate became a Director on April 25, 2015. He is the Second Vice President of the Audit Committee. He previously became an Alternate Director on April 22, 2014. Since 1991 Mr. Poblete has been a professor at the Universidad Los Andes. Between 1997 and 2004, he was Dean of the Law School and since 2014 he has been Chancellor of the university. He is also a partner at the law firm Orlando Poblete & Company. He is an arbitrator of the Centro de Arbitraje y Mediación de la Cámara de Comercio de Santiago. Between 2012 and 2014, he was Chairman of Clínica Universidad de los Andes and is currently Member of the Board of the University of the Andes. He has also been a Professor of Law at the University of Chile. Mr. Poblete is a lawyer from the University of Chile and has masters from the same university.

Andreu Plaza became a Director in March 2016. Mr. Plaza was appointed as senior executive vice president of T&O Division in Santander Group on January 2015. He is Santander's Chief Technology Officer and a member of the management committee. Mr. Plaza joined the Group in 2012 as the technology and operations director for the retail and business banking segments in Santander UK. He has been a senior executive vice president and member of the Management Committee of Caixa Catalunya since 1998 and has also been a member of the boards of Servired and Aula Escola Europea. He has a graduate in Mathematics from the Universitat Autónoma de Barcelona. He also has various Master's degrees in Finance and Banking from Stanford University, Insead, The Wharton School and ESADE.

Table of Contents

Ana Dorrego became a Director in March 2016. She has been working at the Santander Group in the Financial Planning and Corporate Development department for the last 11 years, coordinating the Group planning processes. In this role, she has also been involved in following up on the different Santander Group units and projects. She is a board member of Santander Securities Services, S.A. She has also participated in acquisition, sales and integration projects during her time with the Group (ABN, SEB, US, Banesto, Spanish Cajas and Banif Portugal among others) and spent two years as e-business development director for the Santander Group. Prior to joining the Santander Group, she was a corporate clients relationship manager and commercial director of transactional banking at Bankinter. Ms. Dorrego holds a degree in Business Administration from the University Pontificia de Comillas ICAI-ICADE, a degree in General Management from IESE and Master's degrees in Business Administration from Deusto University – Bilbao, Spain, and Adolfo Ibañez, Miami/Chile.

Blanca Bustamante Bravo became an Alternate Director on April 28, 2015. She is also a member of the Human Resources Committee. In 1998, she joined Viña Concha y Toro as Head of Investor Relations with the responsibility to present business strategy and achievements of the company to the financial community, a position held until 2010. In parallel, in May 2001, she became Assistant Manager of Corporate Communications. In 2011, she became responsible for relations with the community in order to focus the efforts of the company in projects that create value for the community and the environment in which it operates. Since 2013, she is a director in the Center for Research & Innovation for Concha y Toro which focus is to develop technology and knowledge transfer to the industry. She holds a degree in business from Universidad Católica de Chile.

Raimundo Monge Zegers became an Alternate Director on April 29, 2003. Mr. Monge is Corporate Director of Strategic Planning for Grupo Santander-Chile and is CEO of Santander Chile Holding S.A. He is First Vice President of the Analysis and Resolution Committee. He is also currently a member of the Asset and Liability Committee, the Integral Risk Committee and Secretary of the Strategy Committee. He is also President of Santander Inversiones S.A., Santander S.A. Sociedad Securitizadora and Santander Factoring S.A. He is a Director of Teatinos Siglo XXI Inversiones S.A. and Bansa Santander S.A. Mr. Monge has a degree in business from the Universidad Católica de Chile and an MBA from the University of California, Los Angeles.

Table of Contents

Senior Management

Our senior managers are as follows:

Senior Manager	Position	Date Appointed
Claudio Melandri	Chief Executive Officer	Jan-10
Miguel Mata	Deputy General Manager	Apr-16
Matias Sanchez	Director of Retail Banking	Mar-16
Fred Meller	Director of Global Corporate Banking	Jan-11
Jose Manuel Manzano	Director of Middle-Market	Apr-16
Emiliano Muratore	Chief Financial Officer	Apr-16
Guillermo Sabater	Financial Controller	Nov-15
Franco Rizza	Director of Risk	Feb-14
Ricardo Bartel	Director of Technology and Operations	Oct-14
María Eugenia de la Fuente	Director of Human Resources	Jun-15
Sergio Avila	Director of Administration and Costs	Mar-15
Felipe Contreras	Chief Accounting Officer	Oct-08
Carlos Volante	Manager Clients and Service Quality	Jan-14
Cristian Florence	General Counsel	Sep-12
Ricardo Martinez	Director of Internal Audit	Sep-13

Claudio Melandri became the Chief Executive Officer of Santander-Chile in January 2010 after being our Retail Banking Manager since February 21, 2008. He started his career at Santander-Chile in 1990 becoming a regional branch manager and manager of Santander-Chile's branch network. He was also a Vice President at Banco Santander Venezuela from 2005 to 2007. In 2007, he was appointed Corporate Director of Human Resources of Banco Santander-Chile. He is also President of Santander Chile Holding S.A. and First Vice President of Universia Chile S.A. Mr. Melandri has a Business Degree from the Universidad Tecnológica Metropolitana in Chile and holds a Master's degree in Business Administration from the Universidad Adolfo Ibañez.

Miguel Mata became the Deputy General Manager for Santander-Chile on April 2016. Previously, between 2011 and 2016, he was the Chief Financial Officer for Santander-Chile. Prior to that, he served in several staff positions related to business strategy. Mr. Mata joined Santander-Chile in 2002 when Santander-Chile merged with Banco Santiago. Previously he was the Financial Controller of Banco Santiago. Mr. Mata is also a Director of Santander Consumer Chile S.A., Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A. He has been working in the banking industry since 1990, when he joined Banco O'Higgins, one of the predecessors to Banco Santiago. Mr. Mata holds a degree in Engineering from Universidad Católica de Chile.

Matias Sanchez became Director of Retail Banking in March 2016. He previously was the manager of Corporations and Institutions between 2013 and 2016. He joined Banco Santander in 1997 and had different roles there, including agent, Regional Manager, Deputy General Manager in Retail and General Manager in Retail Banking. Mr. Sanchez holds a Master's degree in Business Administration from the Instituto de Empresa in Spain and various other post graduate degrees.

Fred Meller became Manager of Global Banking & Market in January 2011. Prior to that he was Manager of Market Making for Europe and UK for Santander Spain. Previously, he served as Treasurer for Santander-Chile since 2008. He was also General Manager of Santander Agente de Valores and Director of Deposito Central de Valores Chile. Mr. Meller is also President of Santander S.A. Corredores de Bolsa. Mr. Meller holds a degree in Business Administration from Universidad Central de Chile.

José Manuel Manzano became Director of our Middle-market banking segment on April 1, 2016. Prior to that he was Manager of Personnel, Organization and Cost of Banco Santander Chile since September 2013. Prior to that he was Corporate Director of Risk since July 2007, and Corporate Director of Human Resources for Santander-Chile since October 31, 2002. Previously, he served as Manager of Human Resources for Old Santander-Chile since 1999. He was also General Manager of Santander Fund Management and Managing Director of Bancassurance. He is also a Director of Teatinos Siglo XXI Inversiones S.A., Santander Chile Holding S.A., Santander Asset Management S.A. and Santander Factoring S.A. Mr. Manzano holds an MBA and a degree in Business from Universidad Católica de Chile.

Table of Contents

Emiliano Muratore became the Chief Financial Officer for Santander-Chile in April 2016. Before becoming Chief Financial Officer, he spent eight years as the head of the ALM division. Prior to joining Santander Chile in 2006, Mr. Muratore worked at Santander's headquarters in Madrid for 4 years and, before that, at Santander's unit in Argentina for 4 years. He is also a Director of Santander Chile Holding S.A. and Santander Factoring S.A. Mr. Muratore has a degree in business from Universidad Católica Argentina in Buenos Aires and a postgraduate degree in finance from Universidad de San Andrés in Buenos Aires. Currently, he is chairman of the Finance Committee at Chile's Banking Association.

Guillermo Sabater was appointed Financial Controller of Santander-Chile in November 2015 and has been working for Santander Spain and its affiliates for 23 years. Between 2009 and 2015, he was Executive Vice President of Santander in the US and CFO and Controller of Sovereign Bank and Santander Holdings USA. Before that, he was the financial controller of Banco Santander Chile, between 2006 and 2009. He also served for three years between 2003-2006 as controller of the Consumer Finance Division in Madrid, Spain. Mr. Sabater also served as an internal auditor during his first ten years at the company, He has a degree in Economics and Business Administration from the University College of Financial Studies at the University Complutense de Madrid and a completed the Program in Executive Development at the Institute of Business and various courses and participation in institutions such as Babson College and Boston University.

Franco Rizza became Director of Risk in February 2014. Previously, he was director of Global Collections & Recoveries in the Madrid headquarters, covering all countries where the Group has commercial banking activities outside Spain. Between 2010 and 2013 he was the Chief Risk Officer of Banco Santander Risk in Uruguay. He joined the Group in 1989 in Argentina, where he held various positions, including Regional Manager, Product Manager and Retail Credit Risk Manager. He is also a Director of Santander Consumer Chile S.A. He has completed studies in Business and Risk Management in Argentina and Spain

Ricardo Bartel became the Director of Technology and operation in October 2014. His also Director of Isban Chile S.A. Prior to working at the Bank he held various positions at CCU including CFO between 1990 and 2005. He was also CFO at Madeco form 2005-2006. Between 2007 and 2008 he was Commercial Manager of Viña San Pedro. Following that he was CEO of Empresas Relsa S.A. and CEO of Laboratorio Mayer between 2011 and 2013. Mr. Bartel has a Civil Engineer degree from Universidad Católica de Chile with an MBA from the same university.

María Eugenia de la Fuente became Director of Human Resources in June 2015. Prior to working for the Bank, Ms. de la Fuente held different posts in strategic planning and human resources. From 2010 to 2013, she was Undersecretary to the Chief of Staff of President Piñera. From 2013 to 2015, she was Managing Director of Transparency and Client Services for Corpbanca and Chief Executive Officer of BZD Consultores. Ms. de la Fuente has a degree in business from the Universidad de Chile and a Master's degree in tax planning from the Universidad Adolfo Ibañez.

Sergio Avila is Director of Administration and Costs. He has worked at Banco Santander Chile for 19 years in Asset Management, Corporate Finance, Retail banking, Middle-market and Risks. Mr. Avila is also Director of Santander S.A. Sociedad Securitizadora. Mr. Avila has a BS and MS in Civil Engineering Degree from the Universidad Católica.

Felipe Contreras was named Chief Accounting Officer of Santander-Chile in October 2008. He has worked for 14 years in our Accounting Department, most recently as Manager of the Consolidation and Reporting Departments, overseeing our Chilean, U.S. and Spanish GAAP reporting requirements. He is also General Manager of Gesban Santander Servicios Profesionales Contables Ltda. Mr. Contreras is a Public Accountant from the University of Santiago and is currently a candidate to a Masters in Advanced Finance from the Universidad Adolfo Ibáñez.

Carlos Volante became manager Customers and Quality of Banco Santander in January 2014. Joined the Santander Group in 1990, holding various responsibilities within the organization, including manager of the Branch Network, general manager of the Administrator of Mutual Funds , Mortgage manager, Product Manager and Monitoring Commercial Banking. He was also Executive Vice President of Commercial Banking at Banco de Venezuela Grupo Santander. Between 2012 and 2013 he was general manager of the Company Corona Commercial Credit Group. Carlos Volante is an accountant auditor from the University of Talca and attended the DPA and an MBA from the Universidad Adolfo Ibáñez and participates in the PADE program at the Universidad de los Andes.

Table of Contents

Cristian Florence is our General Counsel, a position he has held since September 2012. Prior to that he served as Chief Lawyer at Santander-Chile. Mr. Florence joined Santander-Chile in 2002 when Santander-Chile merged with Banco Santiago. He started working in the banking industry in 1991, when he joined Centrobanco, a predecessor of Banco O'Higgins and Banco Santiago serving at several positions in the law departments. Mr. Florence is also a Director of Administrador Financiero de Transantiago S.A. and Santander Asset Management S.A. Administradora General de Fondos. He has a degree in Law from the Universidad Gabriela Mistral and a Master of Laws (LLM) from the same university.

Ricardo Martinez is the Corporate Director of Internal Auditing, a position he has held since September 1, 2013. He has worked for Grupo Santander since 1998 in different position in Internal Audit Division, including the Internal Director of Accounting, Audit Manager of Insurance and Asset Management and head auditor of Financial Risks. Mr. Martinez has a degree in Economic Sciences and Business from the Universidad Complutense of Madrid and a Master's in Business from the CIFF of the Universidad de Alcalá de Henares.

B. Compensation

For the year ended December 31, 2016, the aggregate amount of compensation paid by us to all of our directors, executive officers and management members was Ch$37,328 million (U.S.$56.1 million). For the year ended December 31, 2016, the aggregate amount of compensation paid by us to all of our directors was Ch$1,269 million (U.S.$1.9 million), in monthly stipends. At our annual shareholder meeting held on April 26, 2016, shareholders were asked to approve a monthly stipend per director of UF 230 (U.S.$9,099), UF 460 (U.S.$18,198) for the Chairman of the Board and UF 345 (U.S.$13,649) for the Vice-Chairman of the Board. This amount will be increased by UF 30 per month (U.S.$1,187) if a Board member is named to one or more committees of the Board. The additional amount will be UF 60 (U.S.$2,374) for the President of a committee and UF 45 (U.S.$1,780) for the Vice President of a committee. Shareholders were also asked to approve the Audit Committee 2015 remuneration for its members. The remuneration is a 33% additional compensation over the monthly stipend received by a regular board member, or UF 77 (U.S.$3,046), totaling a monthly stipend of UF 307 (U.S.$12,145). This remuneration is in line with the new Chilean corporate governance law. In addition, we pay certain directors professional service fees for the consulting services that they render to us in their fields of expertise. For the year ended December 31, 2016, payments to our directors for consulting fees totaled Ch$703 million (U.S.$1.1 million).

Santander-Chile and its affiliates have designed variable-compensation plans for their employees, based on performance targets and objectives, the achievement of which are evaluated and paid on a quarterly and/or annual basis.

Share-based compensation (settled in cash)

In accordance with IFRS 2, equity instruments settled in cash are allocated to executives of the Bank and its Subsidiaries as a form of compensation for their services. The Bank measures the services received and the cash obligation at fair value at the end of each reporting period and on the settlement date, recognizing any change in fair value in the income statement for the period. For the years ended December 31, 2016, 2015 and 2014, share-based compensation amounted to Ch$331 million, Ch$66 million and Ch$310 million.

Pension Plans:

The Bank has an additional benefit available to its principal executives, consisting of a pension plan. The purpose of the pension plan is to endow the executives with funds for a better supplementary pension upon their retirement. For this purpose, the Bank will match the voluntary contributions made by the beneficiaries for their future pensions with an equivalent contribution. The executives will be entitled to receive this benefit only when they fulfill the following conditions:

a. Aimed at the Bank's management.

b. The general requisite to apply for this benefit is that the employee must be carrying out his/her duties when turning 60 years old.

c. The Bank will create a pension fund, with life insurance, for each beneficiary in the plan. Periodic contributions into this fund are made by the manager and matched by the Bank.

d. The Bank will be responsible for granting the benefits directly.

Table of Contents

If the working relationship between the manager and the respective company ends, before s/he fulfills the abovementioned requirements, s/he will have no rights under this benefit plan. In the event of the executive's death or total or partial disability, s/he will be entitled to receive this benefit. The Bank will make contributions to this benefit plan on the basis of mixed collective insurance policies whose beneficiary is the Bank. The life insurance company with whom such policies are executed is not an entity linked or related to the Bank or any other Santander Group company. Plan Assets owned by the Bank at the end of 2016 totaled Ch$6,612 million (Ch$6,945 million in 2015).The amount of the defined benefit plans has been quantified by the Bank, based on the following criteria:

Calculation method:

Use of the projected unit credit method which considers each working year as generating an additional amount of rights over benefits and values each unit separately. It is calculated based primarily on fund contributions, as well as other factors such as the legal annual pension limit, seniority, age and yearly income for each unit valued individually.

Actuarial hypothesis assumptions:

Actuarial assumptions with respect to demographic and financial variables are non-biased and mutually compatible with each other. The most significant actuarial hypotheses considered in the calculations were:

	Plans post-employment 2016	Plans post-employment 2015
Mortality chart	RV-2014/CB-2014	RV-2009
Termination of contract rates	5.0 %	5.0 %
Impairment chart	PDT 1985	PDT 1985

Assets related to the pension fund contributed by the Bank into the Seguros Euroamérica insurance company with respect to defined benefit plans are presented as net of associated commitments. Activity for post-employment benefits is as follows:

As of December 31,	
2016	2015
Ch$mn	

Plan assets	6,612	6,945
Commitments for defined-benefit plans		
For active personnel	(4,975)	(5,070)
Incurred by inactive personnel	—	—
Minus:		
Unrealized actuarial (gain) losses	—	—
Balances at year end	1,637	1,875

139

Table of Contents

Year's cash flow for post-employment benefits is as follows:

	For the years ended December 31,		
	2016	2015	2014
	Ch$mn		
a) Fair value of plan assets			
Opening balance	6,945	6,495	5,171
Expected yield of insurance contracts	335	432	446
Employer contributions	886	18	878
Actuarial (gain) losses	—	—	—
Premiums paid	—	—	—
Benefits paid	(1,554)	—	—
Fair value of plan assets at year end	6,612	6,945	6,495
b) Present value of obligations			
Present value of obligations opening balance	(5,070)	(4,639)	(3,244)
Net incorporation of Group companies	—	—	—
Service cost	150	(431)	(1,395)
Interest cost	—	—	—
Curtailment/settlement effect	—	—	—
Benefits paid	—	—	—
Past service cost	—	—	—
Actuarial (gain) losses	—	—	—
Other	(55)	—	—
Present value of obligations at year end	(4,975)	(5,070)	(4,639)
Net balance at year end	1,637	1,875	1,856

Plan expected profit:

	As of December 31,		
	2016	2015	2014
Type of expected yield from the plan's assets	UF + 2.50% annual	UF + 2.50% annual	UF + 2.50% annual
Type of yield expected from the reimbursement rights	UF + 2.50% annual	UF + 2.50% annual	UF + 2.50% annual

Plan associated expenses:

	For the years ended December 31,		
	2016	2015	2014

	(in millions of Ch$)		
Current period service expenses	(150)	431	1,395
Interest cost	—	—	—
Expected yield from plan's assets	(335)	(432)	(446)
Expected yield of insurance contracts linked to the Plan:	—	—	
Extraordinary allocations	—	—	—
Actuarial (gain)/ losses recorded in the period	—	—	—
Past service cost	—	—	—
Other	—	—	—
Total	(485)	(1)	949

140

Table of Contents

C. Board Practices

Audit Committee

Board member	Position in Committee
Marco Colodro	President
Mauricio Larraín Garcés	First Vice President and Financial Expert
Orlando Poblete	Second Vice President

The Audit Committee (*Comité de Directores y Auditoría*) is comprised of three members of the Board of Directors. The Committee Secretary is Juan Pedro Santa María. The Chief Executive Officer, General Auditor and other persons from the Bank can be invited to the meetings if necessary and are present on specific matters. This Committee's primary responsibility is to support the Board of Directors in the continuous improvement of our system of internal controls, which includes reviewing the work of both the independent registered public accounting firm and the Internal Audit Department. The committee is also responsible for analyzing observations made by regulatory entities of the Chilean financial system about us and for recommending measures to be taken by our management in response. The external auditors are recommended by this committee to our Board of Directors and appointed by our shareholders at the annual shareholders' meeting.

This committee is also responsible for:

- Presenting to the Board of Directors a list of candidates for the selection of an external auditor.
- Presenting to the Board of Directors a list of candidates for the selection of rating agencies.
- Overseeing and analyzing the results of the external audit and the internal reviews.
- Coordinating the activities of internal auditing with the external auditors' review.
- Overseeing and coordinating the Bank's operational risk policies.
- Analyzing the interim and year-end financial statements and reporting the results to the Board of Directors.
- Analyzing the external auditors' reports and their content, procedures and scope.

- Analyzing the rating agencies' reports and their content, procedures and scope.
- Obtaining information regarding the effectiveness and reliability of the internal control systems and procedures.
- Analyzing the information systems performance, and its sufficiency, reliability and use in connection with decision-making processes.
- Obtaining information regarding compliance with the company's policies regarding the due observance of laws, regulations and internal rules to which the company is subject.
- Investigating suspicious and fraudulent activities (including conflicts).
- Analyzing the reports of the inspection visits, instructions and presentations of the SBIF.
- Obtaining information, analyzing and verifying the company's compliance with the annual audit program prepared by the internal audit department.
- Informing the Board of Directors of accounting changes and their effects.

Integral Risk Committee

Board member	Position in Committee
Oscar von Chrismar	President
Juan Pedro Santa María	First Vice President
Roberto Méndez	Second Vice President
Raimundo Monge	Member
Roberto Zahler	Member

The *Integral Risk Committee* is responsible for reviewing and monitoring all risks that may affect us, including reputational risk, allowing for integral risk management. This committee serves as the governing body through which the Board supervises all risk functions and defines risk appetite levels. The committee also evaluates the adequacy of our systems for measurement and control of risks. This Committee includes the Vice President of the Board and five Board members.

Asset and Liability Committee (ALCO)

The ALCO includes the President of the Board and four additional members of the Board, the Deputy Chief Executive Officer, the Chief Financial Officer, the Corporate Financial Controller, the Manager of the Financial Management Division, the Manager of Market Risk, the Manager of the Treasury Division, and other senior members of management. The ALCO meets monthly. All limits reviewed by the ALCO are measured and prepared by the Market Risk Department. The non-Board members of the ALCO meet weekly to review liquidity, funding, capital and market risk related matters.

Board member	Position in Committee
Vittorio Corbo	President
Oscar von Chrismar	First Vice President
Roberto Zahler	Second Vice President
Marco Colodro	Member
Raimundo Monge	Member

The main functions of the ALCO are:

- Making the most important decisions regarding inflation risk and exposure, interest rate risk, funding, capital and liquidity levels.

· Review of the evolution of the most relevant local and international markets and monetary policies.

Analysis and Prevention of Money Laundering Committee

Board member	Position in Committee
Juan Pedro Santa María	President
Raimundo Monge	First Vice President

This Committee defines and controls the policies regarding anti-money laundering and financing of terrorism in line with Chilean law and Grupo Santander's governance. In addition to Mr. Santa María and Raimundo Monge, members of senior management from the legal, risk and compliance departments, among others, are also a part of this committee. This committee also interacts with government agencies involved in the analysis and prevention of money laundering and financing of terrorism.

Table of Contents

Market Committee

The Market Committee includes the Vice President of the Board, three additional members of the Board, the Chief Executive Officer, the Deputy Chief Executive Officer, the Director of Global Corporate Banking, the Chief Financial Officer, the Manager of the Treasury Division, the Manager of the Financial Management Division, the Manager of Market Risk, the Financial Controller and other senior members of management.

Board member	Position in Committee
Vittorio Corbo	President
Oscar von Chrismar	Vice President
Roberto Zahler	Second Vice President
Marco Colodro	Member

The Market Committee is responsible for:

- Establishing a strategy for the Bank's trading portfolio and risk appetite.
  - Net exposure to foreign currency
- Establishing the Bank's policies, procedures and limits with respect to its trading portfolio. The Bank's Market Risk Department measures all risks and limits and reports these to the Market Committee.
- Reviewing the evolution of the most relevant local and international markets and monetary policies.

Strategy Committee

Board member	Position in Committee
Vittorio Corbo	President
Roberto Méndez	Vice President
Oscar von Chrismar	Member
Lucía Santa Cruz	Member
Raimundo Monge	Secretary

The Strategy Committee is in charge of our strategic planning process and follow-up, as well as the identification of broad business opportunities and threats. The Strategy Committee is comprised of the President of the Board and four additional Board members.

Human Resources Committee

Board member	Position in Committee
Vittorio Corbo	President
Mauricio Larraín	Vice President
Oscar Von-Chrismar	Member
Blanca Bustamante	Member

The Human Resources Committee is led by the President of the Board and three additional Board members, the Chief Executive Officer, the Deputy Chief Executive Officer, the Director of Human Resources and other senior managers. The Human Resources Committee dictates guidelines on management and general human resources policies, including incentive, selection, promotion and training policies.

Table of Contents

D. Employees

As of December 31, 2016, on a consolidated basis, we had 11,354 employees, 10,865 of whom were bank employees, 86 of whom were employees of our subsidiaries and 656 were employees of entities controlled by the Bank through other considerations. We have traditionally enjoyed good relations with our employees and their unions. Of the total headcount of us and our subsidiaries, 8,192 or 72.2% were unionized. In May 2014, a new collective bargaining agreement was signed with the main unions, which went into effect on January 1, 2014 and which expires on December 31, 2018, though it may be renegotiated ahead of schedule with the consent of management and the union. We generally apply the terms of our collective bargaining agreement to unionized and non-unionized employees. The following chart summarizes the number of employees employed by the bank.

Employees	As of December 31, 2016
Executives	710
Professionals	5,878
Administrative	4,766
Total	11,354

E. Share Ownership

No director or executive officer owns more than 1% of the shares of Santander-Chile. As of December 31, 2016, the following directors and executives held shares in Santander-Chile:

Directors	Shares
Mauricio Larraín Garcés	568

Santander-Chile currently does not have any arrangements for involving employees in its capital and there is no systematic arrangement for grant of options or shares or securities of Santander-Chile to them. In accordance with IFRS 2, equity instruments settled in cash are allocated to executives of the Bank and its Subsidiaries as a form of compensation for their services. See “Item 6—Directors, Senior Management and Employees—Compensation” for more details.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A., which are controlled subsidiaries. Santander Spain has control over 67.18% of our shares and actual participation, excluding non-controlling shareholders that participate in Santander Chile Holding, S.A. of 67.06%.

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

Santander Spain is in a position to cause the election of a majority of the members of Santander-Chile's Board of Directors, to determine its dividend and other policies and to determine substantially all matters to be decided by a vote of shareholders. Santander Spain holds ordinary shares to which no special voting rights are attached. Each share represents one vote and there are no shareholders with different voting rights.

Table of Contents

The number of outstanding shares of Santander-Chile (of which there is only one class, being ordinary shares) at December 31, 2016, was 188,446,126,794 shares, without par value. Santander-Chile's shares are listed for trading on the Chilean Stock Exchanges and on the NYSE in connection with the registration of ADRs. The market capitalization of Santander-Chile at December 31, 2016 on the Chilean stock exchange was Ch$7,021,503 million and U.S.$10,303 million on the NYSE. At December 31, 2016, Santander-Chile had 11,592 holders of its ordinary shares registered in Chile, including The Bank of New York Mellon as Depositary (the "Depositary") of Santander-Chile's ADS Program. Other than the information disclosed in this section, there are no arrangements to the knowledge of Santander-Chile that can result in a change of control of Santander-Chile. As of December 31, 2016, there were a total of 25 ADR holders on record. Since some of these ADRs are held by nominees, the number of record holders may not be representative of the number of beneficial holders.

B. Related Party Transactions

The Chilean Companies Law requires that our transactions with related parties be on a market basis, that is, on similar terms to those customarily prevailing in the market. We are required to compare the terms of any such transaction to those prevailing in the market at the date the transaction is to be entered into. Directors of companies that violate this provision are liable for losses resulting from such violations.

In addition, under the Chilean Companies Law, a company may not enter into a transaction with related parties unless (i) such transaction has received the prior approval of the company's Board of Directors and (ii) the terms of such transaction are consistent with the terms of transactions of a similar type prevailing in the market. If it is not possible to make this determination, the board may appoint two independent evaluators. The evaluators' final conclusions must be made available to shareholders and directors for a period of 20 business days, during which shareholders representing 5% or more of the issued voting shares may request the board to call a shareholders' meeting to resolve the matter, with the agreement of two thirds of the issued voting shares required for approval. For purposes of this regulation, the law considers the amount of a proposed transaction to be material if (1) it exceeds 1% of the company's net worth (provided that it also exceeds 20,000UF) or (2) it exceeds 20,000 UF.

All resolutions approving such transactions must be reported to the company's shareholders at the annual shareholders' meeting. Violations of this provision may result in administrative or civil liability to the corporation, the shareholders and/or third parties who suffer losses as a result of such violation.

Loans granted to related parties

In addition to subsidiaries and associated entities, the Bank's "related parties" include the "key personnel" of the Bank's executive staff (members of the Bank's Board of Directors and the Senior Managers of Santander-Chile and its subsidiaries, together with their close relatives), as well as the entities over which the key personnel could exert significant influence or control.

Table of Contents

he Bank also considers the companies that are part of the Santander Group worldwide as related parties, given that all of them have a common parent, *i.e.*, Santander Spain. The table below shows loans and accounts receivable and contingent loans with related parties. For more information, see “Note 34—Transactions with Related Parties” in our Audited Consolidated Financial Statements appearing elsewhere in this Annual Report:

	As of December 31, 2016				2015				2014			
	Companies of the Group	Associated companies	Key personnel	Other	Companies of the Group	Associated companies	Key personnel	Other	Companies of the Group	Associated companies	Key personnel	Other
	Ch$mn	Ch$mn	Ch$mn	Ch$mn	Ch$mn	Ch$mn	Ch$mn	Ch$mn	Ch$mn	Ch$mn	Ch$mn	Ch$mn
Commercial loans	81,687	533	4,595	7,100	77,388	565	5,841	1,963	51,647	9,614	4,348	8,743
Mortgage loans	—	—	18,046	—	—	—	20,559	—	—	—	19,941	—
Consumer loans	—	—	3,783	—	—	—	2,274	—	—	—	2,798	—
Loans and accounts receivables	81,687	533	26,424	7,100	77,388	565	28,674	1,963	51,647	9,614	27,087	8,743
Allowance for loan losses	(209)	(35)	(87)	(34)	(213)	(190)	(62)	(20)	(139)	(10)	(46)	(18)
Net loans	81,478	498	26,337	7,066	77,175	375	28,612	1,943	51,508	9,604	27,041	8,725
Guarantees	434,414	—	23,636	5,486	499,803	—	25,493	1,632	409,339	—	23,896	1,289
Contingent loans												
Personal guarantees	—	—	—	—	—	—	—	—	—	—	—	—
Letters of credit	27,268	—	—	—	29,275	—	—	—	16,000	—	—	11
Guarantees	437,101	—	—	—	510,309	—	—	2	432,802	—	—	762
Contingent loans	464,369	—	—	—	539,584	—	—	2	448,802	—	—	773
Allowance for contingent loans	(5)	—	—	—	(11)	—	—	—	(12)	—	—	—
Net contingent loans	464,364	—	—	—	539,573	—	—	2	448,790	—	—	773

Loans (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons, and (c) did not involve more than the normal collection risk.

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

- a bank may not extend to any person or legal entity (or group of related entities), directly or indirectly, unsecured loans in an amount that exceeds 5.0% of the bank's regulatory capital, or secured loans in an amount that exceeds 25.0% of its regulatory capital. In the case of foreign export trade finance, this 5.0% ceiling is raised to: 10.0% for unsecured financing, 30.0% for secured financing. This ceiling is raised to 15.0% for loans granted to finance public works under the concessions system contemplated in the Decree with Force of Law 164 of 1991, of the Ministry of Public Works, provided that either the loan is secured on the concession, or the loan is granted as part of a loan syndication;

- a bank may not grant loans bearing more favorable terms than those generally offered by banks in the same community to any entity (or group of related entities) that is directly or indirectly related to its owners or management;

- a bank may not extend loans to another bank in an aggregate amount exceeding 30.0% of its regulatory capital;

- a bank may not directly or indirectly grant a loan, the purpose of which is to allow the borrower to acquire shares in the lending bank;

- a bank may not lend, directly or indirectly, to a Director or any other person who has the power to act on behalf of the bank, or to certain related parties; and

- a bank may not grant loans to individuals or legal entities involved in the ownership or management of the bank, whether directly or indirectly (including holders of 1.0% or more of its shares), on more favorable terms than those generally offered to non-related parties. Loans may not be extended to senior executives and to companies in which such individuals have a participation of 5.0% or more of the equity or net earnings in such companies. The aggregate amount of loans to related parties may not exceed a bank's regulatory capital.

We are not aware of any loans to any related parties exceeding the above lending limits.

The largest related party loan, which matures on July 30, 2018 and has an annual rate of U.S.$ + 0.0%, by the Bank is to Banco Santander Spain S.A., corresponds to a performance bond (*boleta de garantía*) and had an amount outstanding of U.S.$28 million, which was guaranteeing a corporate foreign trade loan. As this operation is a contingent loan, the Bank charges a fee which was 0.25% per quarter.

147

Table of Contents

The table below shows all other assets and liabilities with related parties:

	As of December 31, 2016				2015				2014		
	Companies of the Group	Associated companies	Key personnel	Other	Companies of the Group	Associated companies	Key personnel	Other	Companies of the Group	Associated companies	Key personne
	(in millions of Ch$)										
Assets											
Cash and deposits in banks	187,701	—	—	—	23,578	—	—	—	193,377	—	—
Trading investments	—	—	—	—	—	—	—	—	—	—	—
Obligations under repurchase agreements	—	—	—	—	—	—	—	—	—	—	—
Financial derivative contracts	742,851	33,433	—	—	771,774	24,773	—	—	995,468	—	—
Available-for-sale investments	—	—	—	—	—	—	—	—	—	—	—
Other assets	4,711	67,454	—	—	3,218	19,101	—	—	2,776	—	—
Liabilities											
Deposits and other demand liabilities	6,988	7,141	2,883	630	9,987	8,535	2,454	1,373	5,061	1,168	2,403
Obligations under repurchase agreements	56,167	—	—	—	12,006	—	—	—	47,010	—	—
Time deposits and other time liabilities	1,545,771	621	2,365	1,984	1,360,572	234	2,728	898	269,381	2,320	81,079
Financial derivative contracts	954,575	54,691	—	—	1,323,996	23,326	—	—	1,395,507	—	—
Issued debt instruments	484,548	—	—	—	398,565	—	—	—	336,323	—	—
Other financial liabilities	8,970	—	—	—	2,409	—	—	—	846	—	—
Other liabilities	446	44,329	—	—	376	19,541	—	—	771	—	—

Table of Contents

Other transactions with related parties

During the years ended December 31, 2016, 2015, and 2014, the Bank had the following significant income (expenses) from services provided to (by) related parties:

	For the years ended December 31,										
	2016				2015				2014		
	Companies of the Group	Associated Companies	Key personnel	Other	Companies of the Group	Associated companies	Key personnel	Other	Companies of the Group	Associated Companies	Ke per
	(in millions of Ch$)										
Interest income and inflation-indexation adjustments	(39,279)	40	1,164	115	(10,986)	—	1,664	116	(11,130)	25	1,9
Fee and commission income and expenses	38,167	45	204	20	35,955	77	208	39	30,591	84	23
Net income (expense) from financial operations and net foreign exchange gain (loss) (*)	(343,963)	(48,373)	(88)	2	(321,985)	(16,845)	15	6	(315,918)	—	20
Other operating income and expenses	931	(2,239)	—	—	955	(1,027)	—	—	1,158	—	—
Key personnel compensation and expenses	—	—	(37,328)	—	—	—	(39,323)	—	—	—	(3
Administrative and other expenses	(35,554)	(43,115)	—	—	(30,591)	(41,691)	—	—	(30,342)	(33,961)	—
Total	(379,698)	(93,642)	(36,048)	137	(326,652)	(59,486)	(37,436)	161	(325,641)	(33,852)	(2

(*) Primarily relates to derivative contracts used to financially cover exchange risk of assets and liabilities that cover positions of the Bank and its subsidiaries.

Only transactions with related parties equal to or greater than UF 5,000 (Ch$132 million) are included individually in the table above. Transactions with related parties between UF 1,000 and up to UF 5,000 are included in other transactions with related parties. All transactions were conducted at arm’s length.

149

Table of Contents

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Information

See "Item 18. Financial Statements."

Legal Proceedings

We are subject to certain claims and are party to certain legal and arbitration proceedings in the normal course of our business, including claims for alleged operational errors. We do not believe that the liabilities related to such claims and proceedings are likely to have, in the aggregate, a material adverse effect on our consolidated financial condition or results of operations. For the year ended December 31, 2016, the Disclosure Committee of Santander-Chile has defined a significant legal proceeding as that implying an estimated incurred loss greater than 0.18% of the average of pre-tax net income in the last three years. As of December 31, 2016, this cut-off totaled Ch$1,027 million (U.S.$1.5 million). As of December 31, 2016, there were no legal proceedings exceeding that amount. There are no material proceedings in which any of our directors, any members of our senior management, or any of our affiliates is either a party adverse to us or our subsidiaries or has a material interest adverse to us or our subsidiaries.

Upon the recommendation of our legal advisors, we estimate that our aggregate liability if all legal proceedings were determined adversely to us could result in significant losses not estimated by us. As of the date of the Audited Consolidated Financial Statements, the Bank and its affiliates were subject to certain legal actions in the normal course of their business. As of December 31, 2016, the Bank and its subsidiaries have provisions for these legal actions of Ch$1,194 million and Ch$48 million, respectively (Ch$1,803 million and Ch$118 million as of December 31, 2015), which are included in "Provisions" in the Audited Consolidated Statements of Financial Position as provisions for contingencies.

Dividends and dividend policy

See “Item 3. Key Information—A. Selected Financial Data—Dividends.”

B. Significant Changes

None.

Table of Contents

ITEM 9. THE OFFER AND LISTING

A. Historical Trading Information

The table below shows, for the periods indicated, the annual, quarterly and monthly high and low closing prices (in nominal Chilean pesos) of the shares of our common stock on the Santiago Stock Exchange and the annual, quarterly and monthly high and low closing prices (in U.S. dollars) as reported by the NYSE.

	Santiago Stock Exchange		NYSE	
	Common Stock		ADS	
	High	Low	High	Low
	(Ch$ per share)		(U.S.$ per ADS)	
Annual Price History				
2012	41.01	31.40	33.96	26.10
2013	36.23	27.62	30.59	21.38
2014	37.32	26.81	26.91	19.19
2015	34.77	29.52	22.61	17.38
2016	38.05	29.10	23.48	15.98
Quarterly Price History				
2015				
1st Quarter	33.98	29.52	21.71	19.02
2nd Quarter	34.77	31.71	22.61	20.02
3rd Quarter	34.51	31.44	21.04	17.88
4th Quarter	33.96	30.33	20.23	17.38
2016				
1st Quarter	33.47	29.10	19.74	15.98
2nd Quarter	33.89	30.84	20.24	17.99
3rd Quarter	36.47	31.62	22.51	19.18
4th Quarter	38.05	34.09	23.48	20.52
Monthly Price History				
Oct-16	36.55	34.09	22.85	20.52
Nov-16	38.05	36.50	23.00	21.66
Dec-16	38.05	35.45	23.48	21.07
Jan-17	37.19	35.11	22.21	21.59
Feb-17	35.76	34.65	22.15	21.36
Mar-17 (through March 22, 2017)	40.02	36.88	24.11	22.41

B. Plan of Distribution

Not applicable

C. Nature of Trading Market

Nature of Trading Market

Shares of our common stock are traded on the Chilean Stock Exchanges. Each ADS represents 400 shares of common stock. ADRs have been issued pursuant to the amended and restated deposit agreement dated as of August 4, 2015. As of December 31, 2016, 87,002,334 ADSs were outstanding (equivalent to 34,800,933,671 shares of common stock or 18.47% of the total number of issued shares of common stock).

D. Selling Shareholders

Not applicable.

Table of Contents

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The legal predecessor of Santander-Chile was Banco Santiago (Santiago). Santiago was incorporated by public deed dated September 7, 1977 granted at the Notary Office of Alfredo Astaburuaga Gálvez. Santiago received its permission to incorporate and function as a bank by Resolution No. 118 of the SBIF on October 27, 1977. The Bank's by-laws were approved by Resolution No. 103 of the SBIF on September 22, 1977. In January 1997, Santiago merged with Banco O'Higgins' with Santiago as the surviving entity. In 1999, Santiago became a controlled subsidiary of Santander Spain. On January 9, 2017 in an Extraordinary Shareholder Meeting, the shareholders' approved an amendment of the Bank's Articles of Incorporation.

Our official name is Banco Santander-Chile and Banco Santander and Santander can also be used (formerly: Banco Santander Santiago, Santander Santiago could also be used, but these names were eliminated in the new Articles of Incorporation).

The Bank has a single series of capital stock, which amounts to Ch$891,302,881,691, divided into 188,446,126,794 registered shares with no par value. The capital stock is fully subscribed for, deposited, and paid up. Each share represents one vote and there are no special classes of shares with different rights. Our by-laws do not include any condition that is more significant than required by law to change the right of shareholders.

Shareholder rights in a Chilean bank that is also an open stock (public) corporation are governed by (1) the corporation's *estatutos*, which effectively serve the purpose of both the articles or certificate of incorporation and the by-laws of a company incorporated in the United States, (2) the General Banking Law and (3) to the extent not inconsistent with the General Banking Law, by the provisions of Chilean Companies Law applicable to open stock corporations, except for certain provisions that are expressly excluded. Article 137 of the Chilean Companies Law provides that all provisions of the Chilean Companies Law take precedence over any contrary provision in a corporation's *estatutos*. Both the Chilean Companies Law and our *estatutos* provide that legal actions by shareholders against us (or our officers or directors) to enforce their rights as shareholders or by one shareholder against another in their capacity as such are to be brought in Chile in arbitration proceedings, notwithstanding the plaintiff's right to submit the action to the ordinary courts of Chile.

The Chilean securities markets are principally regulated by the Superintendency of Securities and Insurance under the Chilean Securities Market Law and the Chilean Companies Law. In the case of banks, compliance with these laws is supervised by the SBIF. These two laws provide for disclosure requirements, restrictions on insider trading and price manipulation and protection of non-controlling investors. The Chilean Securities Market Law sets forth requirements relating to public offerings, stock exchanges and brokers, and outlines disclosure requirements for companies that issue publicly offered securities. The Chilean Companies Law sets forth the rules and requirements for establishing open stock corporations while eliminating government supervision of closed (closely-held) corporations. Open stock (public) corporations are those with 500 or more shareholders, or companies in which 100 or more shareholders own at least 10.0% of the subscribed capital (excluding those whose individual holdings exceed 10.0%), and all other companies that are registered in the Securities Registry of the Superintendency of Securities and Insurance.

Santander-Chile is a bank providing a broad range of commercial and retail banking services, as well as a variety of financial services. Our objects and purposes can be found in Article 4 of our by-laws.

Table of Contents

Board of Directors and Managers

Currently, the Board of Directors has 11 regular members and two alternate members, elected by shareholder vote at Ordinary Shareholders' Meetings. The directors may be either shareholders or non-shareholders of the Company. There is no age limit for directors. On October 27, 2016, the SBIF authorized a reduction in the number of Board members from 11 to nine. This reduction and the corresponding amendment to Article 14 of the by-laws was approved by the shareholders at an Extraordinary Shareholders' Meeting held on January 9, 2017 and will enter into force on the date of the Bank's next Ordinary Shareholders' Meeting, which will take place on April 26, 2017. The current principal and alternate directors will remain in office until such date. The directors may be shareholders or persons who are not members of the company.

The directors shall hold office for three years and may be indefinitely re-elected, and their terms of office shall be renewed in their entirety at the conclusion of each term of office. If the Ordinary Shareholders' Meeting at which periodic elections of directors occur is not held at the stipulated time for any reason, the incumbency of those who have completed their terms shall be understood to be extended until their replacements are appointed, and the Board shall be obligated to summon a Shareholders' Meeting to make said appointments within thirty days.

The directors shall be compensated for their service. The amount of their compensation shall be fixed annually at the Ordinary Shareholders' Meeting. Such compensation shall be in addition to any salaries, fees, travel expenses, representation expenses, payments due as delegates of the Board, or other stipends in money, kind, or royalties of any class, whether assigned to particular directors at the Ordinary Shareholders' Meeting or by Board approval, for specific functions or work above and beyond their obligations as directors which have been entrusted to them precisely at the Ordinary Shareholders' Meeting or by the Board. A detailed and separate record of these special compensations must be made in the Annual Report, indicating the full name of each director who has received them.

Without prejudice to other legal disqualifications or conflicts of interest, the following persons cannot serve as directors: (a) a person who has been convicted or is on trial for crimes penalized with a principal or accessory penalty of temporary suspension or permanent disqualification to hold public positions or offices; (b) a debtor subject to a pending insolvency procedure for liquidation, (c) legislators; (d) directors or employees of any other financial institution; (e) employees of the Office of the President of the Republic or employees or officials of the Treasury or of the Services, Fiscal or Semi-Fiscal Institutions, Autonomous Agencies, State-Owned Enterprises, and generally all the Public Services created by law, as well as those of companies, partnerships, or public or private entities to which the State or its companies, partnerships, or centralized or decentralized institutions have contributed the majority capital or a proportion equal thereto, or have a similar representation or participation, provided that the limitation prescribed in this letter (e) shall not apply to persons who hold teaching positions; and (f) Bank employees.

In the elections of directors, each shareholder shall have one vote per share held or represented, and may cast all such votes in favor a single candidate or distribute them as deemed convenient; those who receive the largest number of votes in an election shall be proclaimed as elected, until the number of persons to be elected is reached. Elections of principal and alternate directors must be held separately. To proceed to a vote, the Chairman and the Secretary, jointly with the persons who have previously been designated at the Ordinary Shareholders' Meeting to sign the minutes thereof, must make a documentary record of the votes which are cast through voice vote by the shareholders present, according to the list of attendance. However, any shareholder shall be entitled to vote on a ballot signed by him, stating whether he signs on his own behalf or as a proxy. In any event, to facilitate the casting or speed of a vote, the Chairman of the Bank or the Superintendency, if applicable, may order an alternative procedure or permit either a voice vote or a ballot vote, or any other procedure stipulated as adequate for the purpose. In counting the results, the Chairman shall read out the votes cast aloud so that all the persons present can count the votes themselves and the truthfulness of the result can be verified. The Secretary shall add up the votes and the Chairman shall announce the candidates that receive the largest majorities and proclaim them thereby elected, until the number of persons to be elected is reached. The Secretary shall place the document reflecting the vote count, signed by the persons responsible for taking note of the votes cast, as well as the ballots delivered by the shareholders who did not vote by voice, in an envelope which shall be closed and sealed with the corporate seal, and shall be kept on file at the Bank for at least two years.

Every election to the Board, or every change to the composition of the Board, must be recorded in a public deed executed before a Notary, published in a Santiago newspaper, and reported to the SBIF by sending an authorized copy of the respective public deed. The appointments of the General Manager and Assistant Deputy Manager must likewise be reported and converted into a public deed.

Vacancies that arise when a director ceases to be able to perform his or her duties, either because he becomes subject to any conflict of interest, limitation, or legal disqualification or because he is subject to a pending insolvency procedure for liquidation, or due to impossibility of serving, unjustified absence, death, resignation, or for another legal cause, shall be filled in the following manner: (a) vacancies of principal directors by alternate directors; and (b) in case of vacancies of alternate directors because of the application or circumstances not provided for in letter (a) above, or vacancies of principal directors which could not be filled as provided for in this letter because the alternate directors have become principal directors, the appropriate replacements shall be appointed at the first Ordinary Shareholders' Meeting to be held. The directors so designated shall remain in office until the next Ordinary Shareholders' Meeting, at which the definitive appointments shall be made for the time remaining to complete the replaced directors' terms.

The alternate directors may always take part in a Board meetings and have the right to speak at any such meeting. However, they shall have the right to vote only when they replace a principal director.

The Board shall separately elect a Chairman, a First Vice Chairman, and a Second Vice Chairman from among its members at the first meeting held after the Shareholders' Meeting has appointed it or at its first meeting held after the persons in question have ceased to hold the position for any reason. In case of a tie vote, the person who chairs the meeting shall have the tie-breaking vote.

The Board meetings shall be held at the company's domicile unless the directors unanimously resolve to hold a particular session at a different location or all the directors participate in any such meeting held at a different location. The Board shall meet in ordinary session at least once a month, on the days and at the times the Board designates, and additionally, in extraordinary sessions from time to time when summoned by the Chairman at his or her own initiative or at the request of three or more directors, following the Chairman's determination of the need for a meeting, unless it is requested by an absolute majority of the incumbent directors, in which case the meeting must necessarily be held without the need for a prior determination. Only the topics specifically stated in the notice of meeting may be addressed at extraordinary meetings, unless all the incumbent directors are present and they unanimously agree otherwise. Summonses to extraordinary meetings shall be made in accordance with and in the form prescribed by law.

The quorum for Board meetings shall be the absolute majority of the number of directors entitled to vote as prescribed in our by-laws. Resolutions shall be adopted by the absolute majority of the directors present who are entitled to vote. In case of a tie vote, the person who chairs the meeting shall have the tie-breaking vote. Directors who, though not present, are in simultaneous and permanent communication through technological means which have been authorized by the SBIF shall be understood to participate in the meetings.

Directors who have an interest in a business dealing, legal act, contract, or operation or transaction not specifically of a banking nature, or as representatives of another person, must inform the other directors thereof. The respective resolutions shall be approved by the Board and must be in accordance with conditions of equity similar to those customarily prevailing in the market; they shall be disclosed at the next Ordinary Shareholders' Meeting by the person who chairs such meeting.

A record of the Board's deliberations and resolutions shall be made in a special minute book to be kept by the Secretary. The minutes must be consecutively numbered, with one numbering sequence assigned to ordinary meetings and another to extraordinary meetings, and they must be signed by the directors who took part in the meeting and the Secretary or the person who performs his or her functions. A director who believes certain minutes contain inaccuracies or omissions is entitled to record his or her reservations prior to signing them. Resolutions may be carried out without the need to approve the minutes at a subsequent meeting. If any of the persons present dies, refuses to sign the minutes, or is prevented from doing so for any reason, a record of said impediment shall be made at the foot thereof.

The directors shall be personally responsible or liable for all the legal acts they execute in the performance of their functions. A director who wishes to avoid responsibility or liability for any legal act or resolution of the Board must make a record of his or her opposition in the minutes and the Chairman shall be informed thereof at the next Ordinary Shareholders' Meeting.

The Board shall represent the Bank judicially and extra-judicially and for the pursuit of its corporate purpose, which need not be demonstrated to third parties in any manner; it shall be vested with all the authorities and powers of administration that the law or the by-laws do not define as pertaining exclusively to Shareholders' Meetings, without the need to confer any special power of attorney whatsoever, even for legal acts or contracts for which the laws so require. The foregoing does not impair the Bank's judicial representation by the General Manager. The Board may delegate part of its powers to the General Manager, to one or more managers, assistant managers, or attorneys of the Bank, to a director, or to a committee of Directors, as well as to other persons for specific purposes.

The Board shall designate three Directors from among its members to serve on a committee of Directors which shall be governed by the provisions of article 50 bis of the Corporations Act.

The Chairman/President

The Chairman of the Board shall likewise be the president of the company and the chairman of the Shareholders' Meetings. He shall have the following obligations and authorities, in addition to those prescribed in the pertinent legal and regulatory provisions, in our by-laws, or by the Board: (a) chair the Board and Shareholders' Meetings; (b) enforce strict compliance with the by-laws, the Board's resolutions, and the resolutions of the Shareholders' Meetings; (c) summon the Board meetings; and (d) sign the annual reports and the resolutions and communications of the Board and the Shareholders' Meetings. In the absence or temporary impediment of the Chairman/President, the First Vice Chairman/First Vice President shall act in his or her stead, and in the latter's absence, the Second Vice Chairman/Second Vice President shall act, or finally, the person designated by the Board from among its members or the shareholder designated at the Shareholders' Meeting, as the case may be. Replacement is an internal company procedure that shall not require any formality, and it shall not be necessary to demonstrate its validity to third parties in order to assure the validity of the replacement's actions; the sole fact of its occurrence suffices to make said actions effective.

Meetings and Voting Rights

The shareholders shall meet in Ordinary or Extraordinary Shareholders' Meetings held in Santiago. The resolutions adopted at a validly summoned and convened Shareholders' Meeting, in conformity with the by-laws, shall be binding on all of the shareholders.

The Ordinary Shareholders' Meetings shall be held annually on the dates determined by the Board within the first four months following the date of the annual balance sheet. There shall be an Extraordinary Shareholders' Meeting whenever the company's needs so require. The meetings shall be summoned by the Board at its own initiative or at the request of shareholders representing at least 10% of the issued shares having a legal right to vote. If in this circumstance, the Board, and through it the Chairman, refuses to issue a summons, the Superintendent of Banks and Financial Institutions may be requested to do so.

The summons to a Shareholders' Meeting shall be given through a prominent notice to be published three times on different days in the Santiago newspaper which has been chosen at the Ordinary Shareholders' Meeting, and in the absence of agreement or in the event of a suspension or disappearance of the designated newspaper's circulation, in the Official Journal, at the time, in the form, and under the conditions stipulated by the Regulations of the Corporations Act. Summonses to Extraordinary Shareholders' Meetings shall state the topics which will be submitted to them. The summons to a meeting shall likewise be announced through a letter sent to the shareholders a minimum of fifteen days in advance of the date set for the meeting, which must contain a reference to the topics to be addressed at it. Failure to send said letter shall not invalidate the summons, without prejudice to legal liabilities. On a date no later than that of the first notice of a summons for an Ordinary Shareholders' Meeting, each shareholder must be sent a copy of the Bank's Annual Report and Balance Sheet, including the auditors' opinion and its respective notes.

A Shareholders' Meetings shall convene upon reaching a quorum, which shall be established by the presence of as many shareholders as represent, directly or by proxy, at least an absolute majority of the issued voting shares. If said quorum is not satisfied, a new summons shall be given, for a meeting which must be scheduled to be held in the manner prescribed in our by-laws, indicating that it is a second summons and scheduling the new meeting to be held within the forty five days subsequent to the date scheduled for the meeting that was not held due to a lack of quorum. A meeting called by a second summons shall lawfully convene with the number of issued voting shares present or represented thereat.

In the absence of a special rule, a Shareholders' Meeting resolution shall be adopted by an absolute majority of the voting shares present or represented.

The Ordinary Shareholders' Meetings have the following responsibilities: (a) deliberate and resolve on the Annual Report and Balance Sheet which must be submitted by the Board; (b) annually designate an external auditing firm in conformity with the provisions of law to report on the balance sheet and comply with the legal requirements; (c) elect the members of the Board when appropriate pursuant to our by-laws; (d) resolve the distribution of the liquid profits or earnings for each fiscal year, and at the Board's request, order the distribution of a dividend to the shareholders as of the end of each fiscal year, as prescribed in the by-laws; and (e) in general, deliberate and pass resolutions on any other topic of corporate interest which is not reserved to an Extraordinary Shareholders' Meeting. The revocation of all the Board members elected by the shareholders and the designation of their replacements may be resolved at an Ordinary or Extraordinary Shareholders' Meeting, but any individual or collective revocation of one or more Board members would accordingly be invalid.

The Extraordinary Shareholders' Meetings are reserved for certain topics indicated by law or by our by-laws. Resolutions on the topics indicated in the notice of meeting may be adopted at Extraordinary Shareholders' Meetings.

The shareholders may have themselves represented at Meetings by another person, whether a shareholder or not, as is stipulated in the Corporations Act.

A record of the deliberations and resolutions at any Shareholders' Meeting shall be made in a special minute book to be kept by the Secretary, if any, or in his or her absence by the Bank's General Manager. The minutes shall be signed by the Chairman or the person who performs his or her functions, by the Secretary and three shareholders elected by the Meeting, or by all the persons present if they number fewer than three. In the event of death, refusal, or impediment to signing the minutes on the part of any of the persons who must do so, a record of the impediment shall be made at the foot thereof. An extract of the minutes shall be made to record what happened at the meeting, and an official copy of the following data shall necessarily be made: the names of the shareholders present and the number of shares owned or represented by each of them (a brief summary of any objections may be omitted if it is attached to the same page or roll of attendance), a list of the proposals submitted for discussion and the results of the votes taken, and the list of the shareholders who voted for or against. Solely by the unanimous consent of the persons present may a record of any event occurring at the meeting that is related to the company's interests be deleted from the minutes.

The persons present at any Shareholders' Meetings shall sign a roll of attendance on which they shall indicate the number of shares the signatory holds, the number of shares he represents, and the name of the shareholder he represents.

In general, Chilean law does not require a Chilean open stock corporation to provide the level and type of information that U.S. securities laws require a reporting company to provide to its shareholders in connection with a solicitation of proxies. However, shareholders are entitled to examine the books of the bank within the 15-day period before the ordinary annual meeting. In addition to these requirements, we regularly provide, and management currently intends to continue to provide, together with the notice of shareholders' meeting, a proposal for the final annual dividend.

Annual Report, Balance Sheet, and Distribution of Profits

A Balance Sheet shall be drawn up as of the thirty first day of December of each year, to be submitted to the Ordinary Shareholders' Meeting for its consideration, jointly with the Annual Report. The Balance Sheet and Statement of Income shall be published in conformity with the currently applicable legal and regulatory provisions. The approval or rejection of such financial statements is entirely within our shareholders' discretion. If our shareholders reject our financial statements, our Board of Directors must submit new financial statements not later than 60 days from the date of such rejection. If our shareholders reject our new financial statements, our entire Board of Directors is deemed removed from office and a new Board of Directors is elected at the same meeting. Directors who individually approved such rejected financial statements are disqualified for re-election for the ensuing period.

Table of Contents

The profits attributable to shareholders reflected in the Balance Sheet shall be applied preferentially to absorb prior-year losses. The balance which is earned shall be allocated as may be resolved by the Shareholders' Meeting, at the Board's recommendation, to: (a) an increase of the effective capital, the formation of a fund for future capitalizations or dividends, or other special reserve funds; these uses shall receive the amounts the Meeting deems convenient, in conformity with the limits and obligations prescribed by law; and (b) the distribution of dividends to the shareholders in proportion to their shareholdings.

Under the Chilean Corporations Law, Chilean companies are generally required to distribute at least 30.0% of their earnings as dividends. No dividends of a bank above the legal minimum can be distributed if doing so would result in the bank exceeding its ratio of risk-weighted assets to regulatory capital or total assets.

Dividends that are declared but not paid by the date set for payment at the time of declaration are adjusted from the date set for payment to the date such dividends are actually paid, and they accrue interest.

We may declare a dividend in cash or in shares. When a share dividend is declared above the legal minimum (which minimum must be paid in cash), our shareholders must be given the option to elect to receive cash. Our ADS holders may, in the absence of an effective registration statement under the Securities Act or an available exemption from the registration requirement thereunder, effectively be required to receive a dividend in cash. See "Item 10. B.—Memorandum and Articles of Association—Preemptive Rights and Increases of Share Capital." A dividend entitlement lapses after 5 years and the funds go to the Chilean Treasury.

Liquidation and Appraisal Rights

The Bank may be dissolved and liquidated if it is so resolved at an Extraordinary Shareholders' Meeting, with the favorable vote of at least two thirds of the issued voting shares, and approved by the Superintendent of Banks and Financial Institutions.

Once the voluntary dissolution to which the preceding article refers has been resolved, the Shareholders' Meeting at which it is resolved shall appoint a committee of three shareholders to proceed to the company's liquidation. The liquidating committee so created shall act with the powers and obligations which the by-laws confer on the Board, and it shall keep the shareholders informed of the liquidation's progress, shall summon Ordinary Shareholders' Meetings on the dates scheduled for them, being authorized to likewise summon Extraordinary Shareholders' Meetings. In all other respects the provisions of the Commercial Code, the applicable provisions of the Corporations Act, and the corporate regulations which govern the company shall be followed. In accordance with the General Banking Law, our shareholders do not have appraisal rights.

Arbitration

Any difficulty which may arise between the Bank and any of the shareholders or directors, or between such persons, in connection with the application of the by-laws or the recognition of the existence, nonexistence, validity, nullity, construction, performance or breach, dissolution, liquidation, or any other cause shall be submitted to resolution by two arbitrators at law and in equity, who shall rule without subsequent appeal, one of whom shall be appointed by each party. If they cannot reach agreement, the parties shall appoint a third arbitrator to resolve the discord. If there is no agreement for the third arbitrator's appointment, the two previously appointed arbitrators shall make the designation. If either party refuses to participate in the appointment of arbitrators or, after they have been appointed, there is no agreement on the ruling and neither the parties nor the arbitrators have designated the third arbitrator to resolve the discord, the designation of said arbitrator, if any, or of the third participant in discord, shall be made by the Ordinary Court of Justice, and the person so designated must necessarily be one who has held or currently holds the position of attorney and member of the Honorable Supreme Court.

Capitalization

Under Chilean law, the shareholders of a company, acting at an extraordinary shareholders' meeting, have the power to authorize an increase in such company's capital. When an investor subscribes for issued shares, the shares are registered in such investor's name, even if not paid for, and the investor is treated as a shareholder for all purposes except with regard to receipt of dividends and the return of capital, provided that the shareholders may, by amending the by-laws, also grant the right to receive dividends or distributions of capital. The investor becomes eligible to receive dividends and returns of capital once it has paid for the shares (if it has paid for only a portion of such shares, it is entitled to reserve a corresponding pro-rata portion of the dividends declared and/or returns of capital with respect to such shares unless the company's by-laws provide otherwise). If an investor does not pay for shares for which it has subscribed on or prior to the date agreed upon for payment, the company is entitled under Chilean law to auction the shares on the stock exchange and collect the difference, if any, between the subscription price and the auction proceeds. However, until such shares are sold at auction, the subscriber continues to exercise all the rights of a shareholder (except the right to receive dividends and return of capital).

Article 22 of the Chilean Corporations Law states that the purchaser of shares of a company implicitly accepts its by-laws and any agreements adopted at shareholders' meetings.

Registrations and Transfers

We act as our own registrar and transfer agent, as is customary among Chilean companies. In the case of jointly owned shares, an attorney-in-fact must be appointed to represent the joint owners in dealings with us.

Ownership Restrictions

Under Article 12 of the Chilean Securities Market Law and the regulations of the SBIF, shareholders of open stock corporations are required to report the following to the Superintendency of Securities and Insurance and the Chilean Stock Exchanges:

- any direct or indirect acquisition or sale of shares that results in the holder's acquiring or disposing, directly or indirectly, 10.0% or more of an open stock corporation's share capital; and

- any direct or indirect acquisition or sale of shares or options to buy or sell shares, in any amount, if made by a holder of 10.0% or more of an open stock corporation's capital or if made by a director, liquidator, main officer, general manager or manager of such corporation.

In addition, majority shareholders must include in their report whether their purpose is to acquire control of the company or if they are making a financial investment. A beneficial owner of ADSs representing 10.0% or more of our share capital will be subject to these reporting requirements under Chilean law.

Under Article 54 of the Chilean Securities Market Law and the regulations of the Superintendency of Securities and Insurance, persons or entities intending to acquire control, directly or indirectly, of an open stock corporation, regardless of the acquisition vehicle or procedure, and including acquisitions made through direct subscriptions or private transactions, are also required to inform the public of such acquisition at least 10 business days before the date on which the transaction is to be completed, but in any case, as soon as negotiations regarding the change of control begin (*i.e.*, when information and documents concerning the target are delivered to the potential acquirer) through a filing with the Superintendency of Securities and Insurance, the stock exchanges and the companies controlled by and that control the target and through a notice published in two Chilean newspapers, which notice must disclose, among other information, the person or entity purchasing or selling and the price and conditions of any negotiations.

Prior to such publication, a written communication to such effect must be sent to the target corporation, to the controlling corporation, to the corporations controlled by the target corporation, to the Superintendency of Securities and Insurance, and to the Chilean stock exchanges on which the securities are listed.

In addition to the foregoing, Article 54A of the Chilean Securities Market Law requires that within two business days of the completion of the transactions pursuant to which a person has acquired control of a publicly traded company, a notice shall be published in the same newspapers in which the notice referred to above was published and notices shall be sent to the same persons mentioned in the preceding paragraphs.

The provisions of the aforementioned articles do not apply whenever the acquisition is being made through a tender or exchange offer.

Title XXV of the Chilean Securities Market Law on tender offers and the regulations of the Superintendency of Securities and Insurance provide that the following transactions must be carried out through a tender offer:

- an offer which allows a person to take control of a publicly traded company, unless (i) the shares are being sold by a controlling shareholder of such company at a price in cash which is not substantially higher than the market price and the shares of such company are actively traded on a stock exchange and (ii) those shares are acquired (a) through a capital increase, (b) as a consequence of a merger, (c) by inheritance or (d) through a forced sale; and

- an offer for a controlling percentage of the shares of a listed company if such person intends to take control of the parent company (whether listed or not) of such listed company, to the extent that the listed company represents 75.0% or more of the consolidated net worth of the parent company.

In addition, Article 69*bis* of the Companies Law requires that whenever a controlling shareholder acquires two thirds of the voting shares of a listed company, such controlling shareholder must offer to purchase the remaining shares from the non-controlling shareholders in a tender offer.

Article 200 of the Chilean Securities Market Law prohibits any shareholder that has taken control of a publicly traded company to acquire, for a period of 12 months from the date of the transaction in which it gained control of the publicly traded company, a number of shares equal to or greater than 3.0% of the outstanding issued shares of the target without making a tender offer at a price per share not lower than the price paid at the time of taking control. Should the acquisition from the other shareholders of the company be made on a stock exchange and on a pro rata basis, the controlling shareholder may purchase a higher percentage of shares, if so permitted by the regulations of the stock exchange.

Title XV of the Chilean Securities Market Law sets forth the basis to determine what constitutes a controlling power, a direct holding and a related party. The Chilean Securities Market Law defines control as the power of a person or group of persons acting (either directly or through other entities or persons) pursuant to a joint action agreement, to direct the majority of the votes at the shareholders' meetings of the corporation, to elect the majority of members of its Board of Directors, or to influence the management of the corporation significantly. Significant influence is deemed to exist in respect of the person or group of persons with an agreement to act jointly that holds, directly or indirectly, at least 25.0% of the voting share capital, unless:

- another person or group of persons acting pursuant to joint action agreement, directly or indirectly, controls a stake equal to or greater than the percentage controlled by such person or group of persons;

- the person or group does not control, directly or indirectly, more than 40.0% of the voting share capital and the percentage controlled is lower than the sum of the shares held by other shareholders holding more than 5.0% of the share capital (either directly or pursuant to a joint action agreement); or

- in cases where the Superintendency of Securities and Insurance has ruled otherwise, based on the distribution or atomization of the overall shareholding.

According to the Chilean Securities Market Law, a joint action agreement is an agreement among two or more parties which, directly or indirectly, own shares in a corporation at the same time and whereby they agree to participate with the same interest in the management of the corporation or in taking control of the same. The law presumes that such an agreement exists between:

- a principal and its agents;
- spouses and relatives within certain degrees of kinship;
- entities within the same business group; and
- an entity and its controller or any of the members of the controller.

Likewise, the Superintendency of Securities and Insurance may determine that a joint action agreement exists between two or more entities considering, among other things, the number of companies in which they participate

159

Table of Contents

and the frequency with which they vote identically in the election of directors, appointment of managers and other resolutions passed at extraordinary shareholders' meetings.

According to Article 96 of the Chilean Securities Market Law, a business group is a group of entities with such ties in their ownership, management or credit liabilities that it may be assumed that the economic and financial action of such members is directed by, or subordinated to, the joint interests of the group, or that there are common credit risks in the credits granted to, or in the acquisition of securities issued by, them. According to the Chilean Securities Market Law, the following entities are part of the same business group:

- a company and its controller;
- all the companies with a common controller together with that controller;
- all the entities that the Superintendency of Securities and Insurance declares to be part of the business group due to one or more of the following reasons:
- a substantial part of the assets of the company is involved in the business group, whether as investments in securities, equity rights, loans or guaranties;
- the company has a significant level of indebtedness and the business group has a material participation as a lender or guarantor;
- any member of a group of controlling entities of a company mentioned in the first two bullets above and there are grounds to include it in the business group; or
- the company is controlled by a member of a group of controlling entities and there are grounds to include it in the business group.

Article 36 of the General Banking Law states that as a matter of public policy, no person or company may acquire, directly or indirectly, more than 10.0% of the shares of a bank without the prior authorization of the SBIF, which may not be unreasonably withheld. The prohibition would also apply to beneficial owners of ADSs. In the absence of such authorization, any person or group of persons acting in concert would not be permitted to exercise voting rights with respect to the shares or ADSs acquired. In determining whether or not to issue such an authorization, the SBIF considers a number of factors enumerated in the General Banking Law, including the financial stability of the purchasing party.

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

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

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

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

Table of Contents

If the acquiring bank or resulting group would own a market share in loans determined by the SBIF to be more than 15.0% but less than 20.0%, the authorization will be conditioned on the bank or banks maintaining a regulatory capital not lower than 10.0% 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.

According to the General Banking Law, a bank may not grant loans to related parties on terms more favorable than those generally offered to non-related parties. Article 84 No. 2 of the General Banking Law and the regulations issued by the SBIF creates the presumption that natural persons who are holders of shares and who beneficially own more than 1.0% of the shares are related to the bank and imposes certain restrictions on the amounts and terms of loans made by banks to related parties. This presumption would also apply to beneficial owners of ADSs representing more than 1.0% of the shares. Finally, according to the regulations of the SBIF, Chilean banks that issue ADSs are required to inform the SBIF if any person, directly or indirectly, acquires ADSs representing 5.0% or more of the total amount of shares of capital stock issued by such bank.

Article 16*bis* of the General Banking Law provides that the individuals or legal entities that, individually or with other people, directly control a bank and who individually own more than 10.0% of its shares must send to the SBIF reliable information on their financial situation in the form and in the opportunity set forth in Resolution No. 3,156 of the SBIF.

There are no limitations for non-resident or foreign shareholders to hold or exercise voting rights on the securities.

Preemptive Rights and Increases of Share Capital

The Chilean Corporations Law provides that whenever a Chilean company issues new shares for cash, it must offer its existing shareholders the right to purchase a number of shares sufficient to maintain their existing ownership percentages in the company. According to our by-laws, options for subscription of capital increases must be offered on a preemptive basis to the shareholders, in proportion to the number of shares each shareholder owns, and the released shares which are issued shall be distributed in the same proportion.

Pursuant to this requirement, preemptive rights in connection with any future issue of shares will be offered by us to the Depositary as the registered owner of the shares underlying the ADRs. However, the Depositary will not be able to make such preemptive rights available to holders of ADSs unless a registration statement under the Securities Act is effective with respect to the underlying shares or an exemption from the registration requirements thereunder is available.

We intend to evaluate, at the time of any preemptive rights offering, the practicality under Chilean law and Central Bank regulations in effect at the time of making such rights available to our ADS holders, as well as the costs and potential liabilities associated with registration of such rights and the related shares of common stock under the Securities Act, and the indirect benefits to us of thereby enabling the exercise by all or certain holders of ADSs of their preemptive rights and any other factors we consider appropriate at the time, and then to make a decision as to whether to file such registration statement. We cannot assure you that any registration statement would be filed. If we do not file a registration statement and no exemption from the registration requirements under the Securities Act is available, the Depositary will sell such holders' preemptive rights and distribute the proceeds thereof if a premium can be recognized over the cost of such sale. In the event that the Depositary is not able, or determines that it is not feasible, to sell such rights at a premium over the cost of any such sale, all or certain holders of ADSs may receive no value for such rights. Non-U.S. holders of ADSs may be able to exercise their preemptive rights regardless of whether a registration statement is filed. The inability of all or certain holders of ADSs to exercise preemptive rights in respect of shares of common stock underlying such ADSs could result in such holders not maintaining their percentage ownership of the common stock following such preemptive rights offering unless such holder made additional market purchases of ADSs or shares of common stock.

Under Chilean law, preemptive rights are exercisable or freely transferable by shareholders during a period that cannot be less than 30 days following the grant of such rights. During such period, and for an additional 30-day period thereafter, a Chilean corporation is not permitted to offer any unsubscribed shares for sale to third parties on terms which are more favorable than those offered to its shareholders. At the end of such additional 30-day period, a Chilean open stock corporation is authorized to sell unsubscribed shares to third parties on any terms, provided they are sold on a Chilean stock exchange. Unsubscribed shares that are not sold on a Chilean stock exchange can be sold to third parties only on terms no more favorable for the purchaser than those offered to shareholders.

C. Material Contracts

During the past two years, we were not a party to any material contract outside the ordinary course of business.

D. Exchange Controls

The Central Bank is responsible for, among other things, monetary policies and exchange controls in Chile. Appropriate registration of a foreign investment in Chile grants the investor access to the Formal Exchange Market. See "Item 3. Key Information—A. Selected Financial Data—Exchange Rates." Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 or can be registered with the Central Bank under the Central Bank Act. The Central Bank Act is an organic constitutional law requiring a "special majority" vote of the Chilean Congress to be amended. Since April 18, 2001, all exchange controls in Chile have been eliminated.

Previously, Chilean law mandated that holders of shares of Chilean companies that were not residents of Chile register as foreign investors under one of the foreign investment regimes contemplated by Chilean law in order to receive dividends, sale proceeds or other amounts with respect to their shares remitted outside Chile through the Formal Exchange Market. Under the Foreign Investment Contract (as defined herein), the Depositary, on behalf of ADS holders, is granted access to the Formal Exchange Market to convert cash dividends from Chilean pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile, net of taxes, and no separate registration by ADR holders is required. As of April 19, 2001, the Central Bank deregulated the Exchange Market, eliminating the need to obtain approval from the Central Bank in order to remit dividends, but at the same time eliminating the possibility of guaranteeing access to the Formal Exchange Market. However, this did not affect the current Foreign Investment Contract, which was signed prior to April 19, 2001, and which still permits access to the Formal Exchange Market based on the prior approval of the Central Bank. Therefore the holders of ADRs of Santander-Chile are still subject to the Foreign Investment Contract, including its clauses referring to the prior exchange rules including the now extinct Chapter XXVI of the Compendium.

E. Taxation

The following discussion summarizes certain Chilean tax and United States federal income tax consequences to beneficial owners arising from the ownership and disposition of our common stock or ADSs. The summary does not purport to be a comprehensive description of all potential Chilean and United States federal income tax considerations that may be relevant to a decision to own or dispose of our common stock or ADSs and is not intended as tax advice to any particular investor. This summary does not describe any tax consequences arising under the laws of any state, locality or other taxing jurisdiction other than Chile and the United States. There is currently no income tax treaty between the United States and Chile. However, the U.S. government and the government of Chile signed on February 4, 2010 the Proposed Income Tax Treaty between the United States of America and the Republic of Chile (the "Proposed U.S.-Chile Treaty"), which is now subject to ratification by the U.S. Senate and Chilean Congress. If the Proposed U.S.-Chile Treaty becomes effective, U.S. investors should consult their tax advisers as to the applicability of the treaty in their particular circumstances.

Material Tax Consequences of Owning Shares of Our Common Stock or ADSs

Chilean Taxation

The following is a summary of certain Chilean tax consequences of the ownership and disposition of shares of our common stock or of ADSs evidenced by ADRs by Foreign Holders (as defined herein). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to own or dispose shares of our common stock or ADSs and does not purport to address the tax consequences applicable to all categories of investors, some of whom may be subject to special rules. Holders of shares of our common stock or ADSs are advised to consult their tax advisers concerning the Chilean and other tax consequences of the ownership and disposition of shares of our common stock or of ADSs evidenced by ADRs.

The description of Chilean tax laws set forth below is based on Chilean laws in force as of the date of this Annual Report and can be subject to any changes in such laws occurring after the date of this Annual Report. These changes can be made on a retroactive basis, but may not be used retroactively against taxpayers who acted in good faith relying on regulations or interpretations that were in force at that moment.

For purposes of this summary, the term “Foreign Holder” means either (1) in the case of an individual, a person who is not resident or domiciled in Chile; or (2) in the case of a legal entity, a legal entity that is not organized under the laws of Chile, unless the shares of our common stock or ADSs are assigned to a branch or a permanent establishment of such entity in Chile. For purposes of Chilean taxation, (a) an individual holder is resident in Chile if he or she has remained in Chile for more than six months in one calendar year, or a total of more than six months in two consecutive fiscal years, and (b) an individual is domiciled in Chile if he or she resides in Chile with the actual or presumptive intent of staying in Chile (intention that can be evidenced by circumstances such as the acceptance of an employment in Chile or the relocation to Chile of his or her family).

The Income Tax Law provides that a Foreign Holder is subject to income taxes on his or her Chilean-sourced income. For these purposes, Chilean source income means earnings from activities performed within Chilean territory or from sale, disposition or other transactions in connection with assets or goods located in Chile. Indirect sale regulations may also attribute sourced Chilean income.

Taxation of Dividends

Cash dividends paid by us with respect to shares of our common stock held by a Foreign Holder, including shares represented by ADSs, will be subject to a 35% Chilean Withholding Tax, which is withheld and paid over by us (the “Withholding Tax”). If we have paid Corporate Income Tax (the “First Category Tax”) on the income from which the dividend is paid, a credit for the First Category Tax effectively reduces the rate of Withholding Tax. When a credit is available, the Withholding Tax is computed by applying the 35% rate to the pre-tax amount needed to fund the dividend and then subtracting from the tentative withholding tax so determined the amount of First Category Tax actually paid on the pre-tax income. For determining the pre-tax amount of the dividend, the First Category Tax credit will depend on the amounts accumulated in the Accumulated Credit Balance (SAC), at the date of withdrawal or distribution.

The effective rate of Withholding Tax to be imposed on dividends paid by us will vary depending upon the amount of First Category Tax paid by us on the earnings underlying the dividends. The statutory rate for the First Category Tax attributed to earnings generated during the years 2008, 2009 and 2010 was 17.0%. For years 2011, 2012 and 2013, it was 20.0%, for 2014 it was 21.0%, for 2015 it was 22.5% and for 2016 it was 24.0%. For the current year, the statutory rate for the First Category Tax for our company is 25.5%. The example below illustrates the effective Chilean Withholding Tax burden on a cash dividend received by a Foreign Holder, assuming a Withholding Tax rate of 35.0%, a statutory First Category Tax rate of 25.5% and a distribution of all of the net proceeds available after payment of the First Category Tax.

Taxable income	U.S.$100	
First Category Tax (25.5% of U.S.$100)	(25.5	)
Net proceeds available	74.5	
Dividend payment	74.5	
Withholding Tax (35.0% of the sum of the dividend (U.S.$74.5) and the available First Category Tax credit (U.S.$25.5)	35.0	
First Category Tax credit	(25.5	)
Payable Withholding Tax	9.5	
Net dividend received	65 (74.5-9.5)	
Effective dividend withholding tax rate	12.8	%
	(9.5/74.5	)

Dividend distributions made in kind would be subject to the same Chilean tax rules as cash dividends. Stock dividends received by the Foreign Holder are not subject to Chilean taxation. The distributions of preemptive rights relating to shares of common stock will not be subject to Chilean taxation. If the Proposed U.S.-Chile Treaty becomes effective, U.S. investors should consult their tax advisers as to the applicability of the treaty in their particular circumstances.

Table of Contents

Taxation of Capital Gains

Gain realized on the sale, exchange or other disposition by a Foreign Holder of ADSs will not be subject to Chilean taxation, provided that such sale or disposition occurs outside Chile or that it is performed under the rules of Title XXIV of the Chilean Securities Market Law, as amended by Law No. 19,601, dated January 18, 1999. The deposit and withdrawal of shares of common stock in exchange for ADSs will not be subject to any Chilean taxes.

Gain recognized on a sale or exchange of shares of common stock (as distinguished from sales or exchanges of ADSs representing such shares of common stock) by a Foreign Holder will be subject both to First Category Tax (currently imposed at a rate of 25.5%) and Withholding Tax (the first can be used as credit against the second) if (1) the Foreign Holder has held such shares of common stock for less than one year since exchanging ADSs for the shares of common stock, (2) the Foreign Holder acquired and disposed of the shares of common stock in the ordinary course of its business or as a regular trader of stock or (3) the sale is made to a company in which the Foreign Holder holds an interest. In certain other cases where the Foreign Holder of shares of common stock has some connection with Chile, gain on the disposition of shares of common stock will be subject only to First Category Tax as a single tax (currently imposed at a rate of 25.5%).

The sale of shares of common stock by a Foreign Holder to an individual or entity non-resident or domiciled in Chile is subject to a provisional withholding. Such a provisional withholding will be equal to (i) 10.0% of the total amount to remit, without any deduction, paid to, credited to or putted at the disposal of the Foreign Holder unless the gain subject to taxation can be determined, in which case the withholding will be equal to a 35.0% on the gain. For income tax purposes, the capital gain shall be the difference between the sales price and the acquisition cost of the stock. The tax basis of shares of common stock received in exchange for ADSs will be the acquisition value of such shares. The valuation procedure set forth in the deposit agreement, which values shares of common stock that are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, generally will determine the acquisition value for this purpose. Consequently, the conversion of ADSs into shares of common stock and sale of such shares of common stock for the value established under the deposit agreement will not generate a capital gain subject to taxation in Chile.

In the case where ADSs were exchanged for shares and the subsequent sale of the shares is made on a day that is different than the date on which the exchange is recorded, capital gains subject to taxation in Chile may be generated. On October 1, 1999, the Chilean Internal Revenue Service issued Ruling N°3,708 whereby it allowed Chilean issuers of ADSs to amend the Deposit Agreements in which they are parties in order to include a clause that states that, in the case that the exchanged shares are sold by the ADSs' holder on a Chilean Stock Exchange, either on the same day on which the exchange is recorded in the shareholders' registry of the issuer or within the two prior business days to such date, the acquisition price of such exchanged shares shall be the price registered in the invoice issued by the stock broker that participated in the sale transaction. Consequently, as we have included this clause in the form of ADRs attached to the deposit agreement, the capital gain that may be generated if the shares received in exchange for ADSs were sold within two days prior to the date on which the exchange is recorded will not be subject to taxation.

The distribution and exercise of preemptive rights relating to the shares of common stock will not be subject to Chilean taxation. Cash amounts received in exchange for the shares or assignment of preemptive rights relating to the shares will be subject to both the First Category Tax and the Withholding Tax (the former being creditable against the latter to the extent described above).

In certain cases and provided certain requirements are met, capital gains realized on the sale of actively traded stock of Chilean public companies may be exempt from Chilean income taxes. Our stock is currently considered an actively traded stock in the Santiago Stock Exchange, and Foreign Holders of the stock may qualify for an income tax exemption. Foreign Holders are urged to consult with their own tax advisers to determine whether an exemption applies to them.

If the Proposed U.S.-Chile Treaty becomes effective, it may further restrict the amount of Chilean tax, if any, imposed on gains derived from the sale or exchange of shares of common stock by U.S. residents eligible for the benefits of the treaty. If the Proposed Tax Treaty becomes effective, U.S. investors should consult their tax advisers as to the applicability of the treaty in their particular circumstances.

Table of Contents

Other Chilean Taxes

No Chilean inheritance, donation or succession taxes apply to the transfer or disposition of the ADSs by a Foreign Holder, but such taxes generally will apply to the transfer at death or by donation of shares of our common stock by a Foreign Holder. No Chilean stamp, issue, registration or similar taxes or duties apply to Foreign Holders of shares or ADSs.

Withholding Tax Certificates

Upon request, we will provide to Foreign Holders appropriate documentation evidencing the payment of Withholding Taxes. For further information, the investor should contact: Robert Moreno, robert.moreno@santander.cl. Dividends payable to holders of ADSs are net of foreign currency conversion expenses of the Depositary and will be subject to the Withholding Tax currently at the rate of 35% (subject to credits in certain cases as described above).

Impact of Chilean Tax Reform

On September 29, 2014, the Law No. 20,780 containing the Tax Reform was published in the Official Gazette. The Tax Reform introduced significant changes to the Chilean taxation system and strengthened the powers of the Chilean Tax Authority to control and prevent tax avoidance. The Tax Reform contemplates, among other reforms, changes to the Corporate Tax regime to create two different tax regimes: the Attributed Income Regime (*Sistema de Renta Atribuida*) and the Semi-Integrated Regime (*Sistema Parcialmente Integrado*).

On February 8, 2016, Law No. 20,899 (that simplifies the taxation systems introduced by the Tax Reform Law) was published, which introduced changes that are intended to simplify certain provisions of the Tax Reform. The amendments applied the Semi-Integrated Regime (*Sistema Parcialmente Integrado*) to corporations, limited joint-stock companies and any other entity with at least one non-final taxpayer owner. In addition, the amendments limited the Attributed Income Regime (*Sistema de Renta Atribuida*) to use by individuals, personal holding companies with limited liability, communities, non-residents that have any kind of permanent establishment in Chile and limited liability companies. Certain taxpayers in the Attributed Income Regime can opt into the Semi-Integrated regime.

Under the Attributed Income Regime, shareholders will be taxed on an accrual basis. The regime imposes a First Category Tax of 25% imposed at the level of the operating entity, plus a global complementary tax at progressive rates for resident individuals or an additional withholding income tax (withholding tax) of 35% for nonresident shareholders (the First Category Tax being 100% creditable), resulting in an overall income tax charge of 35% for nonresidents. Under this regime, profits would be required to be attributed to the owners, irrespective of whether a distribution actually is made.

Under the Semi-integrated Regime, shareholders would be taxed on a cash basis (when profits are distributed). The regime imposes a First Category Tax of 25.5% for 2017 (and 27.0% as from 2018) at the level of the operating entity, plus a global complementary tax at progressive rates for resident individuals or an additional withholding income tax (Withholding Tax) of 35.0% for nonresident shareholders. The First Category Tax still would be creditable against the 35.0% Withholding Tax under that regime, but 35.0% of the credit shall be paid to the Treasury, so, in practice, only 65.0% of the First Category Tax would be creditable. Thus, taxpayers would pay for the ability to defer shareholder taxation until profits actually are distributed with a higher overall income tax rate than under the Attributed Income Regime.

However, the Tax Reform (as supplemented by Law No. 20,899 that simplifies the taxation systems introduced by the Tax Reform Law) considered that investors from countries with which Chile has signed a Double Tax Treaty, a convention for the avoidance of double taxation and the prevention of fiscal evasion, as of January 1, 2017 would be entitled to use the 100.0% of the First Category Tax credit, even if at that time the agreement was not yet in force. Under such circumstances, the full tax credit would be applicable until December 31, 2019 if at that time the relevant Double Tax Treaty had not yet entered into force. Thus, investors from such treaty countries would enjoy the advantage of deferring shareholder taxation until profits were distributed, and yet retain the benefit of the overall 35.0% income tax charge.

Table of Contents

For banking enterprises, the default regime is the Semi-integrated Regime.

Year	**Rate**
2014	21.0%
2015	22.5%
2016	24.0%
2017	25.0% (Attributed Income Regime) / 25.5% (Semi-Integrated Regime)
2018	25.0% (Attributed Income Regime) / 27.0% (Semi-Integrated Regime)

U.S. Federal Income Tax Considerations

The following is a discussion of material U.S. federal income tax consequences of owning and disposing of shares of our common stock or ADSs to U.S. holders described below, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold such common stock or ADSs. The discussion applies only if you are a U.S. holder holding shares of our common stock or ADSs as capital assets for U.S. federal income tax purposes. It does not address all aspects of U.S. federal income taxation that may be relevant to you in light of your particular circumstances, including the alternative minimum tax and the Medicare contribution tax, nor does it describe all tax consequences that may be relevant to U.S. holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers and traders in securities who use a mark-to-market method of tax accounting;
- persons holding shares or ADSs as part of a hedge, "straddle," conversion transaction, integrated transaction or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, including "individual retirement accounts" or "Roth IRAs";

- persons holding shares of our common stock or ADSs that own or are deemed to own ten percent or more of our voting stock;
- persons who acquired shares of our common stock or ADSs pursuant to the exercise of any employee stock option plan or otherwise as compensation; or
- persons whose shares or ADSs are held in connection with a trade or business conducted outside the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes owns shares of our common stock or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partnerships owning shares of our common stock or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the shares of our common stock or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the Depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. In addition, this discussion does not address U.S. state, local and non-U.S. tax consequences. Please consult your tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of shares or ADSs in your particular circumstances.

Table of Contents

As used herein, a "U.S. holder" is a person that for U.S. federal income tax purposes is a beneficial owner of shares of our common stock or ADSs and is:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, a state thereof or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, if you own ADSs, you will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American Depositary Shares are released prior to delivery of shares to the Depositary ("pre-release") or intermediaries in the chain of ownership between U.S. holders of American Depositary Shares and the issuer of the security underlying the American Depositary Shares may be taking actions that are inconsistent with the claiming of foreign tax credits for holders of American Depositary Shares. These actions would also be inconsistent with the claiming of the favorable tax rates, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Chilean taxes and the availability of the favorable tax rates for dividends received by certain non-corporate holders, each described below, could be affected by actions that may be taken by such parties or intermediaries.

This discussion assumes that we are not, and will not become, a passive foreign investment company, as described below.

Taxation of Distributions

Distributions paid on shares of our common stock or ADSs, other than certain pro rata distributions of common shares or rights, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. holders as dividends. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, certain dividends paid by "qualified foreign corporations" to certain non-corporate U.S. holders may be taxable at rates applicable to long-term capital gains. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on a securities market in the United States, such as the NYSE where our ADSs are traded. You should consult your tax advisers to determine whether the favorable rates may apply to dividends you receive and whether you are subject to any special rules that limit your ability to be taxed at the favorable rates. The amount of the dividend will include any amounts withheld by us or our paying agent in respect of Chilean taxes at the effective rate (after credit for First Category Taxes) as described above under " — Material Tax Consequences of Owning Shares of Our Common Stock or ADSs—Taxation of Dividends." You should consult with your tax adviser to determine the amount considered withheld with respect to a distribution if you are subject to the Attributed Income Regime for Chilean tax purposes starting in 2017, as described above under "—Material Tax Consequences of Owning Shares of Our Common Stock or ADSs—Impact of Chilean Tax Reform." The amount of the dividend will be treated as foreign-source dividend income to you and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code.

Dividends will be included in your income on the date of your (or in the case of ADSs, the Depositary's) receipt of the dividend. The amount of any dividend income paid in Chilean pesos will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

Subject to applicable limitations that may vary depending upon your circumstances and the discussion above regarding concerns expressed by the U.S. Treasury, Chilean taxes withheld from cash dividends on shares of our common stock or ADSs, reduced by the credit for any First Category Tax, as described above under "—Chilean Taxation," generally will be creditable against your U.S. federal income tax liability. Starting in 2017, if you are subject to the Attributed Income Regime, as described above under "—Material Tax Consequences of Owning Shares of Our Common Stock or ADSs—Impact of Chilean Tax Reform," amounts paid by you or withheld by us, reduced by the credit for any First Category Tax, may be creditable for U.S. tax purposes. If creditable, it is uncertain whether such tax would be creditable in the year the Chilean tax is imposed, irrespective of whether a distribution is actually made. You should consult your tax adviser concerning the creditability and timing issues pertaining to such tax. If, however, the Proposed U.S.-Chile Treaty becomes effective, any Chilean income taxes withheld from dividends on shares or ADSs in excess of the rate provided by the treaty will not be creditable by a U.S. holder who is eligible for the benefits of the treaty. The rules governing foreign tax credits are complex and you should consult your tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits. Instead of claiming a credit, you may, at your election, deduct such Chilean taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

Sale or Other Disposition of Shares or ADSs

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of shares of our common stock or ADSs generally will be capital gain or loss, and will be long-term capital gain or loss if you held the shares of our common stock or ADSs for more than one year. The amount of your gain or loss will be equal to the difference between your tax basis in the shares of our common stock or ADSs disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. If a Chilean tax is withheld on the sale or disposition of the shares of our common stock or ADSs, your amount realized will include the gross amount of the proceeds of such sale or disposition before deduction of the Chilean tax. See "—Chilean Taxation—Taxation of Capital Gains" for a description of when a disposition may be subject to taxation by Chile. Such gain or loss generally will be U.S.-source gain or loss for foreign tax credit purposes. Consequently, you may not be able to credit any Chilean tax imposed on the disposition of shares of our common stock or ADSs against your taxable income unless you have other foreign-source income in the appropriate foreign tax credit category. If the Proposed U.S.-Chile Treaty becomes effective, however, a U.S. holder who is eligible for the benefits of the treaty and whose gain from the sale of shares is not exempt from Chilean tax under such treaty may elect to treat disposition gain that is subject to Chilean tax as foreign-source gain and claim a credit in respect of the tax. You should consult your tax advisers as to whether the Chilean tax on gains may be creditable against your U.S. federal income tax on foreign-source income from other sources. Alternatively, instead of claiming a credit, you may elect to deduct otherwise creditable taxes in computing your income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

Passive Foreign Investment Company Rules

Based on proposed Treasury regulations (the "Proposed Regulations"), which are proposed to be effective for taxable years beginning after December 31, 1994, we believe that we were not a "passive foreign investment company" (a "PFIC") for U.S. federal income tax purposes for the year ended December 31, 2016. However, since the Proposed Regulations may not be finalized in their current form and since PFIC status depends upon the composition of a company's income and assets and the market value of its assets (including, among others, less than 25 percent owned equity investments) from time to time, there can be no assurance that we will not be a PFIC for any taxable year. If we were a PFIC for any taxable year during which you held an ADS or a share of our common stock, certain adverse tax consequences could apply to you.

If we were a PFIC for any taxable year during which you held shares of our common stock or ADSs, gain recognized by you on a sale or other disposition (including certain pledges) of a share of our common stock or an ADS would generally be allocated ratably over your holding period for the share of our common stock or ADS. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability for that taxable year. Similar rules would apply to any distribution in

Table of Contents

respect of shares of our common stock or ADSs that exceeds 125% of the average of the annual distributions on shares of our common stock or ADSs received by you during the preceding three years or your holding period, whichever is shorter. Certain elections may be available that would result in alternative treatments of the shares of our common stock or ADSs (including, with respect to our ADSs, a mark-to-market election). In addition, if we were a PFIC for a taxable year in which we pay a dividend or the prior taxable year, the favorable rates discussed above with respect to dividends paid to non-corporate holders would not apply.

If we were to be treated as a PFIC in any taxable year, a U.S. holder may be required to file reports with the Internal Revenue Service containing such information as the Treasury Department may require.

Information Reporting and Backup Withholding

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and may be subject to backup withholding, unless you are a corporation or other exempt recipient or in the case of backup withholding, you provide a correct taxpayer identification number and certify that you are not subject to backup withholding.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. holders may be required to report information relating to stock of a non-U.S. person, subject to certain exceptions (including an exception for stock held in custodial accounts maintained by a U.S. financial institution). You should consult your tax advisers regarding any reporting obligations you may have with respect to shares of our common stock or ADSs.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The documents concerning us which are referred to in this Annual Report may be inspected at our offices at Bandera 140, 20th floor, Santiago, Chile. We are subject to the information reporting requirements of the Exchange Act, except that, as a foreign issuer, we are not subject to the proxy rules or the short-swing profit and disclosure rules of the Exchange Act. In accordance with these statutory requirements, we file or furnish reports and other information with the SEC. Reports and other information filed or furnished by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Section by calling the SEC at 1-800-732-0330. The SEC maintains a website on the Internet at http://www.sec.gov that contains reports and information statements and other information regarding us. The reports and information statements and other information about us can be downloaded from the SEC's website and can also be inspected and copied at the offices of the NYSE, Inc., 20 Broad Street, New York, New York 10005.

I. Subsidiary Information

Not applicable.

Table of Contents

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Introduction

The principal types of risk inherent in Santander-Chile's business are market, liquidity, operational and credit risks. The effectiveness with which we are able to manage the balance between risk and reward is a significant factor in our ability to generate long term, stable earnings growth. Toward that end, our Board and senior management places great emphasis on risk management.

A. Integral Risk Committee

The Integral Risk Committee of the Board is responsible for reviewing and monitoring all risks that may affect us, including reputation risk, allowing for an integral risk management. This committee serves as the governing body through which the Board supervises risk in general. It also evaluates the reasonability of the systems for measurement and control of risks.

- Credit risk
- Market risk
- Operational risk
- Solvency risk (BIS)
- Legal risks
- Compliance risks
- Reputational risks

This Committee includes the Vice Chairman of the Board and five Board members. This committee also includes the CEO, the Director of Risk and other senior level executives from the commercial side of our business: The Board members of this committee are:

Board member	Position in Committee
Oscar von Chrismar	Chairman
Juan Pedro Santa María	

	First Vice Chairman
Roberto Méndez	Second Vice Chairman
Roberto Zahler	Member
Raimundo Monge	Member

B. Audit Committee

Board member	Position in Committee
Marco Colodro	Chairman
Mauricio Larrain	First Vice Chairman and Financial Expert
Orlando Poblete	Second Vice Chairman

The Audit Committee (*Comité de Directores y Auditoría*) is comprised of three members of the Board of Directors. The Committee Secretary is Juan Pedro Santa María. The Chief Executive Officer, General Auditor and other persons from the Bank can be invited to the meetings if necessary and are present on specific matters. This Committee's primary responsibility is to support the Board of Directors in the continuous improvement of our system of internal controls, which includes reviewing the work of both the external auditors and the Internal Audit Department. The committee is also responsible for analyzing observations made by regulatory entities of the Chilean financial system about us and for recommending measures to be taken by our management in response. The external auditors are recommended by this committee to our Board of Directors and appointed by our shareholders at the annual shareholders' meeting.

Table of Contents

C. Asset and Liability Committee

The ALCO includes the Chairman of the Board and five additional members of the Board, the Chief Executive Officer, the Corporate Financial Controller, the Manager of the Financial Management Division, the Manager of Market Risk, the Manager of the Treasury Division, and other senior members of management. The ALCO meets monthly. All limits reviewed by the ALCO are measured and prepared by the Market Risk Department. The non-Board members of the ALCO meet weekly to review liquidity, funding, capital and market risk related matters.

Board member	Position in Committee
Vittorio Corbo	Chairman
Mauricio Larraín	Vice-Chairman
Oscar von Chrismar	Second Vice-Chairman
Marco Colodro	Member
Roberto Zahler	Member
Raimundo Monge	Member

The main functions of the ALCO are:

- Making the most important decisions regarding our exposure to inflation, interest rate risk, funding, capital and liquidity levels. The main limits set and monitored by the ALCO (and measured by the Market Risk Department) are:

Risk	Measure
Interest rates	Sensitivity Capital Sensitivity NIM
Liquidity	Regulatory limit 30 Days Regulatory limit 90 Days Liquidity coverage ratio Net stable funding ratio Structural liquidity limit
Capital	Core capital ratio BIS ratio

	BIS ratio with market risk BIS ratio with market and operational risk
Foreign exposures	Intergroup exposure: Derivatives, deposits, loans Foreign assets: Derivatives, Deposits, Loans

· Review of the Bank's inflation gap.

· Review of the evolution of the most relevant local and international markets and monetary policies.

D. Market Committee

The Market Committee includes the Vice-Chairman of the Board, three additional members of the Board, the Chief Executive Officer, the Manager of Global Banking and Markets, the Manager of the Treasury Division, the Manager of the Financial Management Division, the Manager of Market Risk, the Financial Controller and other senior members of management.

Board member	Position in Committee
Vittorio Corbo	Chairman
Oscar von Chrismar	Vice-Chairman
Roberto Zahler	Second Vice-Chairman
Marco Colodro	Member

Table of Contents

The Market Committee is responsible for:

- Establishing a strategy for the Bank's trading investment portfolio.
- Establishing the Bank's policies, procedures and limits with respect to its trading portfolio. The Bank's Market Risk Department measures all risks and limits and reports these to the Market Committee.
- Reviewing the net foreign exchange exposure and limit
- Reviewing the evolution of the most relevant local and international markets and monetary policies.

E. Risk Department

All issues regarding risk in the Bank are the responsibility of the Bank's Risk Department. The Risk Department reports to the CEO but has full independence, and no risk decisions can be made without its approval. Below is an organizational chart of the Risk Department:

1. Credit risk

See "Item 5—Selected Statistical Information—Classification of Loan Portfolio for a complete description of credit risk management.

2. Non-financial risks

All issues regarding operational risks in the Bank fall under the Non-Financial Risk Department that reports to the Risk Department. Below is an organization chart of this department.

All operational risks are measured in this Department and reported simultaneously to local management and the Board through various channels.

Cyber-security and data security plans

Throughout 2016, the Bank maintained its focus on cyber-security risks, and implemented additional preventative measures to be prepared for any attack of this kind. The Bank has evolved its internal cyber-security model to reflect international standards, incorporating concepts which can be used to assess the degree of maturity in deployment. Based on this new assessment model, individual in-situ analyses have been carried out to identify deficiencies and steps to remedy any such deficiencies have been identified in our cyber-security defense plans.

The Bank's organizational and governance structure for the management and control of cyber-security risk has also been strengthened. Specific committees have been set up and cyber-security metrics have been included in the Bank's risk appetite. Embedded in the Bank's Technology and Operations division is the Technology and Operations Risk Department, which is the front line of defense against cyber-security threats and data security. In addition, the Non-Financial Risk Department through the Technological Risk area enforces the policies and controls that the different areas must follow regarding technology and cyber-security risks. Both areas coordinate through the various operational risk committees shown in the diagram above.

Finally, the intelligence and analysis function has also been reinforced by contracting bank threat monitoring service, and progress has been made in the incident registration, notification and escalation mechanisms for internal reporting and reporting to supervisors. In addition, observation and analytical assessment of the events in the sector and in other industries enables us to update and adapt our models for emerging threats. We also coordinate with Santander Spain's headquarters and units in other countries regarding strategy, best practices and communicating of experiences.

Role of Santander Spain's Global Risk Division: Operational Risk

In matters regarding operational risk, Santander Spain's Global Risk Department's role is to define certain global policies, guidelines and procedures regarding operational risk. The Corporate Operational Risk Committee is the main body in which the different units of Santander discuss and review the major operational risk events and policies.

3. Market Risks

This section describes the market risks that we are exposed to, the tools and methodology used to control these risks, the portfolios over which these market risk methods were applied and quantitative disclosure that demonstrate the level of exposure to market risk that we are assuming. This section also discloses the derivative instruments that we use to hedge exposures and offer to our clients.

Market risk is the risk of losses due to unexpected changes in interest rates, foreign exchange rates, inflation rates and other rates or prices. We are exposed to market risk mainly as a result of the following activities:

- trading in financial instruments, which exposes us to interest rate and foreign exchange rate risk;
- engaging in banking activities, which subjects us to interest rate risk, since a change in interest rates affected gross interest income, gross interest expense and customer behavior;
- engaging in banking activities, which exposes us to inflation rate risk, since a change in expected inflation affects gross interest income, gross interest expense and customer behavior;
- trading in the local equity market, which subjects us to potential losses caused by fluctuations of the stock market; and
- investing in assets whose returns or accounts are denominated in currencies other than the Chilean peso, which subjects us to foreign exchange risk between the Chilean peso and such other currencies.

173

Table of Contents

The main decisions that relate to market risk for the Bank and the limits regarding market risk are made in the Asset and Liability Committee and the Market Committee. The measurement and oversight of market risks is performed by the Market Risk Department. Below is a list of the main reports produced by the Market Risk Department and who they are addressed to:

Report	Unit	Objective	Addressed to:	Periodicity
Daily Global Report	Market risks	Give a global vision of the market, positions, risks, sensitivity, vision and alerts of the trading and non-trading positions	Market Risk (local and global), Senior Management, Internal Auditors	Daily
Stress Test	Market risks	Stress test report over the Bank's trading and ALCO books	Market Risk (local and global), Senior Management, Internal Auditors	Monthly
Sensitivity Analysis	Market risks	Sensitivity analysis of the ALCO book	Market Risk (local and global), Senior Management, Internal Auditors	Daily
Fixed income positions	Market risks	Fixed income positions and general information	Market Risk (local and global), Senior Management, Internal Auditors	Daily
Interest rate gap	Market risks	Interest rate gap sensitivity and limit levels	Market Risk (local and global), Senior Management, Internal Auditors	Monthly
Liquidity gap	Market risks	Liquidity levels and limits	Market Risk (local and global), Senior Management, Internal Auditors	Monthly
Market report	Market risks	Main market indicators and evolution	Market Risk (local and global), Senior Management, Internal Auditors	Daily
VaR	Market risks	VaR position and limits	- Market risk (local and global) and Senior Management	Daily
Trading Portfolio Limits	Market risks	Trading book evolution, instruments and limits	Market Risk (local and global), Senior Management, Internal Auditors	Daily
Largest depositors	Market risks	Largest 20 and largest 50 depositors	- Market risk (local and global) and Senior Management	Weekly
Follow-up report	Market risks	Summary of Market risk information for Senior Management	Market Risk (local and global), Senior Management (local and global), Internal Auditors	Monthly
Liquidity stress-test	Market risks	Liquidity stress test simulation	Market Risk (local and global), Senior Management, Internal Auditors	Quarterly
Interest rate risk	Market risks	Interest rate risk report, limits and estimates of results from interest rate risk	- Market risk (local and global), Manager of Global banking and markets, Manager of Treasury, Manager of Market Making and Prop Trading	Daily
Backtesting	Market risks	Backtesting of VaR estimates to actual results	Market Risk (local and global), Senior Management, Internal Auditors	Weekly
PNL Treasury	Market risks	Treasury income statement	- Market risk (local and global), Manager of Global banking and markets, Manager of Treasury, Manager of Market Making and Prop Trading	Daily

Santander-Chile's governance rules have established the existence of two high-level committees that, among other things, function to monitor and control market risks: the Asset and Liability Committee and the Market Committee.

Role of Santander Spain's Global Risk Division: Market Risk

In matters regarding Market Risk, the role of Santander Spain's Global Risk Department is to define certain global policies, guidelines and procedures regarding market risk. The information produced by our local Market Risk Department is standardized for the whole group in order to facilitate a consolidation of risks being taken on a global basis. They review daily the consumption of limits and provide valuable input on the evolution of markets, especially regarding the Eurozone.

Table of Contents

4. Market Risk: Quantitative Disclosure

Impact of inflation

Our assets and liabilities are denominated in Chilean pesos, Unidades de Fomento (UF) and foreign currencies. The Bank no longer recognizes inflation accounting and has eliminated price-level restatement in line with IFRS, but inflation impacts our results of operations as some loan, deposit and other liabilities 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$26,347.98 at December 31, 2016, Ch$25,629.09 at December 31, 2015, and Ch$24,627.10 at December 31, 2014. 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 2.8% in 2016, 4.1% in 2015 and 5.7% in 2014. 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 positively affected by deflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. 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.

- *Inflation and interest rate hedge*. A key component of our asset and liability policy is the management of interest rate risk. The Bank's assets generally have a longer maturity than our liabilities. As the Bank's mortgage portfolio grows, the maturity gap tends to rise as these loans, which are contracted in UF, have a longer maturity than the average maturity of our funding base. As most of our long term financial instruments and mortgage loans are contracted in UF and most of our deposits are in nominal pesos, the rise in mortgage lending increases the Bank's exposure to inflation and to interest rate risk. The size of this gap is limited by internal and regulatory guidelines in order to avoid excessive potential losses due to strong shifts in interest rates. 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 2016, 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$42,420 million compared to a loss of Ch$107,867 million in 2015 and a loss of Ch$130,254 million in 2014. The average gap between our interest earnings assets and total liabilities linked to the inflation, including hedging was Ch$4,534,665 million in 2016, Ch$3,507,250 million in 2015 and Ch$4,193,701 million in 2014.

Table of Contents

· The financial impact of the gap between our interest earning assets and liabilities denominated in UFs including hedges was Ch$133,702 million in 2016, Ch$130,666 million in 2015 and Ch$229,946 million in 2014. The 2.3% rise in the results from our UF gap was due to the higher gap in 2016 compared to 2015, which was partially offset by the lower UF inflation rate in 2016 compared to 2015.

Impact of inflation on net interest income	As of December 31, 2016	2015	2014	% Change 2016/2015	% Change 2015/2014
	(in millions of Ch$)				
Results from UF GAP (1)	133,702	130,666	229,946	2.3 %	(43.2 %)
Annual UF inflation	2.8 %	4.1 %	5.7 %		

(1) UF GAP is net interest income from asset and liabilities denominated in UFs and include the results from hedging the size of this gap via interest rate swaps.

· 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—A. 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. The ratio of the average of such demand deposits and average shareholder's equity to average interest-earning assets was 29.0%, 29.9%, and 30.2% for the years ended December 31, 2016, 2015, and 2014, respectively.

Interest rate sensitivity

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

176

Table of Contents

As of December 31, 2016, the breakdown of maturities of assets and liabilities is as follows:

As of December 31, 2016	Demand	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Subtotal up to 1 year	Between 1 and 5 years	More than 5 years	Subtotal More than 1 year	To
Assets									
Cash and deposits in banks	2,279,389	—	—	—	2,279,389	—	—	—	2
Cash items in process of collection	495,283	—	—	—	495,283	—	—	—	4
Trading investments	—	52,443	13,252	118,845	184,540	182,186	30,261	212,447	3
Investments under resale agreements	—	6,736	—	—	6,736	—	—	—	6
Financial derivative contracts	—	82,243	120,653	292,801	495,697	888,927	1,116,158	2,005,085	2
Interbank loans (*)	—	12,859	135,756	124,143	272,758	44	5	49	2
Loans and accounts receivables from customers (**)	717,306	2,393,216	2,108,001	4,488,993	9,707,516	7,846,411	9,379,697	17,226,108	2
Available-for-sale investments	—	1,581,682	250,222	314,842	2,146,746	417,950	824,210	1,242,160	3
Guarantee deposits (threshold)	396,289	—	—	—	396,289	—	—	—	3
Total assets	3,888,267	4,129,179	2,627,884	5,339,624	15,984,954	9,335,518	11,350,331	20,685,849	3
Liabilities									
Deposits and other demand liabilities	7,539,315	—	—	—	7,539,315	—	—	—	7
Cash items in process of being cleared	288,473	—	—	—	288,473	—	—	—	2
Obligations under repurchase agreements	—	212,437	—	—	212,437	—	—	—	2
Time deposits and other time liabilities	121,527	6,105,767	4,193,906	2,537,299	12,958,499	132,014	61,196	193,210	1
	—	92,335	122,565	263,893	478,793	841,487	971,881	1,813,368	2

Financial derivative contracts									
Interbank borrowings	4,557	373,423	115,769	1,154,063	1,647,812	268,556	—	268,556	1
Issued debt instruments	—	43,141	185,425	922,705	1,151,271	2,612,710	3,562,391	6,175,101	7
Other financial liabilities	153,049	1,461	1,161	2,817	158,488	66,407	15,121	81,528	2
Guarantees received (threshold)	480,926	—	—	—	480,926	—	—	—	4
Total liabilities	8,587,847	6,828,564	4,618,826	4,880,777	24,916,014	3,921,174	4,610,589	8,531,762	3

(*) Interbank loans are presented on a gross basis. The amount of allowance is Ch$4,135 million.

(**) Loans and accounts receivables from customers are presented on a gross basis. Provisions amounts according to type of loan are detailed as follows: Commercial loans Ch$429,442 million, Mortgage loans Ch$57,009 million, and Consumer loans Ch$300,019 million.

177

Table of Contents

The following table sets forth our average daily balance of liabilities for the years ended December 31, 2016, 2015 and 2014, in each case together with the related average nominal interest rates paid thereon.

	2016			2015			2014		
	Average Balance	% of Total Average Liabilities	Average Nominal Rate	Average Balance	% of Total Average Liabilities	Average Nominal Rate	Average Balance	% of Total Average Liabilities	Average Nominal Rate
	(in millions of Ch$, except percentages)								
Interest-bearing liabilities									
Savings accounts	116,339	0.3 %	2.5 %	114,330	0.3 %	3.4 %	108,185	0.3 %	5.0 %
Time deposits	13,620,848	38.6 %	3.3 %	12,685,504	36.7 %	3.2 %	11,952,994	36.6 %	3.4 %
Central Bank borrowings	871	0.0 %	3.4 %	4,891	—%	1.0 %	6,906	0.0 %	0.2 %
Repurchase agreements	121,875	0.3 %	2.4 %	228,050	0.7 %	3.1 %	413,263	1.3 %	2.0 %
Mortgage finance bonds	52,414	0.1 %	8.1 %	63,061	0.2 %	10.2 %	81,805	0.2 %	11.9 %
Other interest bearing liabilities	7,856,201	22.3 %	5.0 %	7,500,408	21.7 %	5.5 %	6,865,084	21.0 %	6.9 %
Subtotal interest-bearing liabilities	21,768,547	61.8 %	3.7 %	20,596,244	59.6 %	4.0 %	19,428,237	59.4 %	4.6 %
Non-interest bearing liabilities									
Non-interest bearing deposits	5,753,622	16.3 %		5,719,889	16.6 %		5,386,272	16.5 %	
Derivatives	2,724,994	7.7 %		2,958,942	8.6 %		2,719,386	8.3 %	
Other non-interest bearing liabilities	2,156,015	6.1 %		2,454,037	7.1 %		2,501,651	7.6 %	
Shareholders' equity	2,840,843	8.1 %		2,816,116	8.2 %		2,689,037	8.2 %	
Subtotal non-interest bearing liabilities	13,475,473	38.2 %		13,948,984	40.4 %		13,296,346	40.6 %	
Total liabilities	35,244,021	100.0 %		34,545,228	100.0 %		32,724,383	100.0 %	

Foreign exchange fluctuations

The Chilean government's economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. The Central Bank exchange rate appreciated 5.7% in 2016 and depreciated 16.5% in 2015. See "Item 3. Key Information—A. Selected Financial Data—Exchange Rates."

A significant portion of our assets and liabilities are denominated in foreign currencies, principally the U.S. dollar, and we historically have maintained, and may continue to maintain, material gaps between the balances of such assets and liabilities. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar).

Our current strategy is not to maintain a significant difference between the balances of our assets and liabilities in foreign currencies. In 2016, 2015 and 2014, the Bank's spot position in foreign currency held more liabilities than assets in foreign currencies, mainly U.S. dollars as a result of an ample supply of U.S.$ deposits from companies that receive export revenues, foreign correspondent bank loans and bonds issued abroad. This difference is usually hedged using forwards and cross-currency swaps. In general, the Bank is not permitted, due to guidelines set by the ALCO and the Market Committee, to open a meaningful gap in foreign currency. Therefore, all foreign currency risk is included in the trading portfolio and is measured using VaR. The average VAR of our foreign currency position was U.S.$1.91 million in 2016. 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.

As of December 31, 2016, the net difference between assets and liabilities in foreign currency was a net asset position of U.S.105.4 million. The average gap, be it a net asset or liability position in foreign currency, in 2016 was U.S.$121.6 million or 0.2% of our total assets. Both figures include derivatives used to hedge foreign currency risk. Below is a graph that illustrates the net daily foreign currency position in 2016.

Table of Contents

We also set an absolute limit on the size of Santander-Chile's consolidated net foreign currency trading position, which is equivalent to the maximum differential allowed between assets and liabilities in foreign currencies, including hedging of this gap. The limit on the size of the net foreign currency position is determined by the Market Committee and is calculated and monitored by the Market Risk Department. At December 31, 2016, this was equal to U.S.$350 million. This limit in various other currencies is as follows:

Currency	Limit (in millions of U.S.$)
U.S. dollars	350
Euros	100
Yen	23
Real	15
Mexican peso	15
Colombian peso	15
Other European currencies	15
Other Latin American currencies	15
Other currencies	15
Total Limit	350

Liquidity risk management

The Financial Management Division receives information from all the business units on the liquidity profile of their financial assets and liabilities, as well as breakdowns of other projected cash flows stemming from future businesses. On the basis of that information, the Financial Management Division maintains a portfolio of liquid short–term assets, comprised mainly of liquid investments, loans and advances to other banks, to make sure the Bank has sufficient liquidity. The business units' liquidity needs are met through short–term transfers from the Financial Management Division to cover any short–term fluctuations and long–term financing to address all the structural liquidity requirements.

The Bank monitors its liquidity position every day, determining the future flows of its outlays and revenues. In addition, stress tests are performed at the close of each month, for which a variety of scenarios encompassing both normal market conditions and conditions of market fluctuation are used. The liquidity policy and procedures are subject to review and approval by the Bank's Board. Periodic reports are generated by the Market Risk Department, providing a breakdown of the liquidity position of the Bank and its subsidiaries, including any exceptions and the corrective measures adopted, which are regularly submitted to the ALCO for review.

179

Table of Contents

The Bank relies on demand deposits from Retail, Middle-Market and Corporates, obligations to banks, debt instruments, and time deposits as its main sources of funding. Although most obligations to banks, debt instruments and time deposits mature in over a year, customer (retail) and institutional deposits tend to have shorter maturities and a large proportion of them are payable within 90 days. The short–term nature of these deposits increases the Bank's liquidity risk, and hence, the Bank actively manages this risk by continual supervision of the market trends and price management.

Liquidity risk management seeks to ensure that, even under adverse conditions, we have access to the funds necessary to cover client needs, maturing liabilities and capital requirements. Liquidity risk arises in the general funding for our financing, trading and investment activities. It includes the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates, the risk of being unable to liquidate a position in a timely manner at a reasonable price and the risk that we will be required to repay liabilities earlier than anticipated. The following table sets forth the balance of our liquidity portfolio managed by our Financial Management Division in the manner in which it is presented to the Asset and Liability Committee (ALCO) and the Board. The ALCO has determined that our liquidity portfolio must be comprised of cash plus assets that can be readily convertible into cash either through the Chilean Central Bank window, overnight deposits or instruments or the local secondary market. The management of the Bank's liquidity portfolio is performed by the Financial Management Division under rules determined by the ALCO.

	December 31, 2016	December 31, 2015
	Ch$ million	
Balance as of:		
Financial investments for trading	396,987	324,271
Available-for-sale investments	3,388,906	2,044,411
Encumbered assets (net) (1)	(205,703)	(77,647)
Net cash (2)	16,259	(315,415)
Net interbank deposits (3)	1,335,017	1,683,208
Total liquidity portfolio	4,931,466	3,658,829

	December 31, 2016	December 31, 2015
	Ch$ million	
Average balance as of:		
Financial investments for trading	277,775	405,352
Available-for-sale investments	2,455,220	1,902,050
Encumbered assets (net) (1)	(90,460)	(74,664)
Net cash (2)	(202,771)	(244,186)
Net interbank deposits (3)	1,263,768	1,197,325